REPOSITIONING THE INDUSTRIALIZATION POLICIES IN NIGERIA

Patricia A. Adamu (Mrs)

Abstract

Industrialization is the process of developing a nation's capacity in the production of raw materials and intermediate goods for further production. It has a crucial role in long-term development of a nation, It is one of the best training grounds for skill development and an important source of structural change and diversification. It reduces dependence on external forces and also provides employment, foreign exchange and domestic earnings. Since independence, the government has made policies to transform the industrial sector to an enviable position. These policies include: import substitution industrialization of the 1960s, the indigenization policy of the 1970s, the adjustment programme of the 1980s and the new industrial policy of the 1990s to date. It is sad to note that after four decades of pursuing the goal of industrialization through import-substitution strategy and other measures, the sector has performed below expectation due to lack of finance, excessive and prolonged protection without export promotion measures, poor implementation of policies, low technology, poor governance and corruption, among others. Therefore it is suggested that the industrial policy be repositioned to meet the current challenges of globalization and liberalization. Thus, huge investments in human capital, information technology, and Research & Development (R&D) should be undertaken. Finally, an enabling environment should be provided to encourage mass investments in industries. •

Introduction

An industry consists of a number of firms producing similar goods, while industrialization is the process of developing a nation's capacity in the production of raw materials and intermediate goods for further production, developing the skills required for the fabrication of tools and the operation of machines for the production of goods and services. Industrialization can lead to a structural transformation of an economy. It has a crucial role in long-term development of a nation. Even the World Bank acknowledged the fact that industrialization is one of the best training grounds for skill development. It is an important source of structural change and diversification; and it can increase the flexibility of the economy and reduce dependence on external forces. Industrialization also provides employment, foreign exchange and domestic earnings. (World Bank, 1981).

Given the poor base of industrialization in the country and an increase in direct government investment and promotional measures coupled with an ever increasing demand for manufactured goods from abroad, the strategy of import substitution industrialization (ISI) was adopted, with the aim of promoting growth and economic diversification as a means of reducing the dependence of the economy on the agricultural sector as the principal earner of foreign exchange. It is sad to note that after more than four decades of Nigeria's pursuit of an industrialization strategy based on import-substitution, manufacturing expansion is still skewed in favour of consumer goods industry as against the intermediate and capital goods industries. This does not encourage backward integration which is necessary for full utilization of internal resources.

The poor industrial performance in Nigeria like in most developing countries of the world are traceable to exogenous shocks like droughts, internal conflicts, political instability, adverse terms of trade; and bad macroeconomic management, inflation, uncertainty, poor industrial policy due to structural features and the design and implementation of policies. Lall (2004) describes the structural impediments to industrial development as small size and fragmentation of local markets, poor infrastructure, low entrepreneurial base and weak human capital creation, particularly technical. Other policy issues hindering industrial development include:

- Poor information and capabilities on the part of policy-makers, neglect of lessons from other regions, and insufficient data;
- Lack of clear industrial policy objectives, conflicts with other objectives;
- Excessive and prolonged protection not offset by export promotion measures or pressures that would provide incentives for learning and upgrading;
- Inadequate domestic competition policies to stimulate technological upgrading, permit the entry of dynamic new enterprises and enforce competitive behaviour; lack of coherence between product and factor market policies, such as education and training, technology support, capital markets and export promotion;
- Inability to target and attract Foreign Direct Investment (FDI) into efficient manufacturing

and facilitate the upgrading;

- Weak, often non-existent, institutional structure for supporting capability development: training institutions, effective quality and standards bodies, Research & Development (R&D) support and Small and Medium Enterprise (SME) extension services; practically no linkages between institutions that do exist and the industrial sector;
  - Lack of involvement of industrialists in policy design and implementation;
- Lack of monitoring of industrial policy and its effects, lack of flexibility in adapting policies to changing world market and technological conditions;
- Widespread and constant political intervention, corruption at all levels, lack of commitment and infighting by bureaucrats and leaders. (Lall, 2004),

If these problems are not addressed, the industrialization of the Nigerian economy will be a mirage. To this end therefore, this paper seeks to give an historical overview of policy episodes with regards to industrialization policy in Nigeria, assess the relative success or otherwise of these policies, and proffer suggestions to the way forward for industrial policy which would pave way for a rapid industrialization process in Nigeria.

Historical Overview of Policy Episodes

The historical period of Nigeria's.industrialization policy can be classified into two eras - the colonial (pre-1960) and the post-colonial (post-1960) periods. We can further classify the post-colonial period into import substitution strategy era (1960-1985), and the liberalization and outward-orientation period (1986 to date). Alternatively, the classification can be made to indicate the extent to which the structure of the economy (size of the industrial sector) and ownership structure affected policy episodes and outcomes. Thus, the following classifications are made: colonial period, the decadal periods of the 1960s; the 1970s - the indigenization programme and oil boom; the 1980s and the adjustment programme; and the 1990s and the new industrial policy.

The Colonial Period

In the colonial period, the key actors were the colonial administrators. The promotion of industrial development was entrusted to two agencies, the Nigerian Local Development Board CNLDB) and the Department of Commerce and Industry (DCI). The NLDB was to ensure (i) the promotion and development of village crafts and industries; (ii) the setting up and operation of experimental undertakings for processing the development of any Nigerian products; (iii) the suitability of other projects approved by the Governor-in-Council. On the other hand, the DCI was to oversee and encourage the conduct of .local trade and the development of "native industries". It is interesting to note that most of the deliberate incentives and measures to promote industrialization occurred during the 1950s when Nigerians were already largely in charge of the regional administration. However, the pace of industrialization remained low because out of the 1,027 companies registered, only about 15 percent were of the medium and large-scale industries. (Usoro, 1977;Kayode, 1981).

The 1960s

With independence in the I960, import substitution industrialization was pursued. This strategy was limited at its early stage to the replacement of imports of non-durable consumer goods which generally called for the services of unskilled and semi-skilled labour and less application of advanced technological method. (Oyejide, 1974). By 1965, manufacturing as a share of GDP had grown to 6 percent, as against 5 percent at independence. Despite the civil war, the 1960s could still be described as the golden era of the nation's industrialization effort.

The 1970s: Indigenization and Oil Boom

In the 1970s, with the windfall from the oil boom, the industrialization strategy changed swiftly from assemblage plants to the establishment of heavy industries in the intermediate and capital goods sector. While it could be said that the first stage of the ISI strategy which involved the replacement of imported non-durable consumer goods and their inputs with domestic production was fairly successful, the second stage which involved the replacement of imported intermediate inputs and producer and consumer durables was a failure. The industrial policies concerning the credit-incentive and tariff-protection measures pursued in the 1970s and 1980s were not conducive to generating the intermediate and capital goods production. The indigenization decrees were promulgated in 1972 and 1977. The major aim was laudable but, its implementation was sloppy. It created a class of rich Nigerians. The greatest hindrance to the decree was Nigeria's high level of technological dependence.

The 1980s and the Structural Adjustment Programme

Between 1981 and early 1986, Nigeria experienced a tight economic situation due to the collapse of the international oil market/The structural defects in the economy came to the fore. This necessitated a fundamental reform agenda. Hence the Structural Adjustment Programme (SAP) was adopted in July, 1986. The key objectives of the SAP with respect to industrial policy were to:

- Encourage the accelerated development and the use of local raw materials and intermediate inputs rather than depend on imported ones;
- Develop and utilize local technology;
- Maximize the growth in value-added of manufacturing activity;
- Promote export-oriented industries;
- Generate employment through the encouragement of private-sector small and medium scale industries; remove bottlenecks and constraints that hamper industrial development, including infrastructural, manpower and administrative deficiencies; and
- Liberalize controls to facilitate indigenous and foreign investment. (Federal Republic of Nigeria, 1986).

In 1989 a new industrial policy for Nigeria was launched. This policy was a consolidation of the fragmentary industrial policies of the past and a reflection of the inherent and persistent problems of industrial development. However, emphasis was on the development of Small and Medium Scale Enterprise (SME). Some of the projects designed to facilitate this include: a mandatory minimum credit allocation to small scale enterprises (SMEs); the introduction of other specialized schemes, including the World Bank SME I and SME II loan programmes, Family Economic Advancement Programme (FEAP) and the Agricultural Credit Guarantee Scheme Fund (ACGSF). The financial schemes performed poorly due to inadequate and insufficient infrastructural facilities, over bearing bureaucracy, inefficient administration of fiscal incentives, unstable macroeconomic environment and bad management. (Sanusi, 2001).

Repositioning the Industrialization Policy in Nigeria

This new policy seeks to address the pitfalls of past policies. Thus, the policy thrust of the present Federal Government of Nigeria in the 2001 budget included:

- Restructuring of the Nigerian economy to make it market oriented, private sector led and technological driven.
- Reducing unemployment and increasing productivity.
- Maintaining price and exchange rates stability and a healthy balance of payments.
- Reducing lending rates and improving savings.
- Improving the performance of major infrastructure, such as, power, communication and transportation. ' -
- Entrenching probity, transparency and accountability in governance and improving credit delivery and extension services to small and medium scale enterprises.

The objectives stated above are to be achieved through the following strategies:

i. Significant investments in power generation; implementation of an emergency power programme (EPP), encouragement of the establishment of commercial power plants and focusing on transmission, distribution and rural electrification,

ii. Continuation of road construction and the rehabilitation and establishment of road maintenance agency.

iii. Provision ofN50 billion by government and implementation of the requirement that banks set aside 10% of their profit before tax to improve the availability of credit to small and medium enterprises (SMEs).

iv. Enactment of a law establishing a trust fund to administer unclaimed dividends. The trust fund is expected to provide an additional source of funding for SMEs and;

v. Provision of adequate funding for the effective take-off and operation of the anti-corruption commission to show government's commitment to fight corruption. Despite these new measures to industrial development in Nigeria, the benefits of the programme are yet to be realized. For instance, the power supply in the country is so epileptic and this has led to the collapse of small manufacturing industries who could not afford alternative sources of power. It has also discouraged potential foreign investors and investments in Nigeria manufacturing ventures.

Summary and Conclusion

An attempt was made in this paper to examine the historical overview of policy episodes of the industrialization policy of Nigeria from the colonial period to date. An assessment of the relative effects of the policy episodes on the Nigerian economy was also undertaken. It is disheartening to note that after four decades of pursuing the goal of industrialization through import-substitution strategy, the manufacturing sector is still skewed in favour of consumer goods industry as against the intermediate and capital goods industries. This discourages backward integration and brings about underutilization of internal resources.

There is still high level of unemployment inspite of government's huge resources on the industrial sector which is supposed to create job opportunities and the promotion of small-scale industries during SAP. It is not surprising that nineteen years later, the present regime has again focused on the SMEs in the new industrial policy. It was also observed that the major problems facing the SMEs are lack of finance, inadequate supply of raw materials, machinery and spare parts. After the **deindustrialization** period of 1990-1998, the prospects of industrialization in Nigeria seems bright, given that between 1999 and 2003, the manufacturing capacity utilization levels increased from 36.1% in 1999 to 44.5% in 2002. (CBN,2003). However, the forces of globalization and liberalization pose serious challenge to the Nigerian industrialization effort. Hence, huge investments in human capital, information technology, R&D and efficient distributive capacity become imperative.

To conclude, investors expect good governance and an enabling environment. Therefore, appropriate checks and balances and the'rule of law must be enforced.

References

Adamu, P. A, (2002). Tariff Policy and the Development of Nigeria's Manufacturing Sector. In lyoha., M.A. and C.O. Itsede (eds.). *Nigerian Economy: Structure, 'Growth and Development.* Mindex Publishing, Benin City, Nigeria. . ••

Adejugbe, M.O.A. (1980). Nigeria's Industrial Policies and Performance in the Military Era, 3966-1979. Proceedings of the *Annual Conference of the Nigerian Economic Society.*

Adenikinju, A. and Olofin. S.O., (2000). Economic Policy and Manufacturing Sector Growth Performance in Africa. *The Nigerian Journal of Economic and Social Studies.* 42, (1).

Akinlo, E.A. (1995). The Impact of the Adjustment Programme on Manufacturing Industries in Nigeria, 1986-1991. A Sample *Study. African Development Review.*

Central Bank of Nigeria (CBN). (2003). Annual Report and Statement of Accounts.

Egbon, P.C. (1995). Industrial Policy and Manufacturing Performance in Nigeria *National Centre for Economic Management and Administration* (NCEMA), Ibadan, Nigeria.

Egbon, P.C. (2004). Industrial Development: Problems and Prospects. In Bello-Imam ,B. and M.I. Obadan (eds.). *Democratic Governance and Development Management in Nigeria's Fourth Republic 1999-2003.* Centre for Local Government and Rural Development Studies, Ibadan.

Ekuerhare, B.U. (1996). Design and Management of Sectoral Policies in Nigeria Industrial Policy Under SAP In Obadan, M.I. and M.A. lyoha (Eds.), *Macroeconomic Policy Analysis, Tools, Techniques and Applications to Nigeria,* Ibadan: NCEMA.

Federal Ministry of Industries, (1988). Industrial Policy of Nigeria: Policy Incentives, Guidelines and Institutional Framework. Abuja.

Ikeze, N. (1995). New Industrial Policies and Perspectives for Manufacturing in Nigeria In Hans. H. Bass et ai (eds.), *Aficcm Development Perspectives Yearbook 1990/91,* II. Hamburg: Lit Verlag.

Kayode, M.O. (1981). Nigeria's Industrial Strategy: Need for Realignment. *Research for Development.* 1, (I).

Lall, S. (1989). Human Resources Development and Industrialization, with Special Reference to Sub-Saharan Africa. *Journal of Development Planning,* 19.

Lail, S. (1990). Human Resources, Technology and Industrial Development in Sub-Saharan Africa. Paper Presented at the *World Bank Conference on African Economic Issues,* Nairobi, June.

Oyejide, T.A. (1974). The Strategy of Industrial Development in Nigerian *Quarterly Journal of Administration,* 8. (2).

Soleye, O.O. (1987). Nigeria's Industrial Policy: Retrospect and Prospects. In lyanda, O. (ed.). *The Nigerian Economy Issues and Problems of Management.* Mallhouse, Lagos.

Soludo, C., O. Ogbu and H. Chang. (2004). *The Politics of Trade and Industrial Policy in Africa.* Africa World Press.

Usoro, EJ. (1997). Government Policies, Politics and Industrial Development Strategy in Nigeria, 1947-1974. [n Teriba, O. and M.O. Kayode (eds.). *Industrial Development in Nigeria: Patterns, Problems and Prospects.* Ibadan University Press, Ibadan.