

Salihu, Hamisu (2023)

Successes and Failures of Industrial Policies in Nigeria: The Cases of the Cement, Textiles, and Iron and Steel Industries  
PhD thesis. SOAS University of London

DOI: <https://doi.org/10.25501/SOAS.00039472>

<https://eprints.soas.ac.uk/39472/>

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**Successes and Failures of Industrial Policies in Nigeria: The  
Cases of the Cement, Textiles, and Iron & Steel Industries**

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Thesis submitted for the degree of  
PhD in Development Economics

September 2022

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## Abstract

*Under the same clientelist political settlement, industrial policies have been designed and implemented in the cement, textile, and iron & steel industries in Nigeria. However, although these policies were designed and implemented under more or less the same power configuration, there is a puzzling divergence in their outcomes. While the cement industrial policy (the BIP) succeeded in transforming Nigeria from a net cement importer to a self-sufficient producer, policies aimed at transforming the textile and iron & steel industries have failed to achieve their objectives. Setting out to unravel the puzzle of these divergences in policy outcomes using the political settlement framework and insights from the concept of rents space and the technological capability theory, this research made some interesting findings. While the support of the political leadership to a particular policy was found to be crucial to policy performance, regardless thereof, three factors emerged to be very critical for industrial policy performance, and therefore appear to have accounted for the differences in policy outcomes in the three industries under study. These factors are: (i) the nature of the requirements, adoption, and implementation of appropriate learning/capabilities/routines in particular industries (ii) the relative capabilities of entrepreneurs in an industry and (iii) the importance of entrepreneurs in particular industries to ruling elites in terms of contributions to building/maintaining ruling coalitions in power. Thus, based on data gathered from structured/semi-structured interviews, archives, and other secondary sources, it was found that the successful policy outcome in the cement industry differs from the failures in the textile and iron & steel industries because of the following three major reasons/factors: One, the cement industry's requirement, adoption and implementation of learning/organizational capabilities/routines are relatively simple. Two, cement entrepreneurs possessed the requisite financial, investment and organizational capabilities to drive successful transformation. Three, cement entrepreneurs were very important to ruling elites for political/campaign financing from the regulatory rents that they generate in the industry and elsewhere. In contrast, the adoption and implementation of organizational learning/capabilities/routines in the textile and iron & steel industries were, compared to the cement, found to be relatively complex. In particular, vertical integration policies in these two industries seek to make semi-independent sub-sectors with different structural weaknesses, capabilities requirements, productivity gaps and efficiency levels link vertically with one another with concomitant contagious consequences. Finally, there were some pockets of active and quite successful private industrialists in both textile and iron & steel industries who possessed capabilities that are comparable to the cement entrepreneurs'. However, being largely of foreign origins, and operating in industries where rents largely come from market competition, rather than from the discretionary (in)actions of government, these active/successful small-scale private textile and iron & steel industrialists had very little surplus rents to contribute to political/campaign financing, and hence, little influence to exert on policy design and enforcement in their respective industries.*

## Acknowledgements

I would like to firstly thank my supervisor, Prof Mushtaq Khan, for his valuable feedbacks, mentoring and supervision of the research project. Prof. I really cherish the privilege of being under your intellectual tutelage, benefitting from your decades of experience and expertise. Never tired of flaunting your name as my supervisor, I have to herein plead guilty for name-dropping. Thank you Mushtaq for all your support, patience and understanding. I am also grateful to my second supervisor, Dr Pallavi Roy for her valuable support and guidance. I am also very thankful to my external examiners, Dr Pritish Behuria and Dr Hazel Gray for their valuable comments and observations, which have further enriched the thesis intellectually.

I also owe a huge debt of gratitude to my parents, late Alhaji Salihu Hussaini (Kawu), and Malama Fatima Adamu (Mama) as well as my step-mum, Malama Aisha (Baba) for all their all-round supports from day one. I am really happy that that you are alive to witness the ‘fruit’ of the ‘tree’ you have watered with your finances, time, counsel, sweat and much more. Mama, even at a young age, I was always struck by your deep passion for my education even when you have never been so privileged yourself! Words cannot articulate my gratitude to you, Mama! To my brother, (Muhammad Salihu) and sisters (Zainab and Kaltume), thank you for your support. I must also thank Angelica Baschiera for all her kindness and support to me.

To my beloved wife, Fatima Muhammad Shitu (Fati), I have to first and foremost apologise for the lots of inconveniences I have caused you due to what you describe as my ‘extreme devotion’ to this project. I also have to thank you for all the countless sacrifices you have made for me which smoothened the way for my successful completion of this project/program. Thank you so much, my love! To my children, Salihu (6), Shitu (4) and Nana (1), I am happy for you that your constant mantra “Baba, yaushe za ka gama karatun nan ne?! [Dad, when will you finish this study?!]” has come to an end. Now, I am all yours for the taking, the treats but not the tricks!

I would also like to thank my generous London host/Landlady, Miss Jane Moultrie East, for her uncommon hospitality, generosity, and her love for my family. Jane, you have restored my hope in humanity! Thank you! I also have to thank the following friends of mine here at SOAS for their warm friendship: Messrs Kobir Ahmed, Behar Sadriu, and Chakib Bourayou. Back in Nigeria, the following friends/colleagues also deserve appreciation and mention: Messrs Rabiou Isa Mohd, Abdulkadir Musa, Ibrahim Usman (Madiba), and Hussaini Abdullahi (Moddibo) for their encouragement and goodwill. Rabiou and Ibrahim, I am happy that I have now fulfilled your request that your logistical support during my trip to Obajana must be appreciated in the acknowledgement page of my thesis. I am also grateful to Mr Hamma Kwajaffa, the DG, Nigerian Textile Manufacturers Association (NTMA) who, in addition to giving me all the data/support I needed, used his car to take me round the textile companies in Lagos. Alhaji Dattijo Adhama (owner of Adhama Textiles & Garment) also deserves special praises for introducing me to Mr Kwajaffa and many other important contacts/respondents who helped in adding enormous value to the project. Thank you, Baba Adhama!

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## **List of Acronyms**

- APCM**—Associated Portland Cement Manufacturers
- ASCL**—Ajaokuta Steel Company Limited
- BIP**—Backward Integration Policy
- BOI**—Bank of Industry
- CMAN**—Cement Manufacturers Association of Nigeria
- CTG**—Cotton, Textiles and Garment (CTG) policy
- DCC**—Dangote Cement Company
- DGT**—Dangote
- DS**—Developmental State
- I&S**—Iron & Steel
- IMF**—International Monetary Fund
- IP**—Industrial policy
- ISI**—Import-Substitution Industrialization
- MAN**—Manufacturers’ Association of Nigeria
- NEPD**—Nigerian Enterprises Promotion (indigenization) Decree
- NICs**—Newly Industrialized Countries
- NIE**—New Institutional Economics
- NTMA**—Nigeria Textile Manufacturers’ Association
- NUTGTWN**—National Union of Textile, Garment and Tailoring Workers of Nigeria
- PS**—Political Settlement
- SAPs**—Structural Adjustment Programs
- SSA**—Sub-Saharan Africa
- UNIDO**—United Nations Industrial Organizations

## Glossary

TERM	DEFINITION
<b>Political settlement</b>	Refers to the distribution of power and capabilities among different actors/organizations in a society <sup>1</sup> .
<b>Capabilities</b>	Refer to the technical, managerial, organizational, and other relevant skills that are required by firms/individuals to organize/use the hardware (machines/equipment) and software (information) of technology efficiently in the production process, and to achieve technological change/structural transformation <sup>2</sup> .
<b>Financial capabilities</b>	Refer to the ability of firms/entrepreneurs to source/mobilize the required capital for investment in an industry.
<b>Investment capabilities</b>	Are the skills required for identifying business opportunities, preparing feasibilities, buying the right technology from the right producer, identifying the best site, (out)sourcing the best staff etc. in order to produce goods/services efficiently and profitably <sup>3</sup> .
<b>Managerial capabilities</b>	Refer to the ability of managers/firm owners to appreciate, create, extend, sustain, and modify the routines or ways in which a firm operates.
<b>Organizational capabilities</b>	I use this in two senses—(a) the political and (b) the economic: (a) the ability of organization/individuals to mobilize crowds of people, or to fund and organize political parties, or lobbyists or engage directly in economic and political conflicts <sup>4</sup> , and (b) the ability of firms/entrepreneurs to carry out collective activities efficiently <sup>5</sup> .
<b>Learning</b>	The process of acquiring the requisite capabilities needed by firms/workers to produce goods/services cost-effectively and at competitive prices and right quality thresholds.
<b>Routines</b>	The processes/stages involved in the production of goods/services, or the way things are done <sup>6</sup> .
<b>Rents</b>	Rents are defined as excess incomes, in terms of what the earner would have accepted given their next best alternative activity, accrued to firms/individuals either through the discretionary/regulatory interventions of the state/government (discretionary/regulatory rents) or by outcompeting other firms/individuals at costs/prices/quality levels (market competition-based rents) <sup>7</sup> .
<b>Holding power</b>	Holding power is defined as the ability to absorb or inflict costs on contesters/competitors in conflicts <sup>8</sup> .

<sup>1</sup> See Khan (2010, 2018)

<sup>2</sup> Adapted from: Lall (1993); Pietrobelli (1997); Morrison, Pietrobelli, & Rabellotti (2008)

<sup>3</sup> Adapted from Lall (1992)

<sup>4</sup> Adapted from Khan (2010).

<sup>5</sup> Adapted from Khan (2019).

<sup>6</sup> See Winter (1986); Teece, Pisano & Shuen (1997); Peng, Schroeder & Shah (2008).

<sup>7</sup> Khan (2000); Gray & Khan (2010); Pritchett, Sen & Werker (2018).

<sup>8</sup> Khan (2010)

## 1 Introduction

The evolution of industrial policies (IPs) in Nigeria can be explored through five distinct stages as identified by Dauda (1993) but to which I add another sixth stage. The *first* stage was between 1900 and 1954 when Nigeria was a British colony. During this period, the British government was mainly concerned about the provision of law and order as well as building some basic infrastructural facilities that would facilitate colonial commercial activities in the Nigerian colony (Dauda, 1993). A non-interventionist economic policy or what Kilby (1969) would refer to as “open-door industrial policy” was practiced during this period. Thus, the colonial government did not embark on economic planning as the official policy was for colonies to be administered at minimal costs using available local resources. This trend of non-interventionist, *laisse faire*, commercial and austere approach to the economic management of the Nigerian colony continued until after the end of the second world war especially in the build up to independence in 1950s (Dauda, *ibid*).

The *second* period spanned between 1954 and 1958 when regional governments were created to administer the north, east and western regions. During this period, although regional governments recognized the importance of industrialization, and hence pioneered the establishment of some light industries, such efforts were not informed or guided by well-planned industrial policy blueprints. Rather, each region independently entered into agreements with foreign technical partners from Europe and North America to establish light industries for the production of textiles, cement, food, beverages and other low value-added products to replace imports. However, the establishment of these pioneer industries during this period and other efforts towards founding critical national institutions such as the central bank and a national bureaucracy helped the cause of industrial policies during this period and in subsequent decades (Dauda, *ibid*).

During the *third* stage (1958-1972), the Nigerian leaders, buoyed by the nationalist fervour of the independence era, continued to pursue the establishment of industries with a view to substituting imports. Thus, the earlier regional efforts towards industrialization were now supported by the national government empowered by proceeds from the discovery and sales of oil in the 1960s through the 1970s. However, the newfound rents from oil and the pride it instilled in the nationalist leaders did not sit well with the dominance of foreigners in the manufacturing sector. This prompted debates and the eventual enactment of

indigenization decrees to limit the overbearing influence of expatriates in the industrial sector (see Mohammed, 1985). However, the enactment of those decrees adversely affected the incentives of foreigners whose techno-organizational capabilities though critical for Nigeria's industrialization, were underestimated by the Nigerian leaders. Thus, industrial policies pursued during this era lacked substance, coherence and effective design and implementation strategies (Dauda, 1993).

In the *fourth* stage (1972-1985), the Nigerian government played active role in the industrial development of the country through especially national development plans—which, I consider as the best approximations of industrial policies in Nigeria—though these were largely economy-wide functional interventions. The twin oil booms of the 1970s further bolstered the fiscal capabilities of governments to establish more light or low-value-added manufacturing firms and lavishly supported the already existing ones (Pinto, 1987). Several policies such as the Nigerian Enterprise Promotion Decrees of 1972 (amended 1977), Shagari's stabilization policy and Buhari's austerity measures were actively implemented by government during this period. The overall objective of these policies appeared to have been the improvement of the general manufacturing base and the participation of Nigerians in the productive sectors of the economy. However, wastefulness, lack of any coherent, and well-designed industrial policies (IPs) that clearly stipulated the terms and conditions of accessing subsidies and other incentives led to wanton rents capture and accumulation activities (Dauda, 1993). This affected the productivity and profitability of firms especially when oil booms dissipated, and cash reserves got depleted.

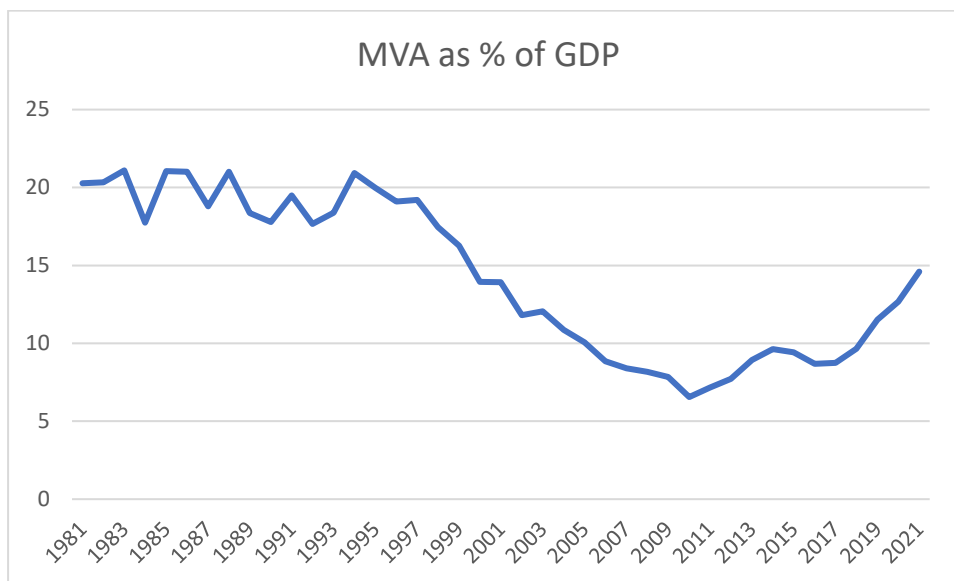
When the situation worsened, the new military junta of General Babangida introduced, in 1986, some deregulation and liberalization policies. This was a radical break from the previous interventionist policies, which marked the *fifth* stage, that spanned between 1986 and 1999. During this period, moribund state-owned companies were privatized, and government economic and industrial policies were relatively neutral as per the requirements of the IMF/World Bank-sponsored structural adjustment policies (SAPs) implemented during this period. Considered of strategic national importance, the Nigerian state continued to own and invest heavily in some state-owned companies/corporations such as the Ajaokuta Steel Company Limited (ASCL). However, while there were some pockets of successes especially in some small- to medium-scale firms owned by private entrepreneurs, problems related to rent capture and accumulation, lack of transparency in foreign exchange management leading to round-tripping,

cronyism and nepotism combined to have stunted the success of liberalization policies during this period (see Bangura, 1991; Ekpenyong, 1995; Osoba, 1996).

Finally, in my view, the return to democratic rule in 1999 marked the beginning of the *sixth* stage in the development of industrial policies in Nigeria. Here, the privatization of national assets continued. However, lack of remarkable industrial progress in the country, and the need for political leaders to demonstrate their performance or provide the so-called dividends of democracy for the electorates, necessitated the need for industrial revival. However, since functional industrial policies, which were largely practiced in the previous periods, could not avail ruling elites the opportunities to showcase their specific achievements, ruling coalitions during this period shifted focus towards ‘picking winners’ by adopting sector-specific industrial strategy. It is worth noting here that during this period industrial policies were still characterized by haphazard and intermittent fiscal and import/export policy measures/pronouncements by the government in power. Hence, the IPs pursued during this period were not as well designed, coordinated and enforced as those in say East Asia. However, a new shift, where industrial policies were geared to target particular industries rather than the whole manufacturing sector or macroeconomy, was noticeable. Thus, sector-specific industrial policies such as the Backward Integration Policy (BIP), Cotton, Textiles and Garment (CTG) policy, Anchor Borrowers Program and others were pursued by ruling coalitions from 1999 to date.

However, even after undergoing these series of diverse policy regimes/experiences, the problem for both political leaders and researchers to address in Nigeria remains the underdevelopment of the country’s manufacturing sector, which is still weak and moribund. This is the overall *research problem* that inspired the motivation for this research. The performance of Nigeria’s manufacturing sector, despite the adoption of series of costly national development plans and industrial policy strategies, remains unimpressive. For instance, manufacturing value added (MVA as % of GDP) in Nigeria is 15% (as of 2021)—6 percentage point below what it was in 1985! (See figure 1 below).

FIGURE 1: NIGERIA'S MANUFACTURING VALUE ADDED (AS % OF GDP)-1981-2021



Source: World Bank Database

From the figure above, between 1981 and 1994, Nigeria's annual growth of MVA averaged around 20%. However, from 1994, the MVA started to progressively decline from 20.9% in 1994 to a record low of 6.8% in 2010. Between 2010 and 2017, it averaged 8.4%. From 2017 to date, the rate averaged 11.4%.

However, the manufacturing sector is recognized as “the engine of growth” and the catalyst for the industrialization of the industrialized world (Szirmai, 2012). Moreover, with huge market, vast raw material endowments, and a pool of young, educated population, Nigeria's potentials for industrialization has long been recognised (see Kalu, 1955; Kilby, 1969; Schatz, 1977; Andrae & Beckman, 1999). Thus, the crucial question is, why has Nigeria failed to industrialize despite its vast potentials and six-decades of attempts since independence in 1960? This is the *overall research question* of the dissertation.

In the literature, several theories have attempted to address the question of the failure of developing countries to industrialize/develop their economies. Based on *laissez faire* economic doctrine, the neoclassical theory understands growth and industrial progress as the results of liberal, free enterprise market economic system that entertains very minimal state intervention (see Smith, 1979; Trezise, 1983; Bhagwati, 1985; World Bank, 1993). In this understanding, developing countries fail to grow/industrialize because their “industrialization efforts focused on state-led creation of capacity without adequate regard to cost or market” (World Bank, 1989). According to this theory, since under the free-market system technology is freely available to all countries and firms, all a country or firm does is to decide on the appropriate combinations of capital and

labour for production, and this choice is constrained only by factor endowments (see Lin in Lin & Chang, 2009; Bhagwati, 1994, 1985; Lall, 1992). For those neoliberal theorists who concede the importance of some kind of industrial policy, there is often some caveats such as pursuing policies in line with comparative advantage. Thus, when countries pursue industrial/economic policies that defy their comparative advantages as permitted by their factor endowments, the result is failure of industrialization and development (see Lin in Lin & Chang, 2009). This neoclassical view has, however, come under criticism for its failure to reflect the reality of industrial development in catch-up countries (see *inter alia* Nelson and Winter, 1982; Lall, 1992; Dosi *et al.*, 1994; Chang in Lin & Chang, 2009). In fact, even within the neoclassical tradition, the recognition of some of these defects in the neoclassical theory led to the emergence of the New Institutional Economics (NIE).

Relaxing some of the assumptions of the neoclassical theory such as the absence of transaction costs, full rationality, and perfect information, proponents of the NIE such as North (1981, 1993, 1995), North & Weingast (1989), Acemoglu & Johnson (2004), Acemoglu & Robinson (2012) argue that institutions understood as the ‘rules of the game’ matter for industrial/economic development. Early institutional economists such as Armen Alchian, Harold Demsetz and Ronald Coase focused attention on how transaction costs affect economic performance through the instrumentality of property rights (see Alchian, 1965, 1977; Demsetz, 1967, 1968; Alchian & Demsetz, 1973). Later, formal, and informal political institutions have been incorporated into the NIE paradigm with a view to locating the specific political-economic institutions that determine industrial/economic growth/development (North, 1973; 1984, 1995). Towards this end, countries are said to differ in their industrial and economic successes due to differences in their respective rules on how the economy works and the incentives that motivate people (Acemoglu & Robinson, 2012). On the one hand, countries that possess *inclusive* political and economic institutions such as secure property rights, free markets, rule of law, and public services for all are said to achieve technological and economic success. This is because under this setting people are allowed to realize their potentials in a safe and secure environment. On another hand, countries that lack these inclusive institutions possess, by default, what are called *extractive* political institutions which impede their industrialization and development (Acemoglu & Robinson, 2012). Also theorizing from the perspective of institutional paradigm, North, Wallis & Weingast (2009) contend that successful industrializers and developers are those



that transit from the ‘natural state’ of limited access order (LAO) to open-access order (OAO) (ibid). In a LAO society, a few powerful elements in society mobilize themselves to create rents by limiting access to political and economic opportunities to the mass of people and using the accumulated rents to maintain peace and stability. In an OAO, violence is controlled through the creation of opportunities to all aspiring to realize their potentials through open political and economic competition. Developing countries are said to be in one of three variants of LAO, that is, fragile, basic and mature LAOs.

However, in his critique of the NIE, Khan (1995, 2010, 2018) argues that institutions and policies that performed well in certain contexts appeared to fail in other contexts. For example, on the one hand, although the Western-styled ‘good governance’ institutions such as rule of law, property rights, periodic elections, democracy, and their ilk might have worked well in advanced countries, they appear to have achieved poor results in developing countries (Khan, 2010). Similarly, institutions and policies that did well in such successful developing countries as Korea, Taiwan, Singapore, and Hong Kong appeared to have failed in other developing countries, e.g. in SSA (ibid). On another hand, the evidence from successful industrializers indicate that different institutions and policies can be used to successfully address similar problems, and hence, there are no such one set of institutions that fit all countries, contexts, and problems. This means that understanding the relative effectiveness of institutions will necessarily require an inquiry into the social and political contexts within which institutions emerge (Khan, 2018). Thus, towards this end, the *political settlement* (PS) framework (adopted for this research) was developed by Khan (2010, 2018) building on his earlier critique against the NIE (Khan, 1995).

The PS approach (Khan, 1995, 2010, 2018) argues that the performance of institutions and industrial policies is subject to the responses of organizations affected by these policies and institutions. In any society, the political settlement represents the distribution of power among the various organizations that make up that society (Khan, 2010). These organizations continuously contest the distribution of resources by deploying their financial resources and or organizational capabilities (the ability to mobilize crowds of people, or to fund and organize political parties, or lobbyists or engage directly in economic and political conflicts) until the distribution of benefits is commensurate with their (evolving) ‘holding power’ (ibid). Holding power is the ability to absorb or inflict costs on contesters or competitors in conflicts (Khan, 2010). In developed countries, the political settlement is *capitalist* in nature which means the

distribution of power reflects the distribution of incomes generated by formal capitalist organizations. This is why the Weberian state can effectively enforce institutions through the agency of bureaucracy (see Khan, 2010). In fact, formal organizations in advanced countries can legitimately lobby or fund particular political parties so that new policies and institutions that favour or protect their interests can be introduced and effectively enforced (Khan, 2010). This contrasts with the *clientelist* political settlement that is prevalent in most developing countries, where the bureaucracy is not necessarily rule-following and can engage in patron-clientelist relationships. Here, the existence of very few formal economic organizations means that resources for funding formal competition are limited and, hence, ruling coalitions have to resort to applying personalized rules to create rents for favoured entrepreneurs, who, in turn, support the ruling coalition often through political/campaign financing.

The clientelist political settlement comes in four different typologies based on the relative distribution of power between the ruling coalitions and excluded factions outside the coalition as well as between the ruling coalitions and lower-level factions (Khan, 2010). Where the power of both excluded and internal factions are weak, a *potentially developmental* settlement ensues. Under this setting, the interests of the ruling coalitions are aligned to growth and the coalition has power to enforce institutions. In a situation where the excluded factions are strong but lower-level groups are weak, a *vulnerable authoritarian coalition* results. Here although some capabilities for policy enforcement exist, the ruling coalition has limited time horizon and hence its interests may not be aligned to growth. The third type of configuration of ruling coalitions is *the dominant party coalition* characterized by the weak power of excluded factions but a strong lower-level faction that may, if unchecked, make policy implementation difficult. Finally, a *competitive clientelist* settlement is the fourth political settlement typology. Under this configuration, the power of both excluded opposition factions and lower-level groups is strong and enforcing a pro-growth policy may be extremely difficult as the ruling coalition's time horizon is limited, and enforcement capabilities are weak.

The performance of industrial policies in a country is said to be affected by the nature of the distribution of power and capabilities among various organizations or the type of political settlement under which policies are designed and implemented (Khan, 2010; 2018). Yet, under the same clientelist political settlement in Nigeria, the outcomes of industrial policies targeted at the cement, textile and iron & steel industries contrast strikingly. The policy designed for the

replacement of cement imports with local production (the BIP) substantially succeeded in achieving its objectives, whereas policies targeted at the textile and iron & steel industries failed to achieve their objectives. Variability in industrial policy performance among different sectors of the same economy or the question of why some productive sectors are promoted (or succeed) while others are not (or fail) have received less attention in the literature (Kjær, 2015). Hence, this research contributes to this scant literature by examining variability in policy performance among three key Nigeria's industries (cement, textiles and iron & steel). Thus, the question of why the cement industry was promoted/succeeded while the textiles and iron & steel industries have both failed is examined herein. The purposive selection of two cases of failures (textiles and iron & steel) was informed by the need to thoroughly explore the peculiar dynamics of the industries with a view to facilitating their successful transformations. This is because the political leadership and ordinary citizenry in Nigeria have attached huge importance to these industries, which made them the subjects of recurring public debates and policies since independence.

Generally, Nigeria has a clientelist political settlement. The country's return to democracy in 1999 marked a period of transition to *competitive clientelist* settlement although Obasanjo's first term (1999-2003) was identified by Roy (2017) as a period that best approximates to a *dominant party* settlement—due to the limited number and weak power of excluded opposition groups at the time. During the period of both the Obasanjo-led dominant party coalition (1999-2003) and the competitive clientelist settlement (from Obasanjo's second term (2003-2007) to date) that followed, industrial policies were designed to target the case-study industries. Yet, the results of these policies differ among the industries even though these policies were designed and implemented under the same clientelist political settlement. This research therefore set out to address this puzzle.

To shed further light on gathered data, I triangulate the PS approach with the concept of rents space (Pritchett, Sen & Werker, 2018) and the technological capability (TC) theory (see Penrose, 1959; Nelson & Winter, 1982; Lall, 1987, 1992, 1993, 2000b, 2004; Lall & Pietrobelli, 2002). The rent space examines the private sector in developing countries from two dimensions, that is, by looking at the kinds of markets targeted by entrepreneurs and the major sources of profitability in those markets. Based on these dimensions, entrepreneurs are classified into *rentiers* (those in natural resource sector exporting abroad), *magicians* (those in competitive, non-natural resource sectors exporting abroad),

*powerbrokers* (those producing for domestic markets in sectors with state-regulated rents), and *workhorses* (those producing for domestic markets in sectors where rents that come from competition with other firms). The TC theory locates firms' performance within the internal dynamics of their capabilities, routines and learning processes (see Penrose, 1959; Nelson & Winter, 1982; Lall, 1987, 2004).

Finally, in what follows, the questions, objectives, scope, significance, limitations, and the main findings/propositions of the research are outlined/summarized.

### **1.1 Research Questions**

The specific questions that this research seeks to find answer(s) for are three:

- (i) What factors/policies have historically shaped the evolution/development of the cement, textile, and iron & steel industries in Nigeria?
- (ii) What factors/forces account for divergences of industrial policy outcomes in the cement, textile, and iron & steel industries?
- (iii) Given (i) and (ii) above, what feasible policy measures can be taken to improve industrial policy performance in the three case-study industries, and hence, the country generally?

### **1.2 Research Objectives**

The research has three objectives to achieve:

- (i) To review the historical evolution of the cement, textiles, and iron & steel industries with a view to learning the lessons of the past and the present to chart a robust industrial policy course of action for the future.
- (ii) To identify the factors that conduce to the success or failure of industrial policies in Nigeria based on the case-study industries.
- (iii) To recommend feasible and pragmatic policy measures to improve the performance of industrial policy in the case-study industries, and hence, the country generally.

### **1.3 Research Scope**

This research has three industries within its study scope. These are the *cement industry* which has recently been seen as a success and the *textile* and *iron & steel* industries which Nigeria currently struggles to revive/establish. Though limited to these three industries, the findings of this research could, by extrapolation, apply to other industries in the manufacturing sector in Nigeria. The choice of these industries—through purposive selection technique—was informed by their relative importance to Nigeria's economy especially in terms

of their contributions to employments and conservation of foreign exchange. Successive governments since independence have, in one way or another, made the transformation of these industries their policy priorities. Nigerians also have huge nationalistic/emotional investment in these three important industries.

#### **1.4 Research Significance**

There is an extensive literature attempting to explain the dynamics that account for inter-regional and cross-country differences in the performance of industrial policies. However, as rightly pointed out by Kjær (2015), research exploring within country differences in the performance of (industrial) policies among productive sectors of the same economy has received scant attention in the literature. Hence, it is in this respect that the general contribution of this research to the literature has found expression. Also, although the three Nigerian industries herein under study are the most important in Nigeria's industrialization drive, yet, to the best of the author's knowledge, this is the first attempt to explore these industries' relative performance comparatively, and not just historically but analytically using the PS approach and the concept of rents space and TC theory. In fact, overall, very few research have been carried out on Nigeria's cement, textiles, and iron & steel industries. Although the cement industry has, in the wake of its transformation, recently received some attention from researchers (notably Akinyoade & Uche, 2018; and Odijie & Onofua, 2020), yet, attempting to explain the backward integration policy (BIP), these research appeared to have given short shrift to the contradictions of the BIP-led structural transformation of the cement industry—an important aspect this research has also contributed to the literature by highlighting. On the textile industry, apart from Onyeiwu (1997), Andrae & Beckman (1999) and Maiwada & Renne (2013), the author has come across very few research on the industry. In fact, even these are, to all intents and purposes, historical accounts of the development of the textile industry, which underscores the need for further studies to critically analyse the dynamics of the industry. For the iron & steel industry, except for Omoweh (2005) which compares the development of the South Korean and Nigeria's iron & steel industries, the industry has also remained substantially under-researched.

Moreover, together with research on several sectors of the Nigerian economy led by Dr Pallavi Roy at the SOAS's Anti-Corruption Research Evidence (ACE), this research is one of the few that apply the political settlement (PS) framework to study critical sectors of the Nigerian economy. In particular, this research applied the second dimension of the PS framework which has received little attention/application in the literature—that is, the dimension on

how the distribution of power, benefits and capabilities between ruling coalitions and productive capitalists in a country affect industrial policy performance.

Finally, the findings of this research are timely and will be significant to Nigeria as it currently attempts to diversify away from overreliance on exports of fossil fuel into manufacturing. By its nature, manufacturing offers better opportunities for inter-sectoral linkages, inclusive and sustainable growth and engagement of Nigeria's youthful population in higher-valued jobs in order to reduce poverty and unemployment—two problems that have been linked with the recent spate of kidnappings, banditry and terrorism afflicting Nigeria (see Salihu, 2018; Urowoli & Alero, 2022). Unlike with most other studies, the recommendations in this research benefit from the rich inputs of an array of critical and diverse stakeholders especially industrialists who generously shared their views and experiences, through semi-structured interviews, on the real problems affecting their respective industries and the solutions they consider feasible for the industries' successful transformation.

### **1.5 Research Limitations**

The fieldwork for this research coincided with the outbreak of the Covid-19 pandemic and the resultant lockdown measures, which adversely affected the initial research plan. Scheduled visits to companies for interviews had to be cancelled and rescheduled, leading to the loss of precious time, and conducting some interviews via the phones. Establishing contact with very important respondents such as the Director General of the Nigerian Textile Manufacturers' Association (NTMA), Mr Hamma Kwajaffa, and the acting Head of the Ajaokuta Steel Company Limited (ASCL), Mr Umar Suleiman Muhammad, initially proved very difficult and frustrating for the researcher. The lockdowns also had its psychological impact on the researcher as it did on many people across the globe. Travel restrictions also meant that the researcher could not, in good time, access some textbooks he had early on planned on (re)reading immediately after fieldwork. Traveling back and forth between Kano, Zaria, Kaduna, Abuja, and Lagos to scout for data and respondents was also very costly, risky, hectic, and exhausting for the researcher. The first PhD year was also very challenging before the researcher could settle in and find his bearing academically and socially. Focus group discussions was also initially planned but after the first few trials the researcher found out it was not informative enough.

### **1.6 Summary of research findings and propositions**

Using the political settlement framework and insights from the concept of rents space, the technological capability literature, this research made some

interesting findings. These findings are summarised below according to the research questions:

With regard to my *first research question*, the historical review of the evolution of the case-study industries reveals that several factors/policies had greatly impacted the evolution and performance of the case-study industries and defined their future trajectories in ways that the impacts are still felt to this day<sup>9</sup>. These included the agricultural commodity booms of the 1950s, the nationalist fervour of the immediate post-independence decade, the oil booms of the 1970s, the cement armada of 1974, the Nigerian Enterprises Promotion (indigenization) Decrees of 1972/1977, and the Structural Adjustment Programs (SAPs) of 1986. Existing research has placed great emphasis on attributing the slow growth of the manufacturing sector in Nigeria to the problem of infrastructure and the introduction, in 1986, of the IMF/World Bank-sponsored structural adjustment program (SAP). While this submission is justifiable in many ways, this research goes a notch further to argue that notwithstanding the introduction of SAP, industries in Nigeria did not appear to have, prior to SAP or even afterwards, developed the requisite capabilities and productivity to be competitive. These issues of capabilities and productivity development which have not been adequately addressed by existing literature have been highlighted in this research.

On the *second research question* over what factors have accounted for divergences in industrial policy performance among the case-study industries, the research found three factors to be especially critical for industrial policy performance, and hence, explain the differences in industrial policy outcomes in the three industries under study.

The *first* factor is the differences in the requirements, adoption and implementation of appropriate organizational capabilities, learning and routines among our case-study industries. Since Penrose (1959) who proposes that firms' competitive advantages mainly result from organization-specific factors/resources, subsequent researchers have sought to shed light on these firm-level resources that are adjudged critical in determining firm/industry performance (see *inter alia* Rothwell, 1977; Nelson & Winter, 1982; Winter, 1986; Dosi, 1988a, 1988b; Cohen *et al.*, 1996; Lall, 1987, 2004; Lall & Pietrobelli, 2002). In this regard, the capability-based theory of the firm maintains that firms' capabilities and performance are closely related (see Nelson and Winter, 1982, Lall, 1987, 1992, 1993, 2004).

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<sup>9</sup> See Kilby (1969); Mohammed (1985); Andrae & Beckman (1987, 1999); (Lewis, 1994); Marwah (2018)

Therefore, given the primacy of capabilities, learning, and routines in the performance of firms/industries, it was not a surprise or an implausible find that the performance of policy institutions in our case-study industries appear to have been determined by the differences in the requirements and or adoption of capabilities, routines, and learning processes.

The *second* factor is the possession of certain capabilities required for structural transformation by entrepreneurs in an industry which was found to be important in determining the performance of industrial policy in that particular industry. For instance, whereas entrepreneurs in the cement industry such as Aliko Dangote, Abdussamad Isyaku Rabi (BUA cement company owner) and Lafarge possessed the capabilities (financial, investment, managerial, and technological) to organize profitable production, their counterparts (especially state- and Nigerians-owned firms) in the textile and iron & steel industries largely lack such capabilities. The divestments of stakes and departure of foreign capital from the textile industry and the consequent purchase of majority shares in these companies by Nigerians has created serious capability gaps in the textile industry. Similarly, the construction of the largest, integrated iron & steel company, the Ajaokuta Steel Company Ltd (ASCL) has been predicated on the technological capabilities of foreign expatriates (especially the Russians). When these foreigners left, ASCL was left in limbo for almost 40 years. Hence, the research also found that the performance of industrial policy among the case-study industries was determined by differences in the relative capabilities of entrepreneurs in targeted industries.

*Thirdly*, how important entrepreneurs in particular industries were to ruling elites/coalitions in terms of campaign financing was also found to have accounted for divergences in industrial policy outcomes. However, the capability of entrepreneurs to financially contribute to building/maintaining ruling coalitions depend on the nature of rents in their industry of operation. Adapting the rents space concept developed by Pritchett, Sen & Werker (2018), it is obvious that whereas the cement industry possesses huge regulatory rents that can easily be harnessed relatively quickly through the regulatory (in)actions of government, rents in the textile and iron & steel industries derive from market competition, and not only takes longer time to deliver but also are difficult to harness.

In essence, based on gathered data, the research found that the successful policy outcomes in the cement industry diverged remarkably from the failures in the textile and iron & steel industries because: (a) the cement industry's requirement, adoption, and implementation of learning, capabilities, and routines are relatively simple; (b) cement entrepreneurs possessed not only the required



capabilities to drive the transformation but also were, (c) very important to ruling elites for campaign financing from the huge regulatory rents that they generate in the industry. In contrast, textile and iron & steel industries were found to be relatively more complex in terms of their requirements, adoption and implementation of capabilities/learning/routines especially given that policies for these industries were over-ambitiously holistic—i.e., seek to transform the industries from the upstream to the mid-stream and the down-stream sub-sectors—rather than sequentially incremental. Moreover, although the research found some active and quite successful private industrialists in both textile and iron & steel industries who possessed capabilities that measured up to those of the cement entrepreneurs', yet, being largely of foreign origins, and operating in industries where rents largely come from market competition rather than the discretionary (in)actions of government, these successful textile and iron & steel industrialists had little surplus rents to contribute to campaign funding, and hence, little influence to exert on policy design and enforcement in their respective industries.

Therefore, from my examination of the comparative performances of Nigeria's industrial policies in the three case-study industries (cement, textile, and iron & steel), certain important inferences about the determinants of industrial policy success or failure can be drawn leading to the following specific propositions:

- (i) While several factors and policies have shaped the development and performance of industries in Nigeria, more than anything else, the failure of industries to develop capabilities and productivity for competitiveness appear to be the most intractable impediment to industrial growth.
- (ii) Industrial policy in Nigeria is more likely to succeed in industries whose requirement, adoption and implementation of learning, capabilities and routines are relatively simple than in industries where such are relatively complex.
- (iii) Industrial policy is more likely to succeed in industries where entrepreneurs possess moderate to high capabilities (investment, managerial, financial and organizational) than in industries where entrepreneurs possess low or no capabilities or where foreign capabilities are completely or substantially relied upon.
- (iv) Industrial policy is more likely to succeed in industries with relatively large rents that can be harnessed with relative ease and in the short

term, and where the entrepreneurs are ready to deploy a part of these rents to finance ruling coalitions in return for the design, enforcement, and sustenance of favourable policies, than in industries where rents can be harnessed with relative difficulty or only in the long term. In the latter industry, entrepreneurs will have little or no surplus rents to spare for political financing to incentivize/attract favourable policy design and enforcement to their industry of operation, which makes industrial policy success less likely.

- (v) In the circumstance, industrial policy is more likely to succeed in industries led by, or with a significant presence of, capable but indigenous Nigerian entrepreneurs who possess both symbolic and tangible political capabilities. These qualities help to influence the design and enforcement of policies in industries with these features than in those led by, or with a dominant presence of capable but foreign nationals who, as it were, lack the political reach/capabilities and holding power to attract credible state policy commitments to their industry of operation.

## **1.7 Organization of chapters.**

The structure of the dissertation proceeds in a funnelling technique where in the next **chapter 2** (*Literature Review*) the author reviews the literature that applied the PS framework with a viewing to identifying gap(s) and situating the contribution of this research in bridging this gap(s). In **chapter 3** (*Methods and Materials*), the methods of data collection and triangulation, sampling of interview respondents, selection of case studies and procedures through which ethical issues have been addressed are outlined. The political settlement (PS) methodology and the concept of rents space, adopted herein as the research's main theoretical frameworks, are explained in some details in **chapter 4** (*Theoretical Framework*). Honing in on that, the author maps out Nigeria's political settlement from the build-up to independence to date in **chapter 5** (*Nigeria's Political Settlement*). Applying the insights gained from the aforementioned chapters, the analyses of the case study industries begin in **chapter 6** (*The Cement Industry*), proceeds in **chapter 7** (*The Textile Industry*) and ends with **chapter 8** (*The Iron & Steel Industry*). Each of the chapters begins with a synopsis that concisely summarizes the chapter's content. The dissertation ends with **chapter 9** (*Conclusion & Recommendation*) wherein the study is concluded, and based on valuable insights gained in the course of the research, the author recommends feasible, pragmatic and sequential policy approach/measures to help Nigeria to realize its long-standing ambition of

achieving industrialization and development especially within the contexts of the three case-study industries. **Chapter 10** contains a list of references/interviews.

## 2 Literature Review

### Chapter Summary:

*This chapter begins with a chronological review of the literature that applied the political settlement (PS) framework to analyse diverse issues, sectors, or industries. This is followed by a systematic review of the divergent usage and applications of the PS concept in the literature. Based on these reviews, it emerged that existing PS literature mainly focus on the political organization of ruling coalitions-dimension of Khan's PS theory to the neglect of the second dimension that emphasizes on the distribution of capabilities and holding power of productive capitalists and their impact on policy performance. Finally, the contribution of this research in attempting to bridge this gap and introducing important nuances in analysing the performance of industrial policies in Nigeria's cement, textile and iron & steel industries are highlighted.*

### **2.1 Review of research that applied the political settlement (PS) framework.**

In his 1995 paper which critiqued the New Institutional Economics (NIE)'s perspective on the institutional conditions for development, Mushtaq Khan introduced the concept of political settlement (PS) into development scholarship (Kelsall *et al.*, 2022). In another paper, Khan (2010) teased out the details of his PS theory, and ever since, there have been explosions of both academic and donor-related works/projects adopting the PS methodology to understand the dynamics of development in developing countries. For instance, the PS framework has been applied to different countries to study diverse sectors which include: education (Abdulai & Hickey, 2016; Cameron & Naidoo, 2016; Ampratwum, Awal & Oduro; 2019); health (Kelsall, Hart & Laws, 2016; Kelsall, 2020; Klopp, Wekesa & Ziraba, 2022); agriculture (Aremu *et al.* 2016; Behuria, 2020; Teye & Nikoi, 2022); corruption (Khan, 2017; Roy, 2017; Andreoni, 2017); Mining (Hickey *et al.*, 2015; Hickey & Izama, 2017; Bebbington *et al.*, 2018; Frederiksen, 2019; Oppong, 2020); and industries/industrial policy (Behuria, 2019; Whitfield *et al.*, 2015; Mondliwa & Roberts, 2021).

One of the early applications of the PS framework came from Khan (2010) who, after developing the theory further, the author applied it to analyse the structural transformation experiences of Bangladesh, West Bengal, Maharashtra and Tanzania. In another series of works (Khan, 2011a, 2012, & 2017), a more detailed analysis of the dynamics of structural transformation in Bangladesh and

the conditions that gave rise thereto was provided using the PS framework. In Khan (2011a) it is argued that as opposed to Western countries' Weberian institutional setting, which operates purely based on formal institutions and organizations, developing countries such as Bangladesh have variants of what the author termed "Clientelist Political Settlement", which substantially rely on informal institutions and organizations to function. This difference in institutional set up—which is informed by the nature of distribution of power and capabilities among both formal and informal organizations in these countries, argued Khan, determines the implementation capabilities, and hence the outcome, of policy institutions. In Khan (2012), three sectors of Bangladesh's economy—garments, electronics, and power generation—were analysed using the PS framework to demonstrate the instrumentality/importance of a country's political settlement in shaping that country's structural transformations. In the studies, the author discovered that the designs, enforcements, and outcomes of industrial policies in the three Bangladeshi industries significantly depended on the country's political settlements and the concomitant alignment of incentives and (non-)existence of high-effort compulsions for actors/organizations. Specifically, Khan (2011a & 2012) found that the garment industry was successful because of Multi-Fibre Agreements (MFA)-induced quota rents, the nature of Bangladeshi's PS in the 1980s and the structure of learning financing and incentives for the local Dosh, the Korean Daewoo partners and other relevant stakeholders. For the electronics industry, it was found that the nationalist firm was neither able to efficiently absorb financing risks nor capable of ensuring compulsions, high efforts and productivity development. The failure of the power sector was attributed to governance failure manifested in 'procurement rents'-seeking and capture activities among government officials.

In the same vein, Khan (2011b) applied the PS approach to India to demonstrate that it was the Indian ruling coalitions' capabilities for enforcement of *dirigiste* policies between 1947 and 1980 occasioned by the nature of the distribution of power and capabilities at the time, rather than the later introduction of liberalization policy, that led to the successful transformation of the Indian automobile and pharmaceutical industries. In the final analysis, Khan (2011b) concludes that while India's *dirigiste* policies prior to 1980 led to significant development of capabilities in the automobile and pharmaceutical industries, the nature of India's PS at the time did not allow for effective enforcement of institutions for attainment of global competitiveness in the two industries. Therefore, the later adoption of liberal industrial policies only built on earlier foundational success/efforts through facilitation of competition especially with the shift to *competitive clientelist political settlement*.

In her thesis project and consequent book, Gray (2012, 2018) applied the PS framework to assess/compare the performance of reform policies in finance, land management and industries in Vietnam and Tanzania. Arguing that although the two countries possessed what she termed as the “socialist political settlements” which manifested in their formal socialist institutions such as a rule by a cohesive socialist dominant party, the outcomes of policy reforms in the case-study sectors differed in the two countries. This, Gray attributes to the differences in the informal configuration of power and capabilities, or the political settlements, in the two countries which affected their developmental paths in different ways. Overall, the author argues that both Vietnam and Tanzania have fallen short of judiciously managing rents for higher productivity and development of capabilities.

Roy (2013) also applied the PS methodology to unravel the puzzles of the differences in institutional policy outcomes in Gujarat, Tamil Nadu and Pakistan since 1980. These puzzles pertain to the high industrial growth performance in Gujarat (between 2001 and 2013) and Tamil Nadu—although with limited capability development in the former state compared to the latter. In her analyses, the author argues that the impressive growth record of the BJP-led ruling coalitions in Gujarat is attributable to the high enforcement capabilities of the Narendra Modi-led BJP government. These enforcement capabilities were signalled through the unfortunate deployment of the instrument of violence against Muslim minorities. However, the vulnerabilities of the BJP as an authoritarian dominant party which was unable to, across board, enforce conditionalities on learning rents limited the extent of development of capabilities by industries in Gujarat. For Tamil Nadu, high industrial growth was achieved both before and after liberalization despite its intense clientelist competition because the two major parties “share a common ideology and mobilize almost identical social groups” in addition to sharing a common industrialization objective. The author then concludes that despite its adoption of good governance agenda and liberalization policies, Pakistan posted low growth rates because of ‘legitimacy crisis’ faced by successive ruling coalitions. This crisis, Roy (ibid) argues, may not be unconnected to security alliances Pakistan has with the USA and the resultant violence that affect the enforcement and outcomes of policy institutions, especially with the political elites competing for rents for growth-and-stability from the USA.

Moreover, applying the PS approach to explore the performance of industrial policies in Pakistan’s automotive industry, Qadir (2015) discovered that potentially growth-enhancing rents channelled for the growth of Pakistan’s

automotive industry were subjected to contests by fragmented clientelist interests groups in a PS characterized by “low levels of political stability” and incessant regime changes. Agreeing with Roy (2013), Qadir argues that vulnerabilities of successive regimes in Pakistan compelled them to overlook primitive accumulation and rent capture activities in the industry thereby sacrificing long-term economic plan/growth for short term regime survival objective. This, he found out, weakened the industry’s propensity to develop capabilities for global competitiveness. However, the author argues optimistically that with proper alignment of incentives to reflect the nature of Pakistan’s clientelist settlement, capability in the Pakistan’s automotive industry could be improved and competitiveness enhanced.

Other works by different authors (see *inter alia* Whitfield & Buur, 2014; Whitfield *et al.*, 2015; Behuria & Goodfellow, 2016; Abdulai & Hickey, 2016; Khan & Blankenburg, 2009; Craig & Porter, 2013; Hassan, 2013; Hassan & Prichard, 2013; Kelsall & Seiha, 2014; Kelsall *et al.*, 2022) who applied the PS framework are summarized in the table in appendix 1. However, it is important to point out here that many of the early applications of the PS framework reviewed above by Khan and his then PhD students (see *inter alia* Gray, 2012; Roy, 2013; and Qadir, 2015) were geographically biased in the choice of their case studies favouring South Asian countries to the exclusion of Africa—the notable exception being Gray (2012, 2013)<sup>10</sup>. However, this obvious limitation would soon be addressed by researchers working at the Danish Institute for International Studies (DIIS). Working on the “Elites, Production and Poverty Program” (EPPP), these researchers incorporated the “Political Survival of Ruling Elites” concept into Khan’s PS framework to theorize on what they refer to as “Elaborated Political Settlements”. In my view, the main contributions of the EPPP research project which culminated in a book (Whitfield *et al.* 2015) comes from their purposive selection of case-study countries from Africa—i.e., Ghana, Mozambique, Uganda, and Tanzania.

In addition to works by the EPPP and some independent individual authors, two other research programs both funded by the Foreign, Commonwealth, and Development Office (FCDO) (formerly DFID), that is, SOAS, University of London’s Anti-Corruption Evidence (ACE) Research Consortium and University of Manchester’s Effective States and Inclusive Development (ESID) program have adopted the PS framework producing research papers and a book which highlight the importance of contexts in exploring the relationships among politics, power, economics and development in mostly African countries.

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<sup>10</sup> Gray compares Tanzania’s ‘socialist political settlement’ with that of Vietnam.

The EPPP research output (see *inter alia* Whitfield, 2011a, 2011b; Whitfield & Therkildsen, 2011; Whitfield & Buur, 2014; Kjær, 2015) culminated in a book (Whitfield, Therkildsen, Buur & Kjær, 2015) which, incorporating key concepts from political science, and based on sectoral studies of four African countries, proposed three conditions for the success of industrial policy in Africa. Specifically, the authors suggested that successful structural transformation in Africa happen in sectors where: the *mutual interests* of ruling elites and those of the sector's capitalists coincide; there is *pockets of efficiency* in the state bureaucracy such that officials have the expertise to design and the delegated authority and power to implement policies; and, finally, *learning for productivity* development, as opposed to unproductive rent capture activities, takes place in the supported sectors/industries. While this represents an impressive attempt at extrapolating on the overall conditions that determine the performance of policies, the issue here is that attempts such as this runs the risk of under-emphasizing the importance of context specificity and, therefore, in the fashion of the New Institutional Economics (NIE), ends up prescribing a one-size-fits-all model that neglects the primacy of contexts. Also, while it is true that these three conditions could have important roles to play in the success of policy institutions, a host of other conditions or factors could be equally, if not more, important, for instance the accidental MFA-induced quota rents that incentivized the transformation of the garment industry in Bangladesh, or the influence of the Japanese colonization of Korea and how that has affected the future developmental trajectories of the Southeast Asian country (see Khan, 2010, 2011a, 2012). Suffice it to say that while these conditions matter for successful structural transformation, context particularities are also important as they affect the political settlement and policy design, implementation, and outcomes.

Also using the PS framework, Zainab (2017, 2020 and 2022) compares the success of Nigeria's telecommunications sector reforms in the 2000s against the backdrop of the failure of reform policies in the oil sector. The author argues that the success of reforms in the telecom sector is not solely the result of the liberalization of the industry. Rather, she argued that the telecom sector benefited significantly from certain dynamics in and around Nigeria's political settlement at the time. These pertain to external constraints in forms of pressure from donors, debt burden, oil shocks, regional competition as well as sustained push by business elites within the then PDP-led ruling coalitions who wanted to invest in the telecom industry. However, in contrast to the telecom sector success story, the author found the failure of reforms in Nigeria's oil industry to be linked to distributive politics pressure both at the horizontal (rents for elites and politicking) and vertical (oil subsidy for masses) levels. This made the ruling



coalitions unable to successfully enforce policy institutions in the oil industry. Zainab (ibid) concludes by examining how disparity in growth distribution between states like Lagos and Kano could affect future political and policy trajectories of Nigeria.

In their recent book (Kelsall *et al.*, 2022), researchers working on the ESID project have used what they refer to as “PolSett” dataset— which they generated through country expert surveys with a view to providing “a method for measuring and categorizing political settlements”—to assess the performance of policy institutions in Rwanda, Ghana, Guinea, and Cambodia. Using their adapted classifications of PS typologies as broad-concentrated, broad-dispersed, narrow-concentrated, and narrow-dispersed, the authors claim to have developed the model that “predicts” the processes and nexus between political settlements and structural change in case-study countries, and by extrapolation and based on their PolSett dataset, in other countries. However, although Kelsall and his colleagues have made the first attempt at providing “a scientific footing” for PS, criticisms are likely to be directed at their data sources, reliability, and methods of analysis. For instance, the country “experts” they consulted to help with the periodization and classification of particular countries’ PS might not have been knowledgeable enough about the countries dynamics, or even if they were, such classifications/periodization are subjective. In this case the data will be unreliable and the conclusion misleading.

Researchers working on the SOAS ACE project also apply the PS framework to demonstrate how conventional (top-down) anti-corruption measures in Nigeria, Tanzania and Bangladesh can be complemented by bottom-up approaches that “analyse the configuration of power relevant for the enforcement of a particular institution or policy”. Preliminary papers by Khan (2017), Andreoni (2017) and Roy (2017) have provided useful insights on how this bottom-up approach that considers the impact of power distributions at both the micro (sector/industry) and macro (national/economy-wide) levels can be applied for feasible anti-corruption measures that address the underlying incentives for corrupt practices rather than the visible symptoms/manifestations thereof.

In that regard, Roy, Iwuamadi & Ibrahim (2020) investigated the performance of the electricity sector in Nigeria especially since the 2010 privatization exercise. The authors identify, technical inefficiencies, poor tariff collection strategies, revenue shortfalls and ‘legacy’ corruption as the major problems affecting the power sector in Nigeria. While these problems are fairly obvious and with the main issue being the need for the provision of feasible

solution, the authors' recommendation of off-grid solutions whereby both power generation and distribution are disaggregated is quite interesting. Owners of privatized distribution companies (Discos) have reported being apprehensive of making huge investment because of huge risks in the industry especially in the face of frequent changes in government policy (see Awosope, 2014; Idowu, Ibietan, & Olukotun, 2020; Onyishi & Ofualagba, 2021). Thus, providing off-grid solutions that disaggregate not only power distribution but also generation is bound to minimize investment/appropriation risks and enhance competition.

From the above review, it emerged that the PS framework has also been applied to study several sectors/industries in many African countries including Nigeria (see Roy, 2017; Roy, Iwuamadi & Ibrahim, 2020; Zainab, 2017, 2020, 2022). If this was the case, what value then does this current research add to the literature? The answer to this question lies in the introduction of new nuances and fresh case study industries—cement, textile and iron & steel in this current research. While the success of Nigeria's cement industry has been in the news of late and explained in terms of crony capitalism (see Akinyoade & Uche, 2018), no one has applied the PS approach to examine the performance of these three industries in Nigeria. Additionally, the adoption of the rents space concept adds further nuances to the analysis by highlighting how the nature of an industry's market and sources of profitability/rents may provide further insights on the reasons for the successes/failures of industrial policies in that industry. In fact, having established that neither the pre-1986 *dirigiste* policies adopted in Nigeria nor the IMF-led liberalization measures introduced in 1986 can solely explain the success or failure of industrial policies in the case-study industries, the adoption of the PS framework became imperative. Therefore, while building on existing literature through the application of the PS methodology, this research is unique in that it studies industries hitherto unexplored using the PS framework and the concept of rents space.

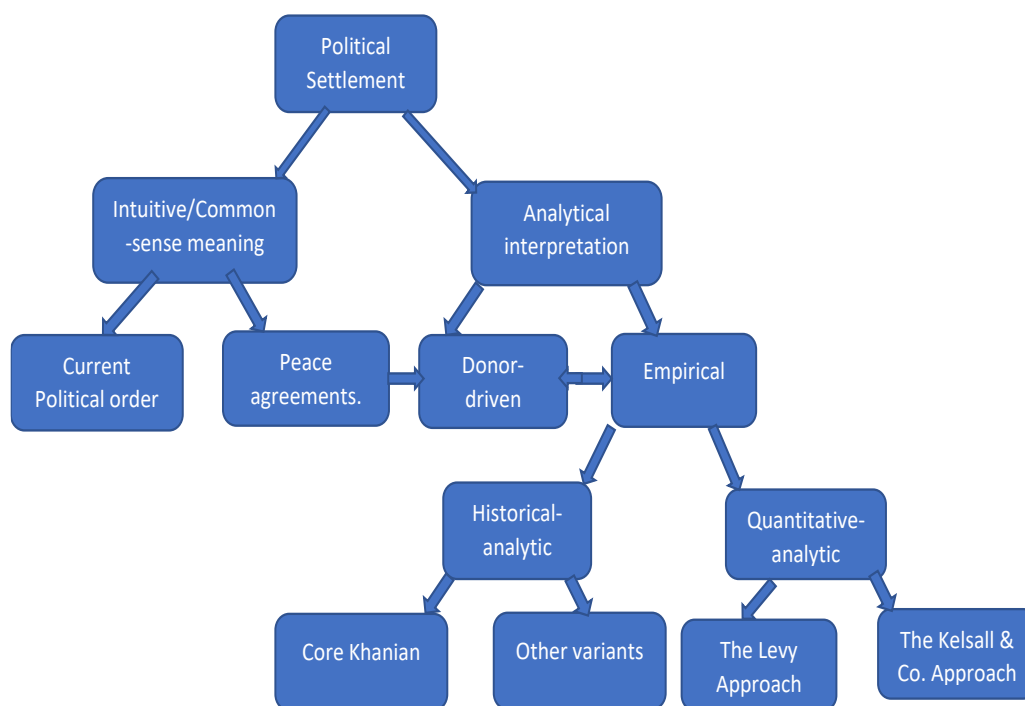
However, the PS framework has been conceptualized and applied differently by different researchers. Hence, apart from the above *chronological review*, in the next session, I provide a *systematic review* of the PS literature to highlight the divergent usage and applications of the framework.

## **2.2 Divergences in usage and applications of the political settlement framework**

Since its debut in development scholarship, different authors/researchers have conceptualized and applied the PS framework differently (Behuria, Buur & Gray, 2017; Khan, 2018; Kelsall, 2022). Predictably, these divergent

conceptualizations and applications of PS attracted the criticisms that the framework suffers from ‘considerable lack of clarity’<sup>11</sup>, ‘ambiguity’<sup>12</sup> ‘conflat[ion] of key terms’<sup>13</sup> and ‘confusion’ or ‘conceptual mutation’<sup>14</sup>. Surveying the diverse strands of the PS literature, these criticisms are indeed not entirely unfounded. However, to address these legitimate observations, I adopt a *systematic survey* of the PS literature to highlight important divergences in conceptual usage and methodological applications (see figure 2 below for a summary of diverse PS strands in the literature). This is with a view to providing some clarity and clearing confusion around the PS concept.

FIGURE 2: DIVERGENT USAGE AND APPLICATION OF PS



Source: Author’s

In its intuitive sense, the term political settlement is used to refer to the kind of peace agreements that involve elites after a period of conflict, or the existing political order in a country (Behuria, Buur & Gray, 2017; Khan, 2018). This common-sense usage of the term guides much of the work on the *elite pact* variant of PS, which often overlaps with donor-driven state- and peace-building policy practice literature. Examples of these type of applications include Whaites (2008), Barnes (2009), Lindemann (2010), Levy & Walton (2013), Craig &

<sup>11</sup> See: <https://www.c-r.org/news-and-views/comment/what-political-settlement>

<sup>12</sup> Kelsall *et al.* (2022)

<sup>13</sup> Laws, 2012.

<sup>14</sup> Moore, 2012.

Porter (2014), Dudouet & Lundström (2016), Rocha (2017), Bell & Pospisil (2017), Dodge (2021), United Nations (2021) and Goodhand & Walton (2022) among numerous others. This is the understanding of PS ‘as action’ (Gray, 2019). Ingram (2014) traced this usage of PS to the time of the League of Nations. This conceptualization and application of PS is credited not only with the ability of simplifying an otherwise complex analytical concept but also with the potential to provide some insights on its more analytically grounded interpretation (see Khan, 2018). However, the focus on elite pact narrows down the scope of PS by neglecting other critical actors, institutions, and organizations, and this affects the potential of this understanding in ‘analysing the effectiveness of particular institutions’ (Khan, *ibid*).

Apart from the above interpretation, there is the analytical conceptualization and application of PS. This analytical approach explores the drivers and outcomes of social, political and economic changes through the study of power relations (Behuria, Buur & Gray, 2017.) Khan’s seminal works (Khan, 1995, 2010, 2018), as outlined in the chronological survey in section 2.1 above, provided the theoretical foundation of this variant. The approach defines PS as: “a combination of power and institutions that is mutually compatible and also sustainable in terms of economic and political viability” (Khan, 2010), and/or “a description of the distribution of power across organizations that are relevant for analysing a specific institutional or policy problem” (Khan, 2018). At one level, this approach further branches off into two variants: donor-driven and empirical approaches.

Although Khan (1995, 2010, 2018) provided the inspiration and theoretical launch pad of the analytical approach, the donor-driven development policy practice literature diverged from Khan’s original PS conception/application. This was done through overlaps of works in this category into the aids, peace agreements, and state-building domain (see the following works for example: DfID, 2009; Parks & Cole, 2010; OECD, 2011; Ingram, 2012; Phillips, 2013; Levy, 2014; Levy, Hirsch & Ingrid, 2015; Goodhand & Walton, 2022)<sup>15</sup>. Hence, in works of this variant, PS now came to be “viewed as the informal and formal processes, agreements, and practices in a society that help consolidate politics, rather than violence, as a means for dealing with disagreements about interests, ideas and the distribution and use of power” (Laws & Leftwich, 2014). A crucial contribution of this donor-driven literature is that it further concretised the theoretical footing of the elites’ pact for state/peacebuilding approach to PS. The

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<sup>15</sup> The Developmental Leadership Program (DLP) of the University of Birmingham, supported by the Australian Department of Foreign Affairs and Trade (DFAT), produced many works in this category.

main impetus for this approach stemmed from the realization by donor organizations that an understanding of local institutions and other dynamics was needed for technical and monetary aids to succeed in developing countries (DfID, 2010).

The empirical branch can be further sub-divided into the historical-analytic and quantitative-analytic variants. The former emphasises the importance of history in providing insights about the dynamics of power relations among actors and organizations. Thus, according to this view, understanding how power relations emerge and affect policy and institutions necessitates not only an analytical examination but also “historical readings of processes of change and transformation in different countries” (Khan, 2012). There is ample literature along the lines of this strand, and they include much of Khan’s works (Khan, 2010, 2011a, 2011b, 2012, 2015), Whitfield (2011a, 2011b), Whitfield et al. (2014, 2015), Gray (2012, 2013, 2018), Roy (2013), Behuria (2015, 2020), Languille (2016), and Croese (2017). I call this the ‘core Khanian’ approach because of their adoption of Khan (1995, 2012, 2010)’s historical-analytic approach. However, some works that adopt this approach also deployed new terminologies (e.g., ‘broad/narrow concentrated/dispersed’ ‘dominant/competitive’ or ‘elaborated’ political settlements) and/or incorporated insights from related theories/disciplines, and therefore could be viewed as ‘other variants’<sup>16</sup> of the historical-analytic approach (see Whitfield et al., 2014, 2015; Levy, 2014; Kelsall & vom Hau, 2020).

The quantitative-analytic approach represents two major recent works (Levy, 2014 and Kelsall *et al.*, 2022) that radically differ from the core Khanian approach by attempting to provide “a method for measuring and categorizing political settlements”. The objective is to “put the concept [of PS] on a more solid theoretical and scientific footing” (Kelsall *et al.*, 2022). Thus, a common feature of this approach is the attempt to use quantitative data from expert interviews/surveys as well as indices on governance, rule of law and corruption indicators to provide a classification of political settlements that is “relatively consistent and comparable across countries and time”. Given the inaccuracy of governance indicators, measurement issues, establishing the direction of causality, etc, some view this attempt at quantitative measurement as ‘dangerous’ (Khan, 2018). However, since this new PS strand is the latest variety on the PS

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<sup>16</sup> Behuria, Buur & Gray (2017) differentiates varieties of PS work based on the different ways they used the concept of ‘holding power’. That is whether the source of ‘holding power’ emanates from rents ( *ala* North *et al.*, 2013), elites’ access to influential position (Abdulai & Hickey, 2016) or is rooted in history (Croese, 2017). However, apart from resources, holding power, the authors argue, also includes the power to mobilise, which these researches ignore.

menu, it remains to be seen if, and how, it can influence PS research going forward.

Finally, the rents space (explained in detail in the theoretical framework chapter 4) is another concept that draws from composite perspectives including from the PS framework and the NIEs theory. This makes the deals and development (DD) theory quite difficult to position in the PS tree in figure 2 above. Rents analysis is one aspect where this approach shares similarity with the PS, however, whereas in the PS approach, rents are a determinant of holding power, in the DD theory, rents are the outcome/output of economic activity of firms. Still, the DD's 2 by 2 rents space matrix, which appears to have been inspired by Khan's second dimension of PS, differs in the operational variables it uses leading to categorisation of entrepreneurs either as rentiers, magicians, powerbrokers, or workhorses. However, unlike PS and more like the NIEs, the DD theory views growth as a liner process (Behuria & Goodfellow, 2016), and is therefore prescriptive of the kinds of deals (institutions in the case of the NIEs theory) that engender sustained growth. Thus, growth is viewed as a progression from closed, ordered deals to open, ordered ones. However, because growth does not, in reality, follow this pattern of deals progression, this research only adopts the rents space element of the DD theory. This element, in my view, is useful in highlighting how the performance of institutions depends not only on the distribution of power and capabilities among entrepreneurs but also on the types of markets targeted and the nature of their rents.

### **2.3 Applying the PS framework to analyse the performance of the cement, textiles, and iron & steel industries in Nigeria: The contributions of this research.**

Scrutinizing the literature reviewed above more closely reveals that most of the applications of the PS framework relate mainly to one out of the two Khan's dimensions of political settlement: that is, on how the political coalitions in a country are organized and how that structure the coalitions' incentives and capabilities to enforce policy institutions in particular industries. This is the theme that frequently recurs in existing literature. For instance, Kjær (2015)'s finding that Ugandan ruling coalitions promoted sectors whose entrepreneurs have important relationship with them in terms of enthroning or maintaining their coalition in power reflects this theme, as the author did not consider the question of how the capabilities of the entrepreneurs in her case-study sectors have affected policy performance. Similarly, Abdulai & Hickey (2016), Croese (2017), Tyce (2020), Wolff (2021), Usman (2017,2020, 2022), Bukenya *et al.* (2022),

Kelsall *et al.* (2022) and others focus on this first Khanian dimension of the nature of configuration of political power within and outside ruling coalitions and the impact of that on policy designs, enforcement, and outcomes. Following existing literature, this research also explores the importance and impact of the political organizations of ruling coalitions on industrial policy performance, but does so by focusing on new case-study industries hitherto unexplored using the PS framework.

However, attempting to rectify the under-emphasis by existing literature of Khan's second dimension of political settlement—which relates to the distribution of power and capabilities (both for state enforcement of policies and capitalists' ability to drive structural transformation) between ruling coalitions and productive capitalists—this research enriches existing literature by filling an important gap on how the financial, investment, and managerial capabilities of entrepreneurs can affect policy performance. Thus, while recognizing the importance and impact of the political organization of ruling coalitions vis-à-vis both internal (included) and external (opposition) factions on the performance of institutions via policy designs and enforcements, the research brings to the fore the importance and impact of the distribution of power and capabilities between ruling coalitions and productive capitalists/entrepreneurs. In particular, it is argued herein that the capabilities (financial, investment, managerial, organizational etc) of entrepreneurs in particular industries is critical for the success/failure of industrial policies in those industries. Entrepreneurs that have access to finance, better investment and managerial skills and knowledge are more likely to drive successful industrial policies than those who lack these capabilities, skills/experiences. Similarly, entrepreneurs who have more extensive networks with the powers that be in a country are more likely to influence the design and effective enforcement of policy institutions in the industry in which they operate than those who have limited contacts/networks among the political establishment. In this respect, a new and interesting contribution of this research here comes from its finding on how, despite possessing critical capabilities to transform their industries, small-scale private entrepreneurs in Nigeria's textile and iron & steel industries are unable to influence the design and enforcement of policies in their respective industries because they are largely of foreign origins with limited contacts in the ruling coalitions.

Moreover, the PS methodology has been triangulated with the concept of rents space (Pritchett, Sen & Werker, 2018) and the technological capability theory (see Penrose, 1959; Nelson & Winter, 1982; Lall, 1987, 1992, 1993,

2000b, 2004; Lall & Pietrobelli, 2002). This helps shed further light on the analyses of data gathered from fieldwork/visits to firms and interviews to better understand the dynamics that influence the performance of policies in our case study industries. These analyses led to the observation that differences among industries in terms of their learning, capabilities and routines' requirements and complexities affect the performance of policy institutions. Also, the extent to which machines (inter)mediate interactions or routines in the production processes and whether an industry's products are standardized or subject to rapid and constant changes in specifications also determine the complexity of learning and the nature of capabilities requirements, all of which affect policy performance.

Finally, the nature of rents/profitability differ across industries (Pritchett, Sen and Werker, 2018). That is, some industries have regulatory rents that can be harnessed easily, with minimal inputs and risks and in the short-to-medium-term while others depend on rents that are based on market competition with local and or international competitor-firms, and are therefore difficult and take more time to harness. This research also applies this logic in its attempt to account for the success/failure of industrial policies in Nigeria's cement, textile, and iron & steel industries. All of these are important nuances introduced to gain deeper insights about the dynamics that mediate the performance of industrial policies in the case-study industries in particular, and in Nigeria generally.

## **2.4 Conclusion**

The observation that the New Institutional Economics (NIE) could not address the issues of why different institutions result in similar outcomes or why same institutions lead to different outcomes led to the development of the political settlement (PS) theory (see Khan 1995, 2010, 2018). Early applications of the theory focused mainly on South Asian countries of Bangladesh, Pakistan and India. However, as the theory became increasingly popular in both academic and donor circles especially since 2010. Several authors have applied the framework to analyse the performance of policy institutions in Africa. However, it has been observed herein that existing literature that applied the PS framework have mainly focused on one of the two dimensions of PS proposed by Khan (2010). That is, they base their analysis on the political organization of ruling coalitions vis-à-vis internal and external factions in the polity and how that structure the incentives and capabilities of ruling coalitions to design and enforce policy institutions. The second dimension that relates especially to the relative capabilities of productive capitalists/entrepreneurs to drive structural transformation has been largely under-emphasized. Using Nigeria's cement,



textile and iron & steel industries as case-studies, this research argues that the capabilities and holding power of productive capitalists/entrepreneurs in particular industries are critical for industrial policy performance. To further enrich existing literature, other nuances are introduced to account for differences in the outcomes of industrial policies in case-study industries. For instance, since different industries require different levels of organizational capabilities, learning and routines' adaptations, the performance of industrial policies in an industry is bound to be affected by the particular type of capabilities (simple/basic, intermediate or complex), learning processes and routines adaptation required by that industry. Also, the sources of rents/profitability in different industries differ—some rents come from government regulations (regulatory/discretionary rents) while others come from firms competing with rival firms in the inputs/products markets (Pritchett, Sen & Werker, 2018). The impact of this in structuring the incentives of ruling coalitions to effectively enforce policy institutions is highlighted and confirmed by evidence presented in the ensuing chapters case-study industries.

### 3 Methods and Materials

#### Chapter Summary:

*The chapter outlines the methods of data collection and triangulation techniques, sampling of interview respondents, selection of case studies and procedures through which research rigours and ethical issues and concerns have been ensured/addressed.*

#### 3.1 Methods of data collection

The variables investigated in this research include the distribution of power and benefits across relevant organizations, or political settlements, and their role in explaining production and productivity outcomes. The methods therefore must include quantitative and qualitative variables. Qualitative variables and their analysis are required to capture the different dimensions of political settlements (Khan 2010, 2018), including the qualitative mapping of the motives of actors, the political costs, benefits, and perception of various economic, political, and social agents in the political settlements (Whitfield, Therkildsen, Burr and Kjær 2015). The variables identified by Khan (2010: pp. 65-71) measure the *degree of vulnerability* of ruling coalitions to challenges from excluded groups, the *degree of contestation* between higher and lower-level factions within the ruling coalitions, the *holding power* of productive capitalists vis-à-vis the ruling coalitions and the *level of technological and entrepreneurial capabilities* of these capitalists. Our assessment of capabilities of entrepreneurs is historical-analytic. For instance, entrepreneurs such as Aliko Dangote and Abdussamad Rabiou had had prior experiences not only in cement import and repackaging businesses but also in light-manufacturing of some consumer goods such as sugar, pasta, tomato paste etc. before keying into the BIP. Through these prior participation in the productive sectors of the economy, these entrepreneurs have acquired certain investment, managerial, production and distribution capabilities, which could be brought to bear in the transformation of the cement industry. But why this kind of capable capitalists have not deployed similar capabilities to transform other industries? Well, here our argument benefits both from the literature and observations of the manufacturing processes in the case-study industries (cement, textiles and iron and steel)—where differences in the industries’ requirements, adoption and implementation of learning, capabilities, and routines were observed to be significant. These variables have to be described using a combination of quantitative and qualitative methods as they also involve

describing the motives, interests, experiences, and holding power of different organizations.

Thus, the data for this analysis included several qualitative sources. One source was structured/semi-structured interviews with 44 respondents (twenty-one in the textile industry, eight in the cement industry, twelve in the iron & steel industries, and three with researchers/public affairs analysts) conducted between December 2019 and 2022. Structured interviews were in form of questionnaires asking for company related information. Semi-structured interviews begin with prepared and predetermined questions but allows an informally conversational pattern that enables other impromptu questions to be asked. The interviewee also has the freedom to explore related questions or issues they consider important (Longhurst, 2010; Dunn, 2005). This type of interview has numerous advantages and hence is popular in qualitative research (Kitchin & Tate, 2000). Among other things, it has the advantage of making respondents feel relaxed and comfortable to talk openly thereby revealing important information that could not otherwise have been discovered in strictly structured version of interviews or surveys (Boyce & Neale, 2006). However, on their own, semi-structured interviews are prone to bias, time intensive and have generalization concerns (Whiting, 2008). To mitigate these limitations, *triangulation* and *process-tracing* techniques, which are described later, were also used.

Moreover, due to the challenges posed by the Coronavirus (Covid19) pandemic and insecurity in some parts of Nigeria, some interviews were conducted via the telephone. ***Telephone interviews*** are an increasingly popular method of collecting qualitative data (Novick, 2008; Drabble et al., 2015; Bernard, 2002). Though telephone interviews are said to possess some limitations such as elimination of visual and non-verbal cues (Aquilino, 1994; Novick, 2008), shorter duration compared to in-person interviews (Bernard, 2002), poor signals leading to inaudibility and possible miscomprehension and hence misrepresentation of data etc., however, the circumstances compelled this choice and fortunately the interviews were very successful. In fact, the method helped me to easily collect crucial information from geographically distant but very important respondents in addition to avoiding the risks of visiting insecure areas.

The last data collection method I used was the ***documentary research method (DRM)***. This entails the systematic analysis of documents which contain information or data related to the research (Bailey, 1994). These documents may, according to Polit & Hungler (1991), include journal articles, reports, memoranda, census publications, government pronouncements, policy documents, files, records of official proceedings, newspapers, archival materials,

statistical records, diaries, pictorial images etc. In fact, to access many of the important documents needed for this research, I severally visited the Kaduna-based Arewa House, northern Nigeria's centre of documentation and the offices of the Nigerian Textile Manufacturers Association (NTMA), the National Union of Textile, Garments and Tailoring Workers of Nigeria (NUTGTWN) and the Cement Manufacturers' Association of Nigeria (CMAN) in Lagos, Kaduna and Abuja, respectively. The DRM, like other methods, is also scientific in approach and requires adherence to rigorous research ethics and verification procedures in its application (Ahmed, 2010).

### **3.2 Selection and justification of Case Studies**

Case study is defined by Seawright & Gerring (2008) as '*the intensive (qualitative and quantitative) analysis of a single unit or a small number of units (the cases), where the researcher's goal is to understand a larger class of similar units (a population)*'.

This research is a case study that sets out to explore the performance of industrial policy in Nigeria with reference to three industries (the case studies), namely, the cement, textile and iron & steel industries. The choice of these industries or cases are related to the broader objectives of the research.

There are several case selection techniques suggested in the literature. These can be broadly categorized as random and purposive case selection methods. Random (or probabilistic) case selection is one where each of the sample elements has an equal chance of being selected and is most suitable for large-N samples typical of quantitative research. For small-N qualitative research samples, applying randomization in case selection could result in selecting cases that are substantially unrepresentative of the population. Similarly, applying purely purposive procedure could result in selection bias although the higher possibility of purposively picking the most appropriate cases could improve the chances of validating a particular hypothesis. Therefore, as Seawright and Gerring (2008) argue, it is important to get the method of purposive case selection technique in small-N samples right. The authors argue that both random selection in large-N (quantitative) research and case study selection in small-N (qualitative) research has the dual objective of (i) selecting a representative sample and (ii) achieving useful sample 'variation on the dimensions of theoretical interest'. In fact, these objectives, I would argue, stand better chance of being achieved in small-N qualitative research through purposive case selection than random sampling of a small number of cases.

In line with these compelling arguments, this research settled for the purposive technique of case selection. However, case studies have to be

comparative (Mahoney & Goertz, 2004). Seawright & Gerring (2008) identify seven criteria for choosing case studies. According to them, a good case study should be *typical, diverse, deviant, influential, extreme, most similar, or most different*. Taking this into account, the author settled for three industries considered of immense importance to Nigeria. The transformation of the cement industry in Nigeria has been widely seen as a *typical* case of successful industrial policy (see *inter alia* Ohimain; 2014; Akinyoade & Uche, 2018; Odijie and Onofua, 2020). However, the success of industrial policy in the cement industry *differs* from the failures of textile and iron & steel policies in Nigeria, hence, it was thought that a comparison of how the outcomes of industrial policies in these industries diverge would be meaningful and interesting.

The selection of the textile and iron & steel industries as classic cases of policy failures is informed by the importance that successive governments and Nigerians have attached to these industries. Since independence in 1960, every government in Nigeria has pursued the goal of industrializing the country, with policies/interventions particularly directed towards reviving the textiles and iron & steel sectors (Sanusi, 2010). Many Nigerians remember with nostalgia the glorious days of the textile cities of Kaduna, Kano, and Lagos. Also, the biggest and oldest state-owned steel company, Ajaokuta teel Company Limited (ASCL) “was envisaged to serve as the bedrock of Nigeria’s industrialisation.” (Oluyole, 2017). This mixture of citizens’ nostalgic sentiments and national development objectives have inspired successive ruling coalitions in Nigeria to, either out of genuine intentions or merely an attempt to play along people’s sentiments, pursue revival policies in these two industries. However, as it turned out, the causes of policy failures in the two industries (textile and iron & steel) have a lot in common, except for the peculiarities of individual industry. The research therefore highlights these areas of policy failure convergences and divergences.

### **3.3 Sampling Methods Used**

Sampling methods are the procedures or methods we used in the field to select respondents for our interviews and focus groups. Broadly, there are also two sampling procedures in the research methods literature. These are: *Probability (random) and non-probability* sampling techniques. The former refers to the process of sample selection wherein each element in the sample has an equal probability of being chosen, and is often used in the case of a large-N quantitative study where the overarching goal is mainly achieving generalizability by drastically reducing selection bias (Tansey, 2007). The latter refers to the drawing of samples from a population through non-random procedures (ibid). Thus, in this technique, the researcher decides over which units or respondents to select

(Henry, 1990). This method is ideal for Small-N qualitative research where applying random sampling technique may lead to the selection of subjects that are not the most appropriate for the study (Longhurst, 2010). Though there is a concern for the validity of generalizability of samples generated through non-probabilistic technique—which may not be as generalizable as those drawn randomly, the good thing is, the overarching objectives of both probabilistic and non-probabilistic sampling—i.e., the selection of a representative sample and a sample that possess some useful variations—are not compromised (Seawright & Gerring, 2008). Case studies potentially provide more detailed process understanding of specific cases, even if the results may not be demonstrably generalizable. The process understanding may in future allow large n tests of the phenomena under study.

Thus, for the purpose of this research, we applied various forms of non-probabilistic sampling techniques in identifying and sampling our respondents for interviews. Some of these subjects we deliberately and purposefully selected based on our knowledge that they are so well-informed about our case study industries that including them would greatly help in answering our research questions. This is what the literature referred to as *purposive or judgemental* sampling method (Longhurst, 2010; Patton, 2002; Tansey, 2007; Anonymous, 2019).

The researcher was able to obtain important data through referrals by some of his respondents to other well-informed subjects who, in turn, also referred him to other subjects—for instance, Prof. Salihu Maiwada of the Department of Industrial Design, Ahmadu Bello University (ABU), Zaria, referred the researcher to Alhaji Saidu Dattijo Adhama (owner of the Adhama Textiles and Garment company in Kano) who also linked the researcher with Alhaji Hama Kwajaffa, the Director General of the Nigerian Textile Manufacturers' Association (NTMA). This process is referred to as a *snowball or chain-referral* sampling technique (see Tansey, 2007; Cresswell & Clark, 2011; Naderifar, Goli and Ghaljaie, 2017). This method is often used when accessibility to respondents with the target characteristics is difficult to establish (Naderifar, Goli & Ghaljaie, 2017). A key limitation of this method is that respondents may refer researchers to subjects who share the same perspectives or opinions on issues with them (Seldon & Pappworth, 1983). For this, researchers have been advised by Tansey (2007) to ensure that the initial respondents they select are diverse enough to forestall the occurrence of sample bias, an advice this researcher used to good effect while in the field.

Moreover, when this researcher visited Kakuri (an industrial quarter in Kaduna where dozens of textile companies are located) and Obajana (a small town in the outskirts of Lokoja where Dangote's biggest cement factory is located), many respondents were spontaneously interviewed and focus-grouped on the spot. This is referred to as '*recruiting on location*' or 'on-site recruiting' by the research methods literature (Krueger, 1988 in Longhurst, 2010). In fact, in many of the closed textile mills in Kakuri, the researcher resorted to calling on security guards and former textile workers (e.g. Mallam Hamza Adamu, Taliban Kakuri) who lived in the industrial hub to help with any information on the rise and demise of the textile industry in Nigeria. This technique of reaching out strangers for information is known as '*cold-calling*' (ibid). We, however, received some rejections which were not unexpected.

### **3.4 Measures to Ensure Research Rigour, Reliability and Validity**

Research rigour refers to the process by which integrity and competence are demonstrated by the researcher throughout the processes of their research (Aroni et al. 1999). This is with a view to establishing the legitimacy of the research processes (Tobin & Begley, 2004). The concept of rigour is rooted in quantitative research where such criteria as objectivity, reliability, validity, and generalizability are used to assess the trustworthiness (rigour) of a research (Morse, 2015). There have been debates over the application and utility of the concept of rigour in qualitative research (Johnson, 1999; Morse et al. 2002). This is because of the obvious differences between quantitative and qualitative methods of data collection, analysis, and interpretations or the distinctions in their epistemological approaches. Little wonder then that when Guba and Lincoln (1989) introduced the concept of rigour into qualitative research they domesticated it by changing the terminologies and developing similar criteria for assessing the rigour of qualitative research and the strategies for attaining such. The authors coined such concepts as 'trustworthiness' (to replace rigour), 'credibility', 'transferability', 'dependability' and 'confirmability' to replace reliability, validity, objectivity, and generalizability associated with quantitative methods (Guba and Lincoln, 1989, 1985; Guba, 1981). Other writers are somewhat dismissive of the application of rigour in qualitative research arguing, in effect, that the concept is the exclusive preserve of quantitative researchers (Smith, 1993; Smith and Deemer, 2000; Arminio and Hultgren, 2002).

Thus, the scepticism of writers and researchers about the integration of the quantitative criteria and strategies of determining and achieving rigours into

qualitative inquiry ranges from the proposals for change of terminologies to reflect qualitative research dynamics to rejecting the applications of the concept altogether. This researcher, however, concurs with Morse (2015) by taking the middle position that the concept of rigour can be applied in qualitative research processes while still retaining its quantitative terminologies, but the substance of the meanings of those terms should reflect the distinct epistemology of the qualitative methods. The main objectives of rigour (called ‘trustworthiness’ by Egon G. Guba and Yvonna S. Lincoln) is the attainment of validity (credibility), reliability (dependability), generalizability (transferability) and objectivity (confirmability)— (Guba & Lincoln, 1989).

### 3.5 Triangulation for Completeness and Confirmation

Triangulation refers to the ‘*observation of the research issue from (at least) two different points*’ (Flick, 2004), or applying and combining many methodologies in the course of researching the same phenomenon (Denzin, 2015). The overarching goal of triangulation is to combine different types of methods or materials with a view to identifying patterns of convergence or divergence (Saukko, 2003). Triangulation is commonly used in qualitative research especially those involving elite interviews (Natow, 2019) Campbell and Fiske (1959) have been credited with the introduction of the concept of triangulation into the social sciences through what they termed as ‘multiple operationism’, where more than one method could be used to validate data by ensuring that any variance does not actually come from the use of more than one method but actually reflects the characteristics of the phenomenon under research (Jick, 1979).

For the purpose of this research, we used diverse data sources such as structured/semi-structured (and telephone) interviews, focus group discussions and documentary/archival materials collected across diverse groups of respondents (from political elites to managers and industrialists) and in many places (Kaduna, Lagos, Kano and Abuja). This process of using multiple data sources across persons and locations to generate a rich set of data for research is known as ***data triangulation*** (Jick, 1979; Mitchell, 1986; Hussein, 2009; Denzin, 2015). This strategy allowed us to cross-check data sourced from different interviewees, and to compare data from interviews with those from documentary sources. This minimized bias that could have resulted from the use of a single data source (Silverman, 1985)



This researcher also interacted with peers and experts in the fields (presentations at Research Student Seminars (RSS) and the ETA working group) in the processes of this research thereby seeking advice, sharing ideas, and exchanging viewpoints. This process by which multiple observers are involved during the research process is what the literature referred to as *investigator triangulation* (Michell, 1986; Denzin, 1989; Hussein, 2009). This is said to reduce the potential for bias that could have resulted if only a single observer were involved (Thurmond, 2001).

Finally, the third triangulation technique utilized in this research is called *theoretical/methodological triangulation*. Here the researcher simply familiarizes himself with and explores the various theoretical perspectives through which the phenomenon of research can be analysed (Denzin, 2015). In this research, the political settlement theory has been triangulated with the concept of rents space and insights from the technological-capability literature in order to gain deeper insights on the dynamics that affect the performance of industrial policies in our case-study industries.

### **3.6 Addressing Ethical Issues**

Guillemin and Gillam (2004) suggest that ethics in qualitative research have at least two broad dimensions, that is, procedural ethics and practical ethics (or ethics in practice). The former relates to seeking and securing approval from a relevant research ethics committee to do a research that involves human participants while the latter refers to the series of ethical issues that a researcher is confronted with during the actual research. Before the commencement of this study, for instance, I sought for and secured approval from the SOAS's Research Ethics Committee to undertake this research subject to observing all relevant ethical rules and regulations guiding research with human participants.

However, at every stage in the research processes, researchers are confronted with many ethical issues which need to be addressed (Marzano, 2007; Clegg & Slife, 2009). These may include issues relating to informed consent, confidentiality, and anonymity of participants. These issues were kept in mind during this research. For all those I interviewed, I ensured that I obtained the informed consent of our participants before interviewing them, and we constantly reminded them that they could, at any stage, decide to withdraw their consent and with it any statements they provided. Further, requests for anonymity or for the confidential treatment of information have been honoured. Moreover, throughout my interviews, I refrained from asking any questions that could pose any risk to my respondents.

Ethical issues do not, however, stop at the stage of data collection but also span the stage of presentation, dissemination, public engagements and deposition of the final work in libraries or any of the on/off-line repositories (Kara & Pickering, 2017). For instance, I sought the approval of all the companies (and their staff) visited that pictures taken within their premises (and with staff/workers) could be made public when this thesis was finally published, and they obliged without any hesitation. I also asked participants if they were comfortable with the final work of this thesis being deposited in an open access databank and they were happy with that in all cases.

## 4 Theoretical Framework

### Chapter Summary:

*This chapter explains, in some details, the political settlement (PS) theory as well as the concept of rents space—two main theoretical frameworks adopted herein and upon which the analyses of the cement, textile and iron & steel industries are built.*

### 4.1 The Analytical Core of the Concept of Political Settlements

The re-emergence in economics of the study of how human beings have historically, and in contemporary times, devised formal and informal constraints, rules and rights—or what Douglass North and other institutional economists refer to as *institutions*—led to the birth of the New Institutional Economics (NIE) following the seminal works of Coase (1937, 1960). Advocates of this school of thought (e.g., North and Thomas, 1973; Ostrom, 1990; Williamson, 1985; North, 1981, 1984, 1990; Acemoglu and Robinson, 2001, 2004, 2012; Acemoglu and Johnson, 2004; North, Wallis and Weingast, 2009) contend that variations in policy outcomes, economic growth and development reflect variations in the strengths or weaknesses of institutional configurations and performance across countries. In other words, what matter for industrial or economic policy performance are the ‘rules of the game’ which define rights that serve as the incentive structures which ensure efficiency in resource allocation by reducing transaction costs. If the operation of formal and informal constraints does indeed provide structural incentives, then defects in these constraints may inhibit the growth of an economy and can be corrected by the design of appropriate institutional arrangements that, *ab initio*, set out to address such defects (Di John & Putzel, 2009). However, the empirical evidence appear to be more complex than the new institutional economists would want to have us believe.

In his critique of the NIE, Khan (1995, 2010, 2018) identified two important puzzles that the NIE explanations have not been able to address. These pertain to the multifinality and equifinality of institutional outcomes. Regarding multifinality of institutional outcomes, Khan argues that similar formal institutions have been observed to result in different institutional outcomes thereby proving that institutions do not provide the entire explanations for divergences in policy performance or economic growth and development. For instance, whereas institutions such as the rule of law and property rights were

very effective in developed countries, attempts at the introduction of these same institutions in developing countries have failed in achieving similar outcomes. On equifinality of institutional outcomes, Khan contends that practical examples abound wherein different institutions resulted in the same or similar outcome, hence disproving the proposition that certain specific institutions must be in place before any industrial/economic policy succeeds. For instance, provision of education by government did well in some contexts compared to education provided via the NGOs and vice versa (Khan, 2018).

However, if institutions, in and of themselves, do not convincingly explain divergent economic policy performance as Khan's critique has clearly shown, then the question is, what does? According to Khan (2010) 'the relative holding power of different groups and organizations contesting the distribution of resources'—or what he calls the *political settlements*—is the most crucial determinant of the direction of institutional change and effectiveness (Khan, 2018). 'Holding power' refers to the ability of an individual or organization to hold out in conflicts, and it is a function of wealth or the ability to organize or both (Khan, 2010). Khan (ibid) adds that in developed nations, wealth is the major source of the holding power of formal organizations and the political settlement that results therefrom is based on formal institutions and the distribution of benefits that they help to engender vis-à-vis the relative power of formal organizations. In these contexts, the beneficiaries of formal institutions generally have the power to enforce these rules. As a result, the analysis of how formal institutions work can focus to a large extent on the incentives and constraints created by the formal institution. In contrast, apart from wealth or incomes generated by formal organizations, the ability of individuals or organizations to mobilize and organize informal networks and organizations has historically been a crucial source of holding power in many developing countries. Hence, apart from formal institutions and organizations, informal patron-client networks are significant sources of power that influence the performance of institutions in developing countries (Khan, 2010). As a result, the operation of formal institutions is more likely to be affected by powerful informal groups and these modifications may provide an explanation of important differences in the operation of similar formal institutions across contexts. These informal modifications in the operation of formal institutions bring about a distribution of benefits that is more closely aligned to the distribution of power. The latter therefore provide an explanation of the modifications of formal institutions that are brought about by the exercise of informal power, and therefore of the actual

performance and outcomes associated with the formal institutions. In both developed and developing countries, a political settlement emerges when the distribution of benefits associated with institutions is in sync with the distribution of power among organizations. The only difference is that in developing countries, these organizations are not restricted only to formally organized associations such as political parties, big businesses, trade unions etc but also include informally organized patron-clientelist organizations and powerful individuals. This explains why developing countries are said to possess a clientelist political settlement (ibid).

Khan (2010) further explains that the distribution of power in developing countries' clientelist political settlements is not the same across board, and the most important differences which engender various configurations of political settlements can be captured along just two dimensions by examining (a) how the political coalitions in a country are organized and (b) how the coalitions relate to the emerging productive capitalists/entrepreneurs. The first dimension helps us to unpack two important features of the ruling coalition, that is, its time horizon and capabilities for implementing and enforcing policy and institutions. The second dimension, which relates to the relative technological and entrepreneurial capabilities of productive capitalists as well as their relative holding power within patron-clientelist networks, reveals the nature of opportunities and incentives or constraints and disincentives that the ruling coalitions face in implementing particular policies and institutions that affect current and emerging capitalists/entrepreneurs.

#### (a) How Ruling Coalitions are Organized.

Ruling coalitions are the political organizations that are vested with the political authority to govern and the power to execute policies. It consists of the ruling political organizations and the various formal and informal organizations and networks that are linked to the ruling coalition and help to keep it in power (Whitfield et al., 2015). The power of the ruling coalition in a country is determined by the balance of power between the coalition and patron-clientelist organizations outside or within it. These dimensions of power describe the horizontal balance between the ruling coalition and excluded (opposition) groups as well as the vertical balance between higher levels of the ruling coalition and its own lower levels as well as the bureaucratic apparatus through which it operates.

Starting with the *horizontal distribution of power* in figure 3 below, if opposition organizations are weak, the vulnerability of the ruling coalition is low and the ruling coalition may be expected to take a longer-term view of policies and institutions since its time horizon is relatively long. This can help to ensure that the interests of the ruling coalition have higher probability to be in harmony with policies and institutions that guarantee economic growth and development. The horizontal distribution of power (which mirrors the degree of vulnerability of the ruling coalitions) is captured by the relative holding power of excluded groups, which can range from very weak to nearly as strong as the ruling coalition. If excluded factions are very strong, the vulnerability of the ruling coalition can be very high and is likely to limit the time horizon of their commitment to policies and institutions. This configuration is likely to imply that the interests of the ruling coalition have lower probability to be in harmony with policies and institutions that guarantee economic growth and development. If excluded groups become more powerful than the ruling coalition, the coalition may not survive. The power or strength of excluded groups may come from their organizational capabilities and the groups that they can mobilize against the ruling coalition. In contrast, excluded organizations could be weak because all or nearly all-powerful factions have been co-opted or intimidated into joining the ruling coalition, or because excluded groups lack resources, organizational skills or legitimacy. State-sponsored repression measures instigated by the ruling coalition can also weaken potentially strong excluded organizations.

The *vertical distribution of power* in the same figure 3 describes the balance of power between higher- and lower-level factions of the ruling coalition and between the political leadership and the bureaucratic apparatus through which they implement policies. Here, if higher level factions within the ruling coalition have greater holding power compared to lower-level groups, the ruling coalitions have greater capabilities to implement and enforce policies and institutions successfully. The greater power of lower levels of these organizations and networks, and weaker control over the bureaucracy may limit the chances of the ruling coalition to successfully implement industrial or other policies. This makes implementation and enforcement very expensive, if not impossible to carry out, especially if the lower-level patron-clientelist organizations are powerful and therefore indispensable to the ruling coalition (Khan, 2010).

FIGURE 3 STRUCTURE OF THE RULING COALITION AND PATRON-CLIENTELIST FACTIONS

		HORIZONTAL DISTRIBUTION OF POWER: EXCLUDED FACTIONS	
		WEAK (Interest of Ruling Coalition Strongly aligned with growth)	STRONG (Interest of Ruling Coalition Weakly aligned with growth)
VERTICAL DISTRIBUTION OF POWER: LOWER-LEVEL FACTIONS	WEAK (RULING COALITION HAS STRONG IMPLEMENTATION CAPABILITIES) ↓ STRONG (RULING COALITION HAS WEAK IMPLEMENTATION CAPABILITIES)	<b>POTENTIAL DEVELOPMENTAL COALITION</b> <ul style="list-style-type: none"> <li>• Low opposition from excluded factions gives ruling coalition stability and long-time horizon</li> <li>• Limited power of lower-level factional supporters ensures high enforcement capability</li> <li>• Construction of Developmental state possible: South Korea in 1960s</li> </ul>	<b>(VULNERABLE) AUTHORITARIAN COALITION</b> <ul style="list-style-type: none"> <li>• Initial enforcement capabilities likely to be strong but strong excluded factions mean force or legal restrictions have to be used thereby making coalition vulnerable to violent overthrow.</li> <li>• E.g., Military governance in Pakistan in 1960s, Bangladesh 1980s and 1990s</li> </ul>
		<b>(WEAK) DOMINANT PARTY</b> <ul style="list-style-type: none"> <li>• Enforcement capabilities become weaker as lower-level factions grow stronger or more fragmented</li> <li>• Excluded factions are weak but also become stronger if dissatisfied supporters begin to leave</li> <li>• E.g., India under congress, 1950s and 1960s and Thailand under Thaksin 2000s.</li> </ul>	<b>COMPETITIVE CLIENTELISM</b> <ul style="list-style-type: none"> <li>• Characterized by competition between multiple strong factions.</li> <li>• Stability can be achieved only with credible mechanisms for cycling of factions in power.</li> <li>• Low enforcement capabilities in most cases and short time horizons.</li> <li>• India and Bangladesh after the 1980s.</li> </ul>

Source: Khan (2010)

Combining the horizontal and vertical axes of power distributions or the degrees of vulnerability (of ruling coalitions) and contestation (to policies pursued by ruling coalitions) together, Khan (2010) derives four possible structural forms a ruling coalition might take. These are depicted in figure 3 above and explained one by one below.

The top left-hand box describes a ‘*potential developmental coalition*’ which Khan (2010) describes as ‘the most favourable combination’. Under this configuration, because the power of excluded opposition groups is weak, the ruling coalition has a long-time horizon. This means that the interests of the ruling coalition are synchronized with the economic growth and long-term development of the country. Additionally, because of the weak distributional power of lower-level patron-clientelist factions within the ruling coalition, the latter has strong capabilities to implement and enforce policies and institutions. Under this configuration, the bureaucracy is reasonably capable, and above all, the political leadership is able to exercise control over the bureaucracy so that the latter implements policies effectively. This avoids principal-agent problem between the political leadership and the bureaucracy. South. Korea’s ruling coalitions from

the 1960s to the 1980s are said to have approximated to this favourable structural form.

The top right-hand box describes ‘*vulnerable authoritarian coalitions*’ where moderate to strong excluded factions may present existential threats to the ruling coalition thereby making the coalition so vulnerable that, in the context of a weak rule of law characteristic of clientelist political settlements, they may consider legal or quasi-legal measures to repress the power of excluded groups. The ruling coalition may in extreme cases have such short-time horizons that their interests tilt more towards their survival than any consideration for growth and development. The stronger the excluded political organizations are, the more authoritarian and repressive the ruling coalition may have to be to survive. The fact that lower-level factions within the ruling coalitions are relatively weak means that ruling coalition here could have relatively strong implementation and enforcement capabilities provided it has the time horizon to pursue growth. The strength of excluded factions is largely a function of the capability of the vulnerable authoritarian coalition to keep factions within its ranks satisfied with the rewards offered to stay in the coalition, though some may begin to desert it and join excluded organizations that seek to topple the coalition. Thus, this coalition could be so expensive to maintain that consideration of any policy or institutions for the public good may receive only scanty attention and resources.

The bottom left-hand box represents *the dominant party* coalition where the power of excluded political organizations is weak, and hence the dominant party can have a long-time horizon. The weakness of the excluded groups could be because of their organizational fragmentation or the ability of the ruling coalition to persuade powerful organizations to join the dominant party. This coalition might have come to power through formally contested elections, a feature that often contrasts it with the authoritarian coalition. Because the dominant party may have incorporated many powerful factions within itself, it is also likely to face many powerful lower-level factions. Its implementation capacity is therefore likely to be weak. If, however, the strong lower-level factions within the ruling coalitions becomes increasingly disenchanted with the leadership of the dominant party, they may decide to leave and progressively increase the power of the excluded groups. This coalition could also become expensive to maintain over time as increasing inducements may have to be offered to lower-level organizations to implement policies. India under the Congress Party in the 1950s and 1960s exemplified such a coalition.



The final possibility is *the competitive clientelist* variant in the bottom right-hand box. Here when the dominant party or an authoritarian coalition is undermined by horizontal or vertical challenges, the default structural form the ruling coalition assumes is that of competitive clientelism. This describes a configuration where lower-level factions of the ruling coalition are strong, as are oppositional political organizations. Under competitive clientelism, neither the inclusion of all powerful factions in the ruling coalition nor their exclusion through legal or extra-judicial means can effectively work because their numbers are so great or they may be so fragmented that neither is sustainable for long. The ruling coalition here is therefore likely to have short time horizons due to the strong power of excluded factions and weak capabilities for implementation and enforcement due to the strength of its lower-level factions. The ruling coalition consists of political entrepreneurs that incorporate, at the least cost for themselves, just enough factions to be able to govern while excluding many powerful organizations because not all can be feasibly incorporated. These powerful organizations, having the democratic right to engage in competitive struggles for power, can also induce the defection of powerful groups within the ruling coalition to win the next elections and the cycle continues on and on. The stability of competitive clientelism depends on the existence of relatively credible mechanisms for replacing one ruling coalition with another in a peaceful manner. Elections are usually the mechanism for leadership change; however, the results of electoral contests have often been the subject of contestation and litigation that can occasionally lead to violence (Khan, 2010). South Asia and much of Africa have variants of competitive clientelism, and so did Thailand in the 1980s and 1990s (Khan, 2010).

By providing an analytical framework for analysing the diverse relationships between the ruling coalition and political and patron-clientelist organizations within and outside the coalition, Khan's political settlements framework allows these interdependencies and interactions of politics, institutions, and economics to be examined. This, as Khan (2010) argues, allows us to look beyond the veneer of formal institutions, constitutions, and political party organizations, to shed light on the dynamics of implementation, enforcement and performance of policies and institutions. To get a more comprehensive description of the configuration of the relevant distribution of power in a political settlement we also have to look at the power, capabilities and networks of business organizations. Equally important in the analysis of the dynamics of the performance of policies and institutions is how the ruling

coalitions relate to the emerging productive capitalists/entrepreneurs as well as the nature of the technological and entrepreneurial capabilities of the latter to drive industrial policy.

(b) How the Ruling Coalition Relates to the Productive Sector

The second dimension of Khan's political settlements pertains to how the ruling coalition relates with emerging productive capitalists/entrepreneurs and how technologically capable these capitalists are to drive technological development. Since these dynamics vary across countries, it is important to explore how these variations can impact the performance of policies and institutions.

The horizontal axis of figure 4 captures the degree of *technological and entrepreneurial capabilities of productive capitalists*. This ranges from high—when capitalists/entrepreneurs possess the technological and entrepreneurial capabilities to be able to quickly benefit from industrial policies and become profitable in supported activities, to low—when capitalists/entrepreneurs lack these capabilities, and are therefore likely to resort to protecting any policy support they receive with unproductive rent-seeking activities. The capabilities of capitalists are rooted in their histories of accumulation and entrepreneurship as well as technical and entrepreneurial learning by individual capitalists/entrepreneurs, the country or both (Khan, 2010, 2012). These capabilities may be quite difficult to raise across the whole of society, but particular entrepreneurs or sectors may achieve relatively rapid improvements in capabilities with appropriate strategies if they can induce high levels of effort in learning.

FIGURE 4: STRUCTURE OF PRODUCTIVE CAPITALISTS AND THEIR PATRON-CLIENT NETWORKS

TECHNOLOGICAL/ENTREPRENEURIAL CAPABILITIES OF CAPITALISTS			
		<b>HIGH</b> (CAN DRIVE TECHNOLOGY ACQUISITION AND GAIN FROM INDUSTRIAL POLICY)	<b>LOW</b> (CAN ONLY USE SIMPLE TECHNOLOGIES OR ENGAGE IN RESOURCE CAPTURE)
<b>HOLDING POWER OF CAPITALISTS</b>	<b>HIGH</b> (DIFFICULT TO DISCIPLINE BUT CAN USE POLITICAL POWER TO DRIVE TECHNOLOGY ACQUISITION)  ↓ (EASY TO DISCIPLINE BUT NO POLITICAL POWER TO DRIVE TECHNOLOGY ACQUISITION INDEPENDENTLY)  <b>LOW</b>	<b>HIGH-CAPABILITY AND POWERFULLY NETWORKED</b> <ul style="list-style-type: none"> <li>•Capitalists can drive accumulation, but imposing discipline is difficult.</li> <li>•Productive enterprises possible with exposure to market competition but development of new capitalists constrained.</li> <li>•E.g., advanced areas of India after 1990s. Thailand 1980s and 1990s</li> </ul>	<b>MODERATE TO LOW CAPABILITY BUT POWERFULLY NETWORKED</b> <ul style="list-style-type: none"> <li>•Political power can drive critical early-stage accumulation but market or industrial policy discipline difficult to enforce.</li> <li>•Competitive low-tech enterprises possible with market competition</li> <li>•E.g., South Asia 1950s and 60s, most areas of India and Bangladesh.</li> </ul>
		<b>HIGH-CAPABILITY BUT POLITICALLY WEAK</b> <ul style="list-style-type: none"> <li>•Outcomes depend on organization of ruling coalition</li> <li>•With Developmental coalition, effective industrial policy and discipling possible: S/Korea 1960s to 80s.</li> <li>•But dominant parties can have adverse effects: West Bengal 1980s and 1990s, Thailand under Thaksin 2000s</li> </ul>	<b>MODERATE TO LOW CAPABILITY AND POLITICALLY WEAK</b> <ul style="list-style-type: none"> <li>•Most constrained situation</li> <li>•Outcomes depend on ruling coalition</li> <li>•Developmental coalition could drive early accumulation and discipling but may not if it has other interests and concerns or a short time horizon: Tanzania 1990s and 2000s</li> </ul>

Source: Khan (2010)

On the vertical axis, *the holding power of productive capitalists/entrepreneurs* is measured. This refers to the extent to which productive capitalists/entrepreneurs can hold out in conflicts over the allocation or withdrawal of rents with their political or bureaucratic patrons in their relations with networks of the ruling coalitions. This depends on the organization and capabilities of capitalists and ruling coalitions that determines their relative bargaining power. In developing countries, even if entrepreneurs and capitalists are highly capable owners of big enterprises, their holding power rarely depends entirely, or even largely, on the profits they generate from their enterprises. They can also mobilize their links with informal patron-clientelist networks who, at some price, ensure the protection of their formal rights and, hence, the protection of their profits or rents. Some capitalists/entrepreneurs could also have directly emerged through processes of primitive accumulation and these individuals are likely to continue to have powerful informal networks. This would be true of politicians who become entrepreneurs after accumulating in office or organizers

who helped politicians get to power and then became entrepreneurs through patronage and access to subsidies, bank loans, land or other politically allocated resources. The ruling coalition or some powerful politicians within it could equally be reliant on flows of resources from particular capitalists/entrepreneurs. These sources of funding could come from the profits of productive enterprises or the profits of less productive enterprises whose incomes depend on deals or market fixing that is achieved with the help of political patrons. The details of this mutual dependence can determine the bargaining power of either side, and therefore the credibility of politicians attempting to impose efficiency or productivity conditions on their business clients. Some ruling coalitions may have other sources of income such as rents from natural resources, party businesses or incomes from primary commodities. In these cases, the holding power of productive capitalists may be lower, but if a ruling coalition has enough alternative sources of funds, they may also not be interested in forcing productivity growth and the achievement of new areas of competitiveness on other emerging productive sectors. In contrast, if productive capitalists have high holding power, this could be because they are important sources of funding, but they may also be hard to discipline. There is a fine balance therefore, where the development of productive sectors is important for the ruling coalition, and emerging capitalists have the required capabilities, but are also not so powerful that they can capture support without delivering results. The effects of these two dimensions of variation (power and capabilities) suggests four possible combinations of characteristics identified in Khan (2010).

The top left-hand box in figure 2 describes a situation where productive capitalists are both highly capable technologically and have high holding power vis-à-vis the ruling coalition. Here capitalists have the technological and entrepreneurial know-how to successfully drive industrial policy but here powerful capitalists/entrepreneurs may also leverage their political networks to opportunistically secure concessions, contracts, monopolistic access to lucrative markets or natural resources to reap supernormal rents without much social benefit. Additionally, if achieving further competitiveness in productive activities is costly or risky, they could also deploy their political connections and power to distort or block industrial policies or institutions especially those that create more competitors or demand riskier investments, higher efforts, investments in sophisticated technology, or prolonged learning by doing. In fact, as industrial policy progresses from initially simple phases of protection of simple-technology infant firms to the intermediate stage of imposition of conditions and compulsions

on firms that have to achieve competitiveness in more complex processes, powerful capitalists may become more difficult to discipline. Of course, it is not always the case that political influence will work negatively with highly capable entrepreneurs. Khan (2010) argues that when capable entrepreneurs have a vision for a domestic or even global market and they require the support of the ruling coalitions (say for natural resource concessions or governmental contracts), it is easier for them to actualize their vision if they are powerful or politically influential. Technologically capable and politically connected capitalists have driven technology acquisition in some sectors India after the 1980s and in the competitive clientelism of Thailand in the 1980s and 1990s, but they have also cornered contracts and markets in other sectors in ways that harmed the public (Khan, 2008, 2009, 2010; Doner & Ramsay, 2000; Rock, 2000).

The bottom left-hand box describes a combination of characteristics where capitalists have capability but have limited holding power. Paradoxically, if the ruling coalition is developmental, this combination can be very advantageous. Policymakers can leverage the high capability of productive capitalists to successfully pursue and implement industrial policy. This was the case in South Korea during the 1960s, 1970s and much of the 1980s. South Korean capitalists possessed relatively high technological and entrepreneurial capabilities acquired through their close association with Japanese industrialists. However, because of the absence of many independently organised political factions during Japanese rule, Korean capitalists had weak political networks and therefore low holding power in the post-Japanese polity. In fact, even in the aftermath of the defeat of Japan, Korean capitalists could not make much progress with political networking mainly because their links with Japanese industrial interests deprived them of the legitimacy to do so (Amsden, 1989; Khan, 2010). At the same time, a developmental ruling coalition emerged whose interests were strongly synchronized with the industrial development of South Korea. Thus, given a contingent of capable capitalists who could be provided with support that could be withdrawn and re-allocated when individual capitalists did not perform, the developmental coalition ruling South Korea could drive an industrial transformation that was defined as a ‘miracle’ (e.g. World Bank, 1993; Rodrik, 1994; Stiglitz, 1996). However, this does not mean that development is always accelerated if productive capitalists have limited holding power. This could affect industrial performance adversely in situations where the interests of the ruling coalition are not pro-growth and pro-development but predatory (extractive) or just populist (concerned with redistribution to electoral constituencies). Here

Khan (2010) cites the example of Thailand's dominant party-led ruling coalition in the 2000s led by former Prime Minister Thaksin Shinawatra. Though an entrepreneur himself, Thaksin appeared to be more interested in the extraction of rents from Thai businesses to maintain his coalition in power through populist policies. The consequence was the introduction of policies and institutions that severely constrained and squeezed Thailand's capitalists and entrepreneurs. All of these contributed to the constitutional crisis that led to Thaksin's ouster in 2006 (Khan, 2008, 2010).

The top right-hand box describes a configuration where entrepreneurs or potential entrepreneurs have substantial holding power but low to moderate capabilities. These entrepreneurs may be powerful because of the strategic importance of the faction they belong to in the ruling coalition. They could be what I may call 'capitalists of circumstances', 'emergency entrepreneurs' or 'entrepreneurs of fortune' who, lacking in sufficient technological and entrepreneurial experiences, yet perform the functions of capitalists/entrepreneurs by virtue of their political connection and influence which they deploy to secure industrial policy support, contracts, concessions or import licenses. But because of their technical inexperience, entrepreneurs of fortune often resort to using simple technology or engaging in primitive resource/rents capture with impunity since they are politically influential—and hence, difficult to discipline. These influential capitalists can also deploy their high holding power or political influence to block policies or new institutions that may create competitors for them, or require them to make riskier investments, put in higher effort, or engage in prolonged period of learning and loss-financing. This can adversely affect a country's industrial development in both the short and the long run. However, politically powerful entrepreneurs can use their holding power or their political networks to good effect if they use their influence to persuade ruling coalitions to implement policies that could benefit their sector and ultimately lead to some social benefits. Thus, as Khan (2000, 2010) argues, not all rent-seeking is damaging.

The last box at the bottom right in figure 2 represents a critical configuration where capitalists/entrepreneurs concurrently possess moderate to low technological and entrepreneurial capabilities as well as limited holding power. This is often the worst possible combination, but the developmental outcome depends on the configuration of the ruling coalition. With a potentially developmental coalition, or even an authoritarian one with a reasonably long time horizon, learning and technological acquisition can still occur if moderate

technological capabilities exist. Ethiopia's capitalists during the country's re-engagement with industrial policy in the late 2000s had moderate to low technical and organizational capabilities and were not politically powerful, but the government's ability to implement industrial policies led to substantial growth for a time (Khan, 2010).

The two dimensions of political settlements explained above, and their simultaneous interactions yield divergent configurations of the overall political settlement, defined as the distribution of organizational power. The implications of these different configurations help to explain why similar institutions can result in different outcomes depending on the distribution of power, capabilities and benefits accruing to different organizations in a country. In the same way, different policies may work best depending on the political settlement. When the political settlement describes a developmental ruling coalition and capable business organizations that do not have the holding power to block disciplining, a range of different industrial policies may be successfully implemented to deliver growth accelerations. But when the ruling coalition is more fragmented and has more limited implementation capabilities, and capitalists cannot be easily disciplined by politicians and bureaucrats, market disciplining and more liberal policies could turn out to be the best strategy for many sectors (Khan 2010).

In Nigeria, the ruling coalitions have since the return to democracy in 1999 been fragmented especially from 2003 to date. Without the support and credible commitments of the ruling elites or the highest political leadership to a particular policy, implementation of policies has been challenging across all variants of political settlements in Nigeria over time. The support of the ruling coalitions to an industrial policy makes the difference and this support has often been conditioned by the availability of rents in the industry that is the target of policy. Contemporary Nigerian governments have been compelled to explore ways of supplementing dwindling oil rents. The triggers for this include the existence of very few large formal business organizations in Nigeria that can support political coalitions in exchange for favourable policies, volatile/dwindling oil rents amidst increasing fiscal responsibility and improved public resource management revenue through the adoption of modern financial transparency and control system/measures.

However, the structure of economic opportunities or rents differs across industries. This has important implications on the credibility of leadership

commitments to an industry. This can be explained better by employing the concept of rents space (see Pritchett, Sen and Werker, 2018).

#### 4.2 The Concept of Rents Space

Developed by Pritchett, Sen & Werker (2018), the concept of the rent space examines the private sector in developing countries from two dimensions, that is, by looking at the kinds of markets targeted by entrepreneurs and the major sources of profitability in those markets (Pritchett, Sen & Werker, 2018). In Nigeria, and indeed other developing countries, entrepreneurs largely target domestic, rather than export markets because industrial strategy has overtime been based on import-substitution (Musacchio & Werker, 2016). The sources of profitability for firms could come from discretionary rents created by politicians and bureaucrats, or from market competition with competitor-firms within the same industry (or even those outside the country whose products may be smuggled in to compete with locally made products). In developing countries, most firms have regulatory rents as the major source of their profits (Pritchett, Sen & Werker, 2018). Examining entrepreneurs along these two dimensions produces four distinct groups of firms based on their target markets and sources of profitability as depicted in the rent space table 2 below.

TABLE 1 THE RENTS SPACE

	Regulatory/discretionary rents	Market competition
Export-oriented	<i>Rentiers</i>	<i>Magicians</i>
Domestic market	<i>Powerbrokers</i>	<i>Workhorses</i>

Source: Pritchett, Sen and Werker (2018)

According to the authors, ‘regulatory rents’ are rents derived from the discretionary actions or inactions of governments such as through the grant of market exclusivity, licenses for importation or use of a resource, deliberately allowing monopoly to form and charge higher prices, non-enforcement of anti-trust laws or not allowing market competition when it is clear that will result in the improvement of overall social/consumer welfare etc. Given that industrial policies in Nigeria have often been designed for import-substitution, this research is concerned only with the groups of firms that target domestic markets, that is, ‘powerbrokers’ and ‘workhorses’. *Powerbrokers* are domestic market-oriented firms whose source of profitability mainly comes from regulatory rents created through the discretionary action or inaction of governments (political leaders and bureaucrats). From the era of the award of cement import licenses to a handful of politically well-connected entrepreneurs who extracted enormous rents by selling



imported cements at exorbitant prices to the time of the introduction of the backward integration policy (BIP), the Nigerian cement industry closely approximates to the powerbroker group of industries that thrive on regulatory rents. *Workhorses* are another group of industries that operate in the competitive domestic markets and their source of profitability largely comes from market competition with rival firms producing same/similar kinds of goods as them. The Nigerian textile and iron & steel industries approximate to the *workhorse* group of industries. Profits in these industries mainly comes from firms' ability to produce quality products at competitive costs and prices. The rents that can be created at the discretions of politicians and bureaucrats in the textile and iron & steel industries is therefore very limited. Since industries that have latent regulatory rents are often the recipients of the support and credible commitments of ruling coalitions, it should be expected that industrial policy that target these group of industries will be aggressively pursued by politicians and bureaucrats because of the incentives of rents that motivate actors.

The importance of firm-level factors such as technological and organizational capabilities in the success of industrial policy has been emphasized in the literature (see Lall, 1987, 1992, 2000a; Lall & Teubal, 1998; Lall & Pietrobelli, 2002; Newman *et al.*, 2016, chap. 5). According to Lall (1993) capabilities are “*the skills—technical, managerial and institutional—that allow productive enterprises to utilize equipment and technical information efficiently*”. Capabilities are not embodied in equipment, codified in manuals or blueprints, nor are they limited to the educational qualifications of employees or restricted to the skills and learning undergone by workers in the firm but also include the way a firm organizes all these elements to function as an organization where workers and management smoothly interact, exchange information and produce output at competitive prices and costs (Lall, 1993; Khan, 2019). In the case of the transfer of new technologies to a country or a firm, the skills for the operation of these technologies must be searched for and hired before learning by local workers/entrepreneurs begins. This learning process is uncertain and can be long depending on *inter alia* on the simplicity or complexity of the new technologies (Lall, 2004). Understood as an extension of the notion of productivity and quality, capabilities differ across firms, industries and countries (Sutton, 2004). Firms in Africa are observed to be stuck in low productivity and to produce low quality products that cannot compete in the global market (Newman *et al.*, 2016). Low productivity in African industries can be compensated for by low wages but this is only up to a limited extent because the prices of all other non-labour inputs for

the production of internationally traded manufactures are the same across the globe.

## 5 Nigeria's Political Settlement

### Chapter Summary:

*In this chapter, various epochs in the evolution of Nigeria's political settlements, from the late colonial period to date, are mapped out. This is with a view to understanding how the configuration of power and capabilities among various organizations have evolved overtime in Nigeria and how that can be deployed to understand the performance of industrial policy institutions.*

### 5.1 Introduction

Based on literature on Nigeria's political economy (see *inter alia* Sklar, 1963; Kilby, 1969; Whitaker, 1970; Forrest, 1977; Osoba, 1977; Schalz, 1977; Beckman, 1982; Diamond, 1983; Lewis, 2007), and using the variables identified in Khan (2010)'s political settlement framework, I explore the historical evolution of Nigeria's political settlements from the late colonial period to date. That is, in each political settlement epoch, I look at the configuration of the ruling coalition both horizontally in terms of the distribution of power between it and excluded factions, and vertically, in terms of the coalition's balance of power vis-à-vis lower-level factions. I also examine the nature and capabilities of capitalists in each settlement epoch as well as their relative holding power vis-à-vis the ruling coalition. This enables me to understand how the distribution of power and capabilities across different political settlements might have affected policy designs, implementation, and performance.

### 5.2 Evolution of Nigeria's political settlements

Under various regimes, the Nigerian state and leaders have shaped the economy and promoted capitalist accumulation and class formation especially during the oil booms era (Beckman, 1982). This facilitated the emergence of indigenous capitalists ranging from light manufacturers to commodity traders, although the state too has, over the years, retained ownership of means of production and finance (*ibid*). Historically, states have been instrumental in capitalist development (Appleby, 2011). However, the Nigerian capitalists did not display the capacity and dynamism to transform the industrial structure of the country (Schatz, 1977).

Moreover, the state in Nigeria has had a love-hate relationship with foreign capital. From the build-up to independence in the 1950s up to 1970, successive regional/national governments have relied on the techno-organizational expertise of foreign capital to establish many first-generation industries (Kilby, 1969; Teriba, 1975; Teriba & Kayode, 1977; Onyeiwu, 1997). However, with the advent of the oil booms of the 1970s and the state-enabled accumulation by indigenous capital which the oil boom permitted, foreign investors/investments became targets of what, in my view, was poorly thought-out indigenization decrees of 1972/1977. The decrees sought to increase the participation of indigenous capital in the productive sectors of the Nigerian economy (Mohammed, 1985). Inevitably, the decrees officially set the (in)famous precedent of the separation of capital in Nigeria into indigenous and foreign, with the resultant continuous marginalization/discrimination against the latter despite the former's lack of capabilities to unilaterally drive structural transformation (Ogbuagu, 1983).

The weak state of the Nigerian capitalists may be traced to the failure or inability of successive ruling coalitions to discipline or enforce compulsion on them (Itaman & Wolf, 2019). Lewis (2007) traces the cause of this failure/inability to the fragmentation of the political elites along multiple lines which prevents the formation of "a stable coalition among the country's disparate interests and groups". The result, he concludes, is the evolution of a 'social dilemma' where the elites lack incentives to cooperate and provide collective goods, and the state cannot engender/enforce cooperation. Hence, the ensuing competition for patronage among diverse actors and constituencies reduces the state mainly to superintending over distributive politics (Lewis, *ibid*).

Under this arrangement, and especially since the advent of competitive democracy in 1999, securing patronage depends on the capacity to mobilize support for the political leadership (Lewis, 2007). Examining these dynamics of state, capitalists, and social groups relations in the evolution of Nigeria's political settlements, several periods from the late colonial period to date (that is, from 1950s-2020s) have been delineated. This is crucial for our analyses of the performance of industrial policies in our case-study industries.

During the period under review, I identify five political settlements periods/epochs (see table 3 below) that Nigeria went through, with each having its own impact the performance of industrial policies in the country.

In 1946, the Richards Constitution, in addition to a central legislature, provided for the establishment of three regional administrative governments in Northern, Western and Eastern parts of Nigeria. The last two became autonomous regions in 1957 while the North gained regional autonomy in 1959, a year to Nigeria's independence in October 1960. Prior to that, each region had its own dominant political party. The north had Northern Peoples' Congress (NPC) founded in 1949 by Sirs Abubakar Tafawa-Balewa and Ahmadu Bello; The West had Action Group (AG) founded in 1951 by Chief Obafemi Awolowo; and the East had the National Council of Nigeria and the Cameroons (NCNC) founded in 1944 by Chief Nnamdi Azikiwe.

TABLE 2 NIGERIA'S POLITICAL SETTLEMENTS' EPOCHS/CYCLES.

Characteristics of Political Settlements		Broad Features of Institutions and Growth
1)	<p><b>'Productive' dominant party</b> with Developmental agenda, low-capability local entrepreneurs who had moderate political influence plus high-capability foreign capital.</p> <p><b>Time:</b> First Republic/1950s-1966</p>	<ul style="list-style-type: none"> <li>• Broad industrialization goals were pursued via the utilization of foreign technical/managerial capabilities.</li> <li>• Open economy based on revenues derived from agricultural commodities exports (see Kilby, 1969).</li> <li>• Federal and regional governments intervened to provide infrastructure and social services, promote private enterprise through subsidies, tax breaks and other incentives</li> <li>• Industrial policy institutions were not robust or entrenched</li> <li>• Some pioneer firms/industries were established</li> </ul>
2)	<p><b>Military authoritarianism</b>/Capitalists with weak capability and moderate to high holding power.</p> <p><b>Time:</b> 1966-1979 and 1983-1999 (aborted 3<sup>rd</sup> republic 1992-1993)</p>	<ul style="list-style-type: none"> <li>• Industrial policies suffered neglect as coups and counter coups shifted attention to regime survival.</li> <li>• Industrial projects and programs were handled by incapable but powerfully networked entrepreneurial interests with links to top military officers.</li> <li>• Nigeria Enterprise Promotion decrees of 1973 and 1977 chased away foreigners who had the capabilities to drive industrial policy and development.</li> <li>• Industrial policy institutions were weak, inconsistent, impersistent, unfit for purposes and the circumstances, and prematurely dismantled by SAPs introduced under the IMF/World Bank pressures.</li> </ul>
3)	<p><b>'Unproductive' dominant party</b>/low capability but politically powerful entrepreneurs.</p> <p><b>Time:</b> 1979-1983 (2<sup>nd</sup> republic)</p>	<ul style="list-style-type: none"> <li>• Pervasive patronage and unproductive rent-seeking reigned.</li> <li>• The 1979 oil boom led to squander-mania, import liberalization with adverse effects on local industries.</li> </ul>

		<ul style="list-style-type: none"> <li>•Industrial policy fell prey to distributive politics for coalition maintenance and survival.</li> </ul>
4)	<p><b>'Productive' dominant party</b> with Developmental agenda, moderate-capability capitalists with strong political influence.</p> <p><b>Time:</b> 4<sup>th</sup> republic 1999-2003 (Obasanjo's first tenure)</p>	<ul style="list-style-type: none"> <li>• Industrial policy began to have some coherence and robustness.</li> <li>•Industrial policy institutions were robust, codified, consistent, and efficiently enforced.</li> <li>•Technocrats were assembled and given some independence to perform.</li> </ul>
5)	<p><b>Competitive clientelism</b>/Capitalists' capabilities range from moderate to high with some politically well-connected and others losing political influence as ruling coalitions change.</p> <p><b>Time:</b> 4<sup>th</sup> republic 2003-2007 (Obasanjo's 2<sup>nd</sup> term) 2007-2015(Yar'Adua/Jonathan tenures) 2015-date (Buhari's tenure)</p>	<ul style="list-style-type: none"> <li>•Power balance between vertical and horizontal groups make enforcement of policy difficult.</li> <li>•Signature socio-economic programs have been pursued but plagued with the problem of discontinuity.</li> <li>•Industrial policy and institutions fell prey to demands of coalition maintenance and survival.</li> </ul>

Source: Author's

These regional political parties participated in the 1959 federal elections that set Nigeria on an initial path to a Westminster-style of government. The NPC and NCNC established a coalition which eventually won the position of the Prime Minister occupied by NPC's Sir Abubakar Tafawa-Balewa with Chief Nnamdi Azikiwe of NCNC becoming the president or ceremonial head of state. AG's Chief Awolowo became the leader of the opposition. During this period, politics, power, and the economy were controlled by *the dominant party* coalitions in each of the three regions. These parties monopolized state powers through the control of regional marketing boards which managed the sales of cash crops in their respective regions and used proceeds from same to mediate and bring businesspeople, educated professionals and traditional elites together (Sklar, 1963). Surpluses accrued to these regional agricultural Marketing Boards provided a valuable source of financial power for the dominant regional parties, and this ensured their dominance over excluded opposition factions –such as Northern People's Progressive Union (NEPU) in the north—who had to rely on meagre membership levies to thrive. The dominant parties, through the manipulation of levers of power and use of regional corporations, therefore extended extensive patronage by way of granting licenses to favourite buying agents, award of contracts and appointments into board memberships to loyal and well-connected political clients. This served the purpose of facilitating private

wealth accumulation or creation of local entrepreneurial capital (Schatz, 1977). These emerging ‘privileged group’ of capitalists, who made quick fortunes through inflated contracts, unaccountable regional banks credits, appointments into lucrative positions or board membership of regional corporations, played some important political roles; that is, they used their wealth to finance activities of the dominant party and their influence to galvanize their constituencies into supporting the ruling coalition (Osoba, 1977). This facilitated the emergence of entrepreneurs who were created by and heavily depended on the political leadership in a way that Whitaker (1970) argued was ‘unknown’ to Western societies. While this set of capitalists/entrepreneurs were linked with some patron-client networks and hence wielded moderate holding powers, they lacked competitive technological, entrepreneurial, and organizational capabilities needed to pursue successful industrial policies, hence the reliance on foreign technical partners. During this period, there was a steady growth of the industrial component of the GDP (see table 4 below). However, it is important to note that this ‘industrial’ component consisted of such activity as mining and quarrying, building and construction (see note (d) of table 4). The growth of manufacturing value added and its contribution to the GDP from 1950s to 1972 was however very low (see table 5 and its corresponding figure 4 below). This worried policy makers who observed in the 1975-1980 Development Plan that the share of Nigeria’s manufacturing in GDP in previous years was lower than about 90 comparable countries (FRN, 1975).

TABLE 3 INDUSTRIAL COMPOSITION OF GROSS DOMESTIC PRODUCT (%) 1950-1975

Activity Type	In Per cent					
	1950 (a)	1958-59(b)	1966-67(b)	1971(b)	1974-75	Mean Percentage 1950-75 (c)
Agriculture	67.5	65.9	53.8	41.8	23.4	<b>50.5</b>
Industry(d)	8.3	9.2	19.8	32.4	56.3	<b>25.1</b>
Transport & Communication	4.5	4.1	4	3.7	2.3	<b>3.7</b>
Distribution	6.2	12.5	12.4	11.5	6.7	<b>9.9</b>
General government	2.2	3.1	3.2	5.3	6.3	<b>4</b>
Social services€	1.6	3	4.2	3.2	3.5	<b>3.1</b>
Others	9.7	2.1	2.6	2.1	1.5	<b>3.6</b>
Total	100	100	100	100	100	

Notes:

- (a) At constant 1957 (factor cost) prices
- (b) At constant 1962-63 (factor cost) prices
- (c) At constant 1974-75 (factor cost prices)
- (d) Mining and quarrying & quarrying, manufacturing and craft, electricity & water supply, building and construction; it also includes, for 1950 alone, public utilities.
- (e) Includes education, health.

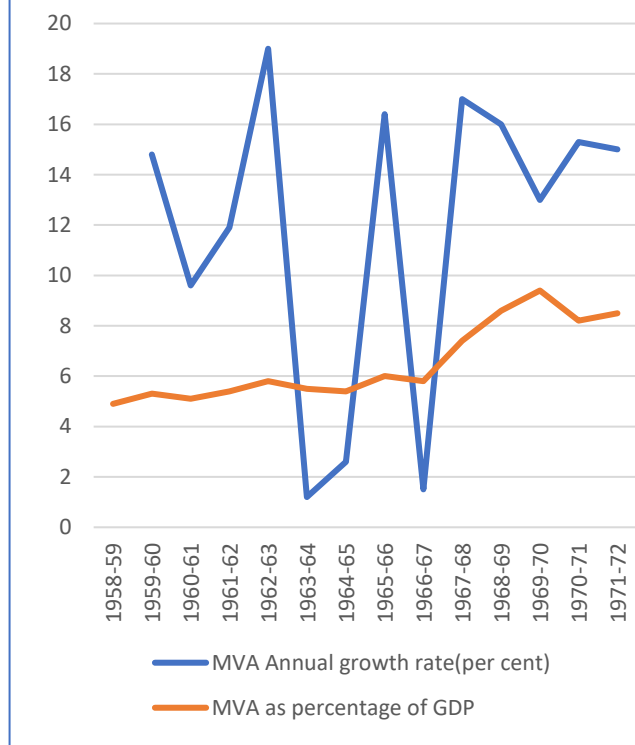
Source: Teriba, Edozien & Kayode (1981)

For instance, manufacturing value added as a percentage of GDP from 1958/59 to 1971/72 ranged between 4.9% and 9.4% (see Table 5). Between 1959 and 1960, the percentage of import in manufacturing output was 46.50% (Teriba & Kayode, 1977).

TABLE 4 VALUE ADDED BY MANUFACTURING, INCLUDING CRAFT, 1950-1972

Year	Value (million)	As percentage of GDP	Annual growth rate(per cent)
1958-59	90.6	4.9	-
1959-60	104	5.3	14.8
1960-61	114	5.1	9.6
1961-62	127.6	5.4	11.9
1962-63	151.8	5.8	19
1963-64	153.6	5.5	1.2
1964-65	157.6	5.4	2.6
1965-66	183.4	6	16.4
1966-67	186.2	5.8	1.5
1967-68	217.8	7.4	17
1968-69	252.6	8.6	16
1969-70	285.4	9.4	13
1970-71	329	8.2	15.3
1971-72	378.2	8.5	15

FIGURE 5 VALUE ADDED BY MANUFACTURING, INCLUDING CRAFT, 1950-1972



Average Annual Growth Rates:

1958/59-1962/63: 13.8%

1963/64-1966/67: 5.4%

1967/68-1971/71: 15.3%

1958/59-1971/72: 11.8%

Source: Teriba, Edozien & Kayode (1981)

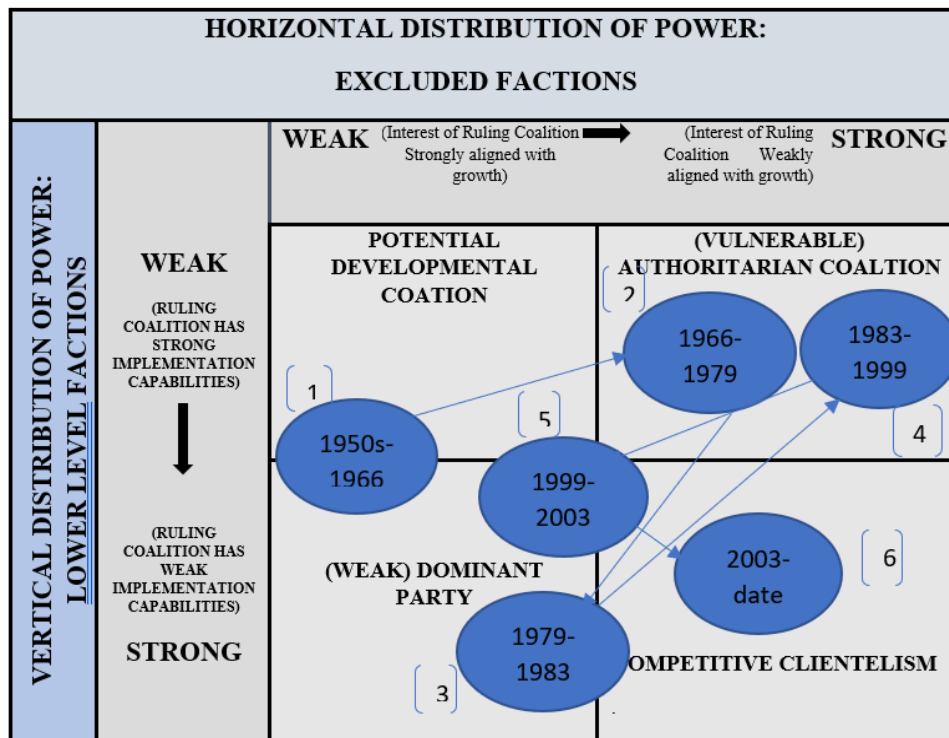
However, inter-regional competition in the 1950s and 60s inculcated a developmental mindset in the dominant party elites which made them productive and pursued some general industrialization cum developmental agendas<sup>17</sup>. In doing that, regional governments had to rely on the technological and

<sup>17</sup> A 'determined developmental elite' and 'relative autonomy' are two out of the six components of a developmental state identified by Leftwich (1995), hence little wonder that despite obvious structural and institutional weaknesses, the dominant party coalition in the first republic was relatively productive and recorded some impressive developmental achievements.



organizational capabilities of foreign partners from Britain, Germany, America, and Asia. This was, to an extent, quite understandable. The result was the establishment of Nigeria's pioneer textile, cement, and other simple-technology firms/industries in the late 1950s; and I agree with Kohli (2004) that Nigeria's economy during this time 'performed moderately well in terms of growth'. However, because at that time regional governments practiced what Kilby (1969) would call 'industrialization in an open-economy', there was no concrete, coherent, and co-ordinated industrial policy strategy of the East Asian typology. Rather, what obtained were some ambitious attempts or efforts by regional dominant parties to establish some pioneer industries and maintain certain protectionist measures. These were put in place by colonial administrators to protect British commercial interests against competition from German and Japanese companies. In the final analysis, by 1966, the distribution of investments in the Nigerian manufacturing sector was skewed in favour of the technologically capable foreigners who had 70% of investments against 10% by private Nigerians and 20% by the state (Forrest, 1977). This distribution would however, later on, be radically altered, in my view for worse than for better, through the promulgation of the Nigerian Enterprises Promotion Decrees (NEPDs) of 1972 and 1977. This decree forced foreigners to tremendously divest their stakes for Nigerians who had not acquired the requisite capabilities to sustain these enterprises. This political settlement epoch characterized by the 'productive' dominant party coalition that ruled from 1950s to 1966 is captured by contour 1 in the following figure 6 below.

FIGURE 6 EVOLUTION OF NIGERIA'S POLITICAL SETTLEMENTS



Source: Author's based on Khan (2010)

By January 1966, a bloody military coup d'état led by one Chukwuma K. Nzeogwu had ended Nigeria's first republic and ushered in an era of *military authoritarianism* characterized by weak capitalists or emergency entrepreneurs (captured by contours 2 & 4 in figure 6). The average annual growth rates of manufacturing value added between 1967/68 and 1971/71 was 15.3% which was not impressive especially when compared to the rates of 13.8% between 1958/59 and 1962/63 (see the footnote of table 5 and the corresponding figure 5 above). Barring the Shagari administration that was sandwiched in between military juntas, the era of military authoritarianism in Nigeria can be distilled into two phases *ala* Ikpeze (1991) in terms of its contribution to manufacturing (see table 6 below). Phase one (1973-82) was the expansion phase which coincided with the advent of the two oil booms (in 1973 and 1979). The manufacturing sector boomed during this period more because of increased oil revenues that allowed for new investment and capacity expansion than by an increase in productivity or capability of entrepreneurs. Looking at the compound annual rates of growth in real terms for manufacturing, agriculture and petroleum sectors reveals that manufacturing growth rates (9.5%) during this phase even outstripped those of agriculture (-1.6%) and petroleum (-2.3%). This expansion (of manufacturing), as was later realized, masked serious structural defects in the Nigerian industries. The second phase (1982-1988) was a period of serious economic crisis in Nigeria.

The 1979 oil boom had ended by 1982, and the government could not afford to give subsidies to firms and industries as revenues had sharply fallen, debts crisis worsened, and industries could not afford to import industrial inputs. As in the first phase, manufacturing value addition mostly concentrated on non-durable consumer goods against capital goods (Egbon, 1990). The sectoral growth rates of manufacturing, agriculture and petroleum fell sharply during this time.

TABLE 5 NIGERIA'S SECTORAL GROWTH RATES (1973-1988)

Sector	1973-82	1982-88
Manufacturing	9.5%	-1.9%
Agriculture	-1.6%	-3.7%
Petroleum	-2.9%	-1.4%
GDP	2.3%	1.5%

Source: Ikpeze (1991)

Moreover, during this period, series of coups and countercoups made regime survival and maintenance a topmost priority for the ruling military coalitions, much to the relegation of industrial development policies. Further, the outbreak of the Nigerian civil war (1967-1970) overshadowed national industrial/economic policy considerations. This is because national resources were now mobilized mainly towards prosecuting the war. Hence, while still being haphazard, the economic/industrial policy measures adopted during the war were more conservative and focused on the maintenance of pre-war protectionist strategies of regulation of trade, imports, and foreign exchange (Lewis, 1994). The vulnerability of the ruling coalition during this period was underscored by the fact that six months after the January 1966 coup had installed Gen. John Aguiyi-Ironsi as head of state, another countercoup was waged which ousted Aguiyi-Ironsi and replaced him with General Yakubu Gowon in July 1966. The Nigerian military during this period was not, on any scale, as developmental as that of the 'productive' dominant party of the first republic. This was largely due to its factionalization, vulnerability, prebendalism and predation (Joseph, 1983; Lewis, 1996). The Gowon junta, however, managed to last for some nine years due to a combination of two factors, one internal and the other external. The internal factor came from the termination of the civil war in 1970 which reinforced confidence in the Gowon-led ruling coalition and re-ignited the sentiment of nationalism in citizens. The external factor came three years after the war when Nigeria witnessed its first oil boom in 1973, and hence more oil rents whose distribution across military (and civilian) factions would have

permitted some relative stability with coups generally being viewed as rent-seeking behaviour (see for example Mbaku, 1994). Though relative stability and increased oil revenues resulted in rapid expansion of the public service, pursuit of Import Substitution Industrialization (ISI), and extensive interventions<sup>18</sup> by the ruling military coalition, these developments did not lead to landmark industrial successes. Part of the problem was the preponderance of weak capitalists who lacked the capabilities to drive industrial policy and development. In fact, many of those who passed for capitalists/entrepreneurs especially during the Ibrahim Badamasi Babangida (IBB) junta (1985-1993) were a group of serving and retired military officers who engaged in primitive rents capture through such patronage-based businesses as importations, bureau de change transactions, commercial banking, contracts, and procurements (Lewis & Stein, 1997). For industries requiring some technical expertise, foreign partners were relied upon; however, lack of robust learning arrangements, sound institutions of property rights, political influence, and compulsions for attainment of productivity and competitiveness on the part of these foreign partners combined to set Nigeria on a fragile industrial track. For instance, with the sudden inflow of huge Petrodollars from the oil boom of 1973, it did not take long before Nigeria turned its back on the hitherto much-sought-after foreign partners through indigenization decrees of 1972 and 1977. These poorly thought-out decrees severely restricted the value of stakes foreigners could own in firms many of which they had helped established. The motive was to empower and hasten the growth of indigenous capitalists and entrepreneurs who had failed to fully participate in the productive sector and learn or acquire capabilities. This was due, in part, to poorly designed learning arrangements and in part to easy access to cheap rents on which local capital had been brought up. Thus, by early 1980s, the Pandora's box of structural defects and institutional decay that oil rents had masked up became wide open in the aftermath of the second (1979) oil booms. The Nigerian economy which had great promise just a short while ago soon became depressed and neck-deep in debt. Austerity and stabilization measures applied by the Shehu Shagari administration (1979-1983) and the Buhari Junta (1983-1985) proved too little, too late. The vulnerability of the ruling IBB junta at the time forced them to accept the neo-liberal Structural Adjustment Programs (SAPs) sponsored by the IMF and the World Bank. SAPs, among other things, involved the liberalization of the product, capital, and labour markets as well as restricting government's

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<sup>18</sup> According to Pius Okigbo, cited in Joseph (1983), federal expenditure which was 9.2% in 1962 dramatically increased to 39% in 1974.

participation in the economy to issues of macroeconomic stability. SAP, in our view, appeared inappropriate for the circumstances; for instance, Bangura (1991) wondered how austerity measures could be recommended for a depressed economy. However, be that as it may, if Nigeria's industries had developed the requisite productivity and competitiveness under the past decades of state tutelage, they would not have easily succumbed to the pressure imposed by the new economic realities of trade and exchange rate liberalizations. Ordinarily, the devaluation of the Naira should have encouraged exportation of industrial products which would have in turn elicited further investments in local production, but while this did happen to an extent as seen in the exports of Nigerian textile products to CEFA-Franc countries in the late 1980s and 1990s, it was soon realized that this was more the result of the over-valuation of CEFA-franc in former French colonies than the productivity of Nigerian industries (Andréa & Beckman, 1999). Ever since, efforts to industrialize Nigeria by first reviving its traditional pioneer industries have continued up to 1999 when military rule ended and power was transferred to a democratically elected government of Mr. Olusegun Obasanjo. In sum, the era of military authoritarianism (1966-1979 and 1983 to 1999) in Nigeria was characterized by pervasive rents creation and distribution to curry favour with powerful military, political, clerical, and monarchical (emirs, obas and igwes)<sup>19</sup> patrons on whom various ruling military coalitions relied for regime survival. Nevertheless, many heavy capital-intensive infrastructural projects such as the construction of federal roads, hospitals, schools, bridges, and the relocation of the federal capital from Lagos to Abuja all did take place during the period of military authoritarianism.

Between the Murtala/Obasanjo (1975-1979) and the Buhari (1983-1985) military juntas there was the second republic administration of former president Shehu Shagari (1979 and 1983). Mr. Shagari won the 1979 federal elections on the platform of the National Party of Nigeria (NPN), a party Forrest (1986) metaphorically described as the Party of National Patronage (PNP) because of its deep and endemic distributive politics. In fact, scrutinizing developments during the Shagari-led administration reveals the NPN ruling coalition to be an *unproductive dominant party* represented by contour 3 in figure 5 above. The coalition came at the onset of the second oil boom in 1979 occasioned by the dramatic increase in oil revenues from N4.7billion in 1978 to N10billion in 1979

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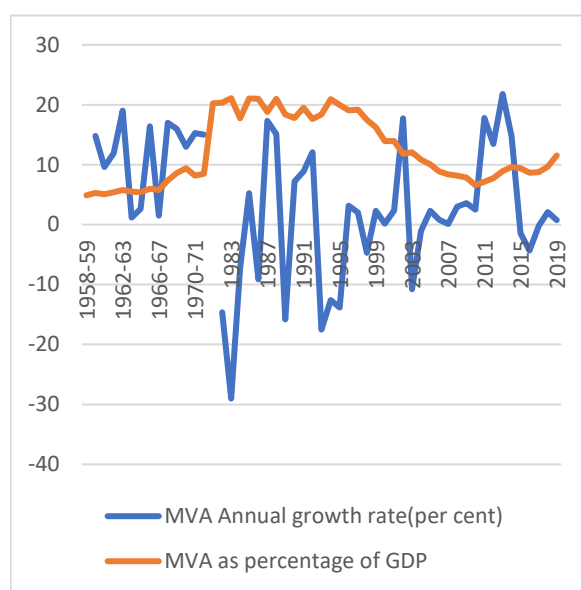
<sup>19</sup> Traditional rulers in Nigeria are revered by their subjects and they play decisive roles in resolving disputes and maintenance of law and order. They are often referred to as 'fire fighters' to underscore their roles in dousing tensions during periods of crisis especially inter-ethnic and post-election violence.

(Bangura, 1991). While this windfall provided the NPN-ruling coalition with the financial wherewithal to buy over excluded factions such as powerful military and civilian patrons and clientelist groups by spreading its net of patronage so wide open, this strategy and the resources expended thereon had left little opportunity for growth-enhancing policy and interventions in the productive sector of the Nigerian economy. Hence, during period, there was poor economic management, indiscriminate expansion of the public economy through establishment of unproductive enterprises, massive employments, inflated and unviable contracts among others (Lewis, 1996; Forrest, 1986). Powerful businessmen such as Sir Joseph Nwankwo, Nnana Kalu, Mathias Ugochukwu, Chief MKO Abiola, Alhaji Isyaku Rabi'u from across various regions supported the NPN ruling coalition for both patronage and protection of their sprawling business empires. This therefore greatly strengthened the power of lower-level factions in the NPN coalition with serious consequences for discipline and policy implementation. The capitalists or entrepreneurs during this time were fragmented and heavily relied on state patronage for accumulation through their involvement in finance, commerce, construction, and real estate rather than production (Forrest, 1986). Their technological and organizational capabilities were also very limited and the non-existence of robust institutional learning arrangements between past regional/national governments and foreign technical partners did not allow for serious learning by local capital. Distributional politics seen in the indiscriminate awards of lucrative contracts, office, employments and other patronage to political patrons and clients as well as the creation of numerous capital-intensive projects in favourite constituencies leading to the expansionary budget of 1981 with a deficit of N3.1 billion coincided with the sudden decline of oil revenues. Internal and external accounts would soon run from surpluses into deficits and the Nigerian economy plunged into crisis defying all stabilization measures. When the crisis appeared intractable for the NPN-led ruling coalition, the military waged a coup and ousted this unproductive dominant party settlement by installing Major-General Muhammadu Buhari as head of state on 31<sup>st</sup> December 1983. Manufacturing value added (as a percentage of GDP) ranged from 6.5% to 21% between 1981 and 2019 (see table 7 and figure 7 below). The manufacturing sector in Nigeria is still dominated by non-durable consumer goods such as petroleum, pharmaceuticals, food, beverages, and tobacco.

**TABLE 6 VALUE ADDED BY MANUFACTURING (1981-2019)**

Year	Value(Constant 2010 US\$)	As percentage of GDP	Annual growth rate(per cent)
1981	38.645B	20.26371	..
1982	32.992B	20.33225	-14.6279
1983	23.415B	21.09825	-29.0296
1984	21.726B	17.73636	-7.21383
1985	22.859B	21.0545	5.215497
1986	20.766B	21.01	-9.15558
1987	24.361B	18.78351	17.31325
1988	28.048B	21.01964	15.13516
1989	23.620B	18.35403	-15.7891
1990	25.320B	17.7826	7.199354
1991	27.569B	19.49459	8.8818
1992	30.894B	17.65449	12.06045
1993	25.484B	18.37625	-17.5105
1994	22.269B	20.92708	-12.6179
1995	19.184B	19.99372	-13.853
1996	19.794B	19.10108	3.181482
1997	20.199B	19.19853	2.04709
1998	19.248B	17.45057	-4.70843
1999	19.694B	16.25737	2.317623
2000	19.728B	13.9334	0.169259
2001	20.190B	13.92536	2.343559
2002	23.770B	11.81181	17.73139
2003	21.201B	12.06061	-10.808
2004	20.976B	10.86157	-1.06239
2005	21.459B	10.06108	2.302961
2006	21.633B	8.852873	0.812822
2007	21.654B	8.40138	0.094978
2008	22.303B	8.168913	2.997201
2009	23.107B	7.838412	3.608053
2010	23.686B	6.552817	2.501886
2011	27.905B	7.171084	17.81541
2012	31.661B	7.724547	13.45926

**FIGURE 7 VALUE ADDED BY MANUFACTURING (1981-2019)**



2013	38.562B	8.928929	21.7971
2014	44.240B	9.635812	14.72376
2015	43.594B	9.428437	-1.46014
2016	41.712B	8.679698	-4.31764
2017	41.624B	8.741993	-0.2116
2018	42.495B	9.648947	2.094063
2019	42.821B	11.52236	0.766933

World Development Indicators, 2020

Military rule in Nigeria ended in 1999 when power was handed over to then President Olusegun Obasanjo who had won the 1999 presidential elections on the platform of the People’s Democratic Party (PDP) by defeating Olu Falae, also a Yoruba man who had contested on the joint platforms of the Alliance for Democracy (AD) and All People’s Party (APP). Prior to the elections, powerful northern Nigerian army generals (in service and retired) led by retired Gen. IBB had reached a consensus that power should be given to the south. Their decision was reportedly informed by IBB’s desire to compensate the south for his alleged role in annulling the 1993 presidential elections which consequently led to the scuttling of the third republic, in which a southern Yoruba business mogul, Chief MKO Abiola, was unofficially adjudged to be on course to winning. Northern elites were also disturbed by persistent criticism from the influential southern media over ‘the long period northerners have been ruling the country’. This narrative paints a picture of a PDP ruling coalition (from 1999 to 2003) that came on board with low degree of vulnerability to the machination of excluded factions and some moderate, degree of contestations among lower-level internal factions. Also, the PDP ruling coalition during this Obasanjo’s first term could be credited with some coherent developmental agendas. All these features, we submit, approximate very closely, to the model of “*productive’ dominant party*” depicted by contour 5 in figure 5 above. Capitalists and entrepreneurs during this political settlement epoch were moderately powerful politically, and appeared to possess low to moderate capabilities in simple technologies that could be banked upon to pursue some industrial development if the dominant party could commit credibly to its developmental agenda. We shall dwell more on this in chapter 6 where we explore how the dynamics of this settlement allowed for the structural transformation of Nigeria’s cement sector.

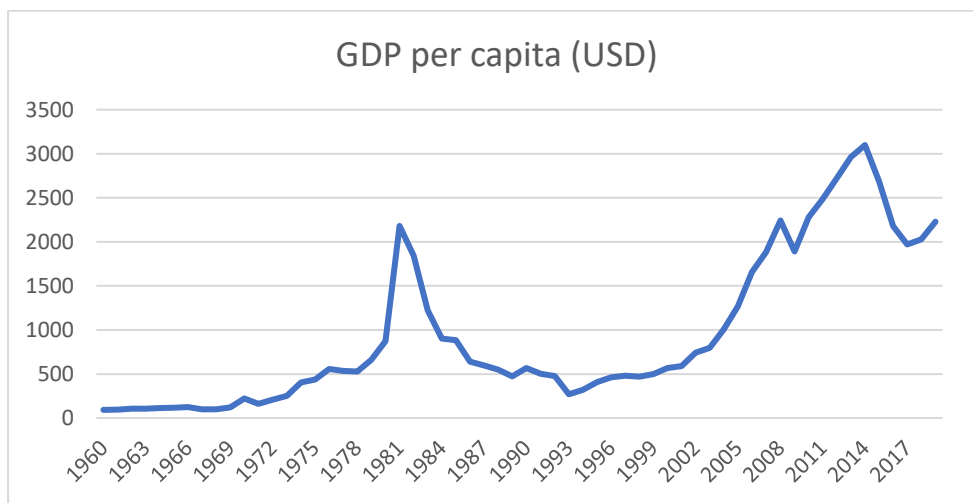
The final and current political settlement epoch that Nigeria has evolved into from the period of Obasanjo’s second term (2003-2007) to date strikingly shares the characteristics of “*competitive clientelism*” model of political



settlement. This is captured by contour 6 in figure 6. Twenty-two years of uninterrupted democratic rule have resulted in the consolidation of the holding powers of both horizontal and vertical patron-clientelist political organizations in Nigeria. The Yar'Adua/Goodluck PDP-led ruling coalition (2007-2015) and the Buhari's All Progressives Congress (APC) administration (2015-2023) fit into this model. Under competitive clientelism, both excluded opposition groups and lower-level internal factions are strong due to the dynamics of competitive electoral processes that determine which group emerges as the ruling coalition. Because political factions are too numerous, competitive clientelist ruling coalitions whose constraint is to govern at the least possible cost cannot afford to incorporate all powerful patrons and factional groups in the political arena. As a result, lower-level factions—who are faced with the options of either staying in the ruling coalition if they are satisfied that the coalition's distribution of benefits is commensurate with their holding power, or opting out if otherwise—are very strong. This makes policy implementation difficult as the ruling coalition is placed in an uneasy quandary: choose to enforce policy institutions in spite of particularistic interests of patron-clientelist organizations, and as a result, lose the support of powerful patrons and groups who would join the excluded opposition groups to oust the ruling coalition, or pander to the particularistic interests of internal factions and compromise policy implementation, enforcement, growth and development. With self- or regime-preservation being the first law of nature, ruling coalitions in competitive clientelist political settlements often tends towards the latter option, and hence economic/industrial policies seldom succeed under this configuration. During this period, the capabilities of Nigerian capitalists/entrepreneurs did not significantly change from what it was in the last settlement. However, the well-connected section of capitalists has been the ones often carried along in the drive to pursue industrial policies although many of them may be only moderately capable. Some high-capability capitalists who lose political influence due to change in ruling coalitions, say during the 2015 elections when power changed hands from the PDP to the APC, deploy parts of their previously accumulated rents to buy protection for their property rights or maintenance of their rental havens from the newly emerged powerful patron-clientelist groups. Therefore, while during this epoch there are some signature socio-economic programs such as Yar'Adua's 7-point agenda; Goodluck's Transformation agenda and Subsidy Re-Investment Program (SURE-P); Buhari's N-Power, Anchor-Borrower and Cotton, Textiles and Garment (CTG) programs; these ruling coalitions have failed to successfully implement these policies to

transform Nigeria’s industrial structure. This, as we have seen, could, to a significant extent, be attributed to the dynamics of competitive clientelist political settlement as well as issues of accumulation of capabilities at both the national and firm levels. Figure 8 below shows the growth of Nigeria’s GDP (per capita) from independence to 2017. As can be seen from the figure, there are two major primary commodity-induced growth spurts in the Nigerian economy, the first starting from early 1970s and ended in early 1980s. The second started from 1999 and steadily rose to reach a peak in 2014 before giving way to the 2015 recession.

FIGURE 8 GROWTH RATE OF NIGERIA’S GDP (PER CAPITA)



Source: World Development Indicators

### 5.3 Political settlement and Rents/Resource flows in Nigeria

Under both civil and military rule, clientelism has long been identified as an influential feature of governance in Nigeria (Lemarchand,1972; Droucopoulos & Henley,1977; Balogun, 1995; Whitaker Jnr, 2015). The weaknesses of formal institutions in Nigeria means that these institutions are not sufficiently incorporated into the formal economic framework, and this engenders clientelism among social actors (Meagher, 2006).

Under successive regimes, public policy in Nigeria has been the instrument for dispensing favours through awards of imports and other licenses, bank credits ‘juicy’ positions, contracts, subsidies, jobs slots, and scholarships among others (Diamond, 1983; Lewis, 1994; Mbaku, 1994; Osoba, 1996 Balogun, 1997; Demarest, 2022). This characteristic of public policy and governance has led to the description of the state in Nigeria as ‘prebendal and predatory’ (Lewis,1996), ‘clientelist’ (Balogun, 1997), and ‘neo-patrimonial’ (Kendhammer, 2015).

Diamond (1983) observes that since the 1950s every ruling coalition in Nigeria has utilized “levers of state power—the control over patronage, coercion, and chieftaincy, in particular—to consolidate its political base and to suppress those elements which resisted consolidation”. Thus, a privileged groups of individuals especially politicians, capitalists/entrepreneurs and traditional leaders enjoy state patronage (Reed, 1982, Ajayi, 1992). In return, these individuals were expected to finance party campaigns and deploy their wealth and influence to mobilize voters in their constituencies (Osoba, 1977; Reed, 1982).

Appointment into cabinet positions and awards of contracts have also served as instruments through which successive ruling coalitions in Nigeria extend patronage to academics, members of trade/professional organizations and the general civil society (Lewis, 2007). Also, with religion and traditional norms being instruments of social mobilization, enlisting even the tacit support of religious and traditional leaders in Nigeria has been a potent strategy of consolidating power (Ezrow & Frantz, 2011). This is because, “the loyalty of the people is domiciled in traditional rulers and religious leaders rather than elected leaders” (Oyedemi *et al.*, 2019)

Hence, the mechanism of rents or resource flows in Nigeria involves informal actors such as traditional rulers (Emirs, Obas and Igwes), religious leaders (Imams, Pastors, and marabouts) and civil society/pressure/professional groups. Thus, under the Nigerian clientelist setting, four major actors can be identified for analysis to tease out how the flow of resources and distribution of rents can affect policy performance<sup>20</sup>.

Rents/resource flows (from top to bottom) in Nigeria share similarities with those in south Asia (see Khan, 2000a), and involves the politicians (P), bureaucrats (B), capitalists (C) and non-capitalists (N). In Nigeria, these actors are involved in a complex cycle of rent-seeking and distribution activity which, as we shall soon see, impact industrial policy performance. At the state/government level, the most important actors are the political class and the bureaucrats. The former group is highly fragmented in Nigeria and mostly consist of retired military officers and powerful politicians at the federal, state and local government levels some of whom are veterans of democratization campaigns during successive military juntas. The latter are federal civil servants from clerks to the powerful permanent secretaries who mediate between the state and social

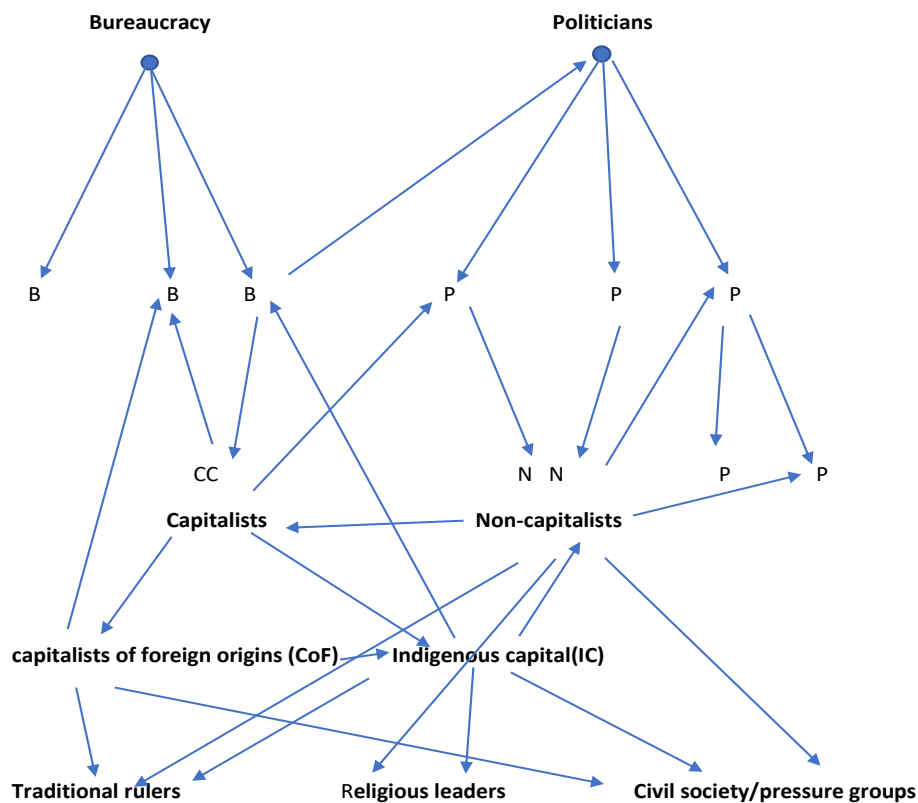
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<sup>20</sup> Here we adapt Khan (2000b)’s approach to analysing rents flow in the Indian sub-continent which shares some striking resemblance with Nigeria’s.

organizations. At the social levels, two broad groups are distinguished i.e., capitalists who invest in the productive sector of the economy and non-capitalists that prominently include powerful traditional and religious leaders and trade associations. The lines between capitalists and these non-capitalists is hard to draw as many traditional and religious leaders are multi-millionaires with substantial stakes in domestic and foreign companies. Predictably, politicians and bureaucrats often find it extremely hard, if not impossible, to enforce industrial policy institutions because of the influence/profile of the owners of these firms. This is why successful enforcement of industrial policy institutions in Nigeria unusually require the backing of the highest political leadership, especially the president. Other non-capitalist groups in Nigeria include professional organizations, labour unions, petty bourgeoisie, the peasantry, and a host of patron-clientelist organizations which possess the organizational capabilities that are crucial for mobilization of voters in a competitive clientelist settlement.

The dynamics of rent-seeking and distributions among the state, capitalists, non-capitalists, and political actors in the Nigerian competitive clientelist settlement can be explained using the following figure 9:

**FIGURE 9 RESOURCE FLOWS IN NIGERIA'S COMPETITIVE CLIENTELIST SETTLEMENT**



Source: Author's (inspired by Khan, 2000a)

As in the South Asian analysis of rent flows by Khan (2000a), a surfeit of political patrons in Nigeria supports non-capitalist clients (the arrows from P to N) through contracts, appointments of their clients into ‘juicy’ positions as heads of ministries, department and agencies (MDAs), offer of employment slots in MDAs, etc. This flow represents the initial rent-seeking *inputs* from political patrons to intermediate actors such as the traditional rulers, clergies, professional organizations, and some influential lower level political clientelist groups. In return for these rents, the intermediate actors mobilize political support for politicians from the peasantry and other groups. In particular, the traditional and religious leaders have enormous organizational capabilities because of the high esteem in which they are held by the mass of the peasantry in Nigeria. In times of communal clashes, revolts or public protests against government, traditional and religious leaders have often been ‘the fire-fighting brigade’ to be called in by political leaders to douse tensions and restore peace and normalcy (Aniche & Falola, 2021). This reverse flow from N to P is indicated in figure 9. The possession of this organizational power by traditional and religious leaders in Nigeria which they deploy to secure off-budget rents transfer from the political leadership has conferred *de facto* power and immunity on these non-capitalists to the extent that the political leadership finds it extremely difficult to discipline them (or their clients in government or business circles) when they attempt to distort or block policy institutions (for details on the power of traditional and religious leaders in Nigeria, see Kukah, 1993; Kastfelt, 1994; Marshall, 2009; Onapajo, 2012; Osakede & Ijimakinwa, 2015; Aniche & Falola, 2021). In the event of the success of these rent-seeking activities, the *outcomes* are rental transfers from the state to diverse constituencies. These may include rent flows from B to N when the state through its bureaucrats provides contracts, jobs, transfer incomes etc to non-capitalists (traditional and religious leaders and trade associations); from B to C when the bureaucrats create rents for capitalists through the award of licenses for importation or use of a resource, market exclusivity, non-enforcement of anti-trust laws or not allowing competition in an industry etc; and from B to P when political leaders through the control of the budgetary processes allocate projects to their constituencies. Nigerian and foreign capitalists have also bankrolled political campaigns (the arrow from C to P) and/or lobbied administrative officials (the arrow from C to B) to protect their interests, monopoly and or learning rents (that is, resource flow from B to C). For instance, according to Akinsanya (1994), during the implementation of the 2<sup>nd</sup> national development plan, bureaucrats “refrained from taking some legally

prescribed actions against foreign businesses”, a behaviour that could have been influenced by flow of resources from C (CoF & IC) to B. Additionally, capitalists especially indigenous use their rents to mobilize the support of non-capitalist constituencies such as traditional rulers and civil society groups (see Odijie & Onofua, 2020). These non-capitalists help in protecting investments from vandalization by disaffected local youths who often protest the exploitation of their local resources without adequate compensations by way of employment of local people or corporate social responsibility (CSR) (Arowosegbe, 2009; Idemudia, 2010). The capitalists in Nigeria also distribute rents to corporate companies (media organizations), trade association and other pressure groups with organizational power to help sustain their rents by stifling public outcry, popularising favourable narratives, or instigating public opprobrium against a political leadership that attempts to introduce new unfavourable institutions (Odijie and Onofua, 2020). While this appears to be practiced in large part by indigenous capital with deep knowledge of local socio-cultural dynamics (see Odijie & Onofua, *ibid*), some research on foreign oil companies in the oil-rich Niger-Delta region of Nigeria also establish the existence of resource flows from foreign capital/entrepreneurs to traditional rulers and civil society groups (see Ikelegbe, 2005; Asuni, 2009; Ukiwo *et al.*, 2011; Watts & Ibaba, 2011; Nwankwo, 2015). These resource flows between capitalists, both indigenous and foreign, and non-capitalists are indicated by arrows running from capitalist (C, CoF and IC) to non-capitalist traditional rulers, religious leaders and/or pressure groups<sup>21</sup>. Interestingly, Ogbuagu (1983) and Akinsanya (1994) reported on flows of resources from foreign capital to indigenous entrepreneurs (the arrow from CoF to IC) when the former used the latter as ‘fronts’ to circumvent the indigenization decrees thereby acquiring stakes over and above the maximum required of foreigners in the productive sectors of the economy.

#### **5.4 Conclusion**

Nigeria’s political settlement from the late colonial period to date evolved into three broad epochs as follows:

- (i) variants (of productive and unproductive) dominant party settlement (1950-1966; 1979-1983 and 1993-2003)
- (ii) military authoritarianism (1966-1979 and 1983-1999) and
- (iii) competitive clientelism (2003-2007; 2007-2015; and 2015-to date).

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<sup>21</sup> I have not come across research/evidence on resource flows from foreign capital/entrepreneurs to religious leaders. However, given the potency of religion as an instrument of social mobilization in Nigeria, such possibility may not be ruled out.

Under all of these political settlement epochs that Nigeria went through, there were attempts to pursue some forms of industrialization policies. However, those policies neither succeeded in completely replacing imports with locally produced products nor in the creation of globally competitive industries. The failure of policy cut across both civilian and military regimes (Collier,1996) Some of the reasons for these consistent failures pertain to lack of state capabilities for enforcement of policy institutions and low-level of technological capabilities among entrepreneurs. The design and implementation of policies may be affected by the vulnerabilities or weak capabilities of the ruling coalitions to enforce institutions. Also, the capabilities of entrepreneurs may fail to measure up to the levels of driving successful industrial policies across board leading to the failure of many firms and industries. Capabilities among capitalists/entrepreneurs in Nigeria has been observed to be different between indigenous and foreign capitalists/entrepreneurs (Ogbuagu, 1983; Akinsanya, 1994). However, despite these differences, successive ruling coalitions in Nigeria have pursued indigenization/Nigerianization policies that favoured the indigenous, but less capable capitalists/entrepreneurs. This is facilitated both by nationalistic sentiment and the nature of the clientelist political settlement, which tilts the balance of power in favour of indigenous capital. However, during the regime of former president Olusegun Obasanjo, Nigeria transformed from being dependent on import for more than 70% of its cement requirement in the 2000s to self-sufficiency in local cement production by late 2010s. The Obasanjo tenure was mapped by Roy (2017) as a dominant party coalition with some elements of competitive clientelism. However, as we shall see in the next chapter 6, the same clientelist power configuration that enabled the cement sector transformation presented ruling coalitions with the difficult challenge of disciplining the powerful indigenous capitalists to socialize the benefits of the transformation. The empirical case-study chapters that follow address such salient questions as: But why did structural transformation happen only in the cement industry and not in the textile, and iron and steel industries? This is the puzzle this research undertakes to find answer for. Was the design and fit of the cement sector industrial policy with the political settlement the determiner? Were differences in the particular characteristics of the three industries the answers to the puzzle of divergent outcomes given the political settlement? In essence, what factors combined to have engendered the success of the Nigerian cement industry and the failures of the textile and iron and steel industries given the political settlement?

## 6 The Cement Industry

### Chapter Summary

*This chapter explores the political-economic dynamics of recent structural transformation in Nigeria's cement industry from series of setbacks to what is now widely held to be the success of attaining self-sufficiency in domestic cement production thereby creating job opportunities, conserving foreign exchange, and facilitating exports. The transformation followed the introduction of the Backward Integration Policy (BIP) in 2002 by the Obasanjo ruling coalitions. However, apart from the BIP, there were similar import substitution (IS) industrial policies introduced in the textile and iron & steel industries under the same clientelist power configurations. But the puzzle is, only the outcome of the BIP turned out to be successful. Hence, in this chapter an attempt is made to address the question of why the BIP succeeded in transforming the Nigerian cement industry whereas similar policies introduced in the textile and iron & steel industries failed woefully. Using the political settlement framework and the concept of rents space to analyse data gathered from structured/semi-structured interviews and numerous documentary sources, it was found that although the support of the political leadership to the BIP was found to be a crucial factor to the transformation, it emerged that more than anything else, three factors were particularly critical in: (a) the easy and successful resolution of the appropriability problems hitherto inhibiting the growth of the cement industry and (b) the rapid learning and development of capabilities in the industry. These factors are: (i) the simplicity of the cement industry in terms of its requirement, adoption and implementation of learning, capabilities and routines (ii) the cement entrepreneurs' possession of financial, investment, technological and organizational capabilities required to successfully drive the BIP and (iii) the cement entrepreneurs importance to ruling coalitions in terms of political/campaign financing from the discretionary rents they generated in the industry and elsewhere. However, contrary to widespread belief, it was found that the transformation of the Nigerian cement industry is not the absolute success industry players, politicians and the couple of existing research claim or imply it is. Rather, this research discovered that important issues related to equitable distribution of benefits, consumer welfare and fiscal responsibility need to be addressed to maximize the BIP-led transformation's social benefits.*



## 6.1 Introduction

Developing countries especially in Sub-Saharan Africa (SSA) have continued to be the dominant subject matter of development research mainly due to their failure to transform the structure of their economies by catching up with successful industrializers even in simple, labour-intensive technologies (Stiglitz et al, 2013; McNamee et al 2015). This, in some cases, may not have been a result of lack of blueprints for policy adoption, but of inadequacies associated with the implementation of policy models in the adverse contexts of developing countries especially those in SSA (Gulhati, 1990). The import-substitution industrialization (ISI) of the 1960s and 1970s took off on an optimistic note and resulted in some ‘respectable’ growth outcomes in many countries but sustaining growth became a serious constraint (Kelsall 2013). During the ISI era, simple to medium technologies were imported into developing countries such as Nigeria through the agency of foreign technical partners to start off local production for substitution of imports. The newly established local firms/industries received supports in forms of soft loans, tax holidays, skills development, import bans and other protectionist measures to enable them to mature and compete favourably with their foreign counterparts (Oyejide, 1975).

By early 1980s, it was obvious that the state-led ISI was not able to make local firms, or the so-called infant industries, attain the requisite thresholds of productivity and competitiveness needed for rapid and sustainable industrial development. Infant firms refused to grow into industrial maturity. The capabilities necessary for firm efficiency were shown to be seriously lacking despite more than two decades of state supports. This, inevitably, gave rise to a shift in policy paradigm in subsequent decades which reduced the roles of the state in the economy, as static inefficiencies and failures were identified as the major bottlenecks that had militated against ISI success (World Bank, 1993). Structural adjustment programs (SAPs) which sought to promote private participation in the production of goods and services, and *laisse faire* labour and capital markets became the new development policy norm in SSA from the 1980s onwards. Nigeria adopted SAP in 1986 and by the end of the decade, the results were not promising (Bangura, 1991). An important conclusion reached in the post-SAPs period was the realization by the development stakeholders including national governments that neither state-led development strategy nor market-led approach can, in isolation, guarantee the industrial development of developing countries. Thus, by mid-2000s, consensus began to build around the idea that while private entrepreneurs have important roles to play in industrial growth of

developing countries, the roles of the state too cannot be confined to the provision of public goods and maintenance of macroeconomic stability only (Cimoli et al, 2009; Noman et al, 2012; Stiglitz et al, 2013; McNamee, 2015). Industrial technology development in particular was recognized to require deliberate state interventions by way of specific industrial policies designed for the promotion of particular sector, firms or industries (Lall & Pietrobelli, 2002; Abegas, 2018).

The development of technological and organizational capabilities necessary for industrial development has been recognised to be so complex that the market system cannot be relied upon to successfully address all by itself (Lall, 2004). The ‘visible hands’ of the state therefore have important roles to play in solving many market/contracting failures especially those constraining the acquisition of technology in developing countries. These roles are played through the enactment of specific sectoral or firm-focused state policies designed to promote particular firms or industries with a view to incrementally achieving overall national industrial development. This is referred to as *industrial policy* (IP). IP has been recognized to be a historically important instrument used even by the industrialized countries of today at the time of their technological catch-up (Shafaeddin 1998; Chang, 2005).

However, there is a particular puzzle associated with industrial policy for which debates, and discussions continue to date. Why does industrial policy perform differently in different countries? The two disparate and oft-cited cases of differing industrial policy success and failures are the Asian Tigers and the rest of developing countries (especially SSA and Latin America) respectively. Much has been written to explain the success of industrial policies in the Asian Tiger economies (see *inter alia* Amsden, 1989, 1994, 2001; Wade, 1990; Chang, 1994). but the failure of industrial policies in ‘the remainder’ of developing countries especially those in sub-Saharan Africa had, until relatively recently, been explained only as corollaries or parallels to the Asian experiences (the few exceptions are Soludo, Osita & Chang, 2004; Altenburg, 2011; Stiglitz, Lin & Patel, 2014; Whitfield, Therkildsen, Burr and Kjær 2015).

Devised to unravel divergences in the performance of institutions such as industrial policy, the political settlements (PS) framework has been deployed to understand the problem of policy implementation and performance in developing country contexts (see Tyce, 2019; Wolff, 2020; Kjaer, 2015 etc). The PS provides plausible explanations on the political economy configurations that make industrial policy succeeds or fails in developing countries. By considering

important political economy questions which the New Institutional Economics (NIE) gloss over such as why similar institutions result in dissimilar outcomes in different contexts or why different institutions result in similar outcomes, the PS framework introduces a fresh perspective which incorporates power relations in the equation for understanding policy performance in developing countries. Using the PS framework and insights on the role of rents and capabilities in industrial development, I set out to explore the factors that shape the performance of industrial policies in the cement, textile, and iron & steel industries.

From the late colonial period to date, Nigeria has oscillated between variants of dominant party, military authoritarianism, and competitive clientelist settlements. In all of these epochs, the design and implementation of industrial policies had not resulted in any remarkable and sustainable structural transformation in the sectors or industries for which policies were directed. In 1999, Nigeria returned to a democratic rule or what can, technically, be described as *competitive clientelist* settlement although lack of formidable opposition from excluded groups during Obasanjo's first term (1999-2003) has made some to qualify this particular period as that of *dominant party settlement* (see Roy, 2017). During this People's Democratic Party (PDP)-led dominant party coalition of President Olusegun Obasanjo (OBJ), an ISI policy called the Backward Integration Policy (BIP) was designed and implemented leading to the transformation of the cement industry—cement imports which hitherto accounted for over 70% of Nigeria's cement consumption became completely replaced by locally produced cement. The BIP success was sustained well in to the transition to fully fledged competitive clientelist settlement. However, it is puzzling that under more or less the same clientelist political settlement, policies directed towards transforming the textile and iron & steel industries failed woefully. This is the puzzle that I set out to find answer(s) for. Thus, the broad research question is, what are the political-economic and technological capability issues/factors that resulted in these divergent policy outcomes? The objective is to explore and understand the conditions that best produce policy success. This will minimize the risks of future policy design and implementation failures. To address my research questions, I, atypical of extant literature on the case-study industries, use the political settlement (PS) framework and insights from the concept of rents space and the technological capability (TC) literature to attempt to sort out the puzzle of divergent policy outcomes among our case study industries.

The use of Portland cement in Nigeria was introduced by colonialists and hence throughout the colonial period the product was imported into Nigeria from

abroad for construction purposes. Three years before independence, however, the first cement manufacturing factory, the Niger Cement Company, was established in 1957 at Nkalagu in the south-eastern region of Nigeria. Since then, several other companies were established such as the West African Portland Cement (WAPCO) in the southwest and the Cement Company of Northern Nigeria (CCNN) in the north in 1960 and 1967 respectively (Ohimain, 2014). These and other subsequent cement mills were all established by regional governments in collaboration with foreign technical partners before they were privatized in the 2000s (see table 4A for the profile of cement companies in Nigeria).

Even after the establishment of the first cement company at Nkalagu and other subsequent ones in other places amounting up to a dozen in all, imported cement continued to contribute significantly to satisfying local demand in Nigeria. In fact, since 1989 when domestic cement production as a percentage of total supply (local production plus imports) reached a peak of 84.4%, the percentage of imported cement kept on progressively rising reaching a peak of 76.5% in 2003. Several factors contribute to the progressive rise in cement imports and sustained decline in local cement production in Nigeria. The factors generally boil down to comparatively higher costs of production resulting from poor, insufficient and unaffordable supply of critical infrastructure such as good road networks, electricity, and other energy sources. This compelled cement companies, which are energy-intensive, to resort to alternative private sources of generation of energy using coal, natural gas, and low pour fuel oil (LPFO). However, not only are the costs of these energy carriers exorbitant, but their supply too is highly erratic, and this makes energy's contribution to total cement production costs in Nigeria comparatively high (35%) compared to comparator countries like China (with less than 10%) (Ohimain, 2014).

But given the superabundance of limestone, oil and natural gas endowments in Nigeria, it beggars belief that, even well into the early years of the 21<sup>st</sup> century, over 70% of the cement used in Nigeria came from imports (see figures 10 and 11; Akinyoade & Uche, 2018). It was this uneasy paradox that agitated the mind of then President Olusegun Obasanjo during the early years of his first tenure (1999-2003). Recalling his thoughts, Obasanjo remarked:

“I got up one day and I was thinking, we started producing cement in 1956. Egypt started about the same time or ahead of us. Now they are all exporters. So, I called Aliko [Dangote] and said, ‘why are you not producing cement? Why is

everyone importing?’ He gave a straightforward’ answer—‘it is more profitable to import and sell than to produce’ ”<sup>22</sup>.

This private conversation between Obasanjo and Nigeria’s prominent business mogul, Alhaji Aliko Dangote, would soon be followed by the introduction of the Backward Integration Policy (BIP) in 2002. The BIP is an import substitution policy that provided series of incentives for cement importers who committed to manufacturing cement locally using Nigeria’s huge deposits of limestone. The incentives gave importers who established genuine proof of commitments to local production temporary license to continue to import cement pending when their nascent domestic factories would start producing enough to meet local demand. Imports would later be completely banned for local producers to be availed exclusive access to the domestic market. This policy worked in some important respects. It attracted investments into the traditionally capital-intensive cement sector, created job opportunities, ensured the production of enough domestic cement to meet domestic demand, and conserved foreign exchange that would have otherwise gone into imports. Since, these are obvious successes expected of any successful ISI policy, some research has been undertaken to show how the BIP has transformed Nigeria from a big cement importer to a self-sufficient producer within a little over a decade period.

Akinyoade and Uche (2018) investigates the role of the BIP in the context of what they consider as ‘crony capitalism’ involving Obasanjo and Dangote. While the authors were able to explain in appreciable details the historical evolution of the Nigerian cement industry, they however did not account for the political-economic variables that brought about the transformation in the cement industry, nor resolve the puzzle of why only the BIP was successful compared to other policies in other industries. Itaman and Wolf (2019) explores the issue from the perspective of ‘monopoly capitalism’ restricting their study scope only to the examination of firms under the auspices of the Dangote Industries Limited (DIL) (comprising of sugar, salt, noodles, cement companies under the Dangote conglomerate). The authors conclude that the growth of the Dangote conglomerate is based on ‘monopoly capitalism’, which present with challenges of inequitable distribution of benefits, high commodity prices and tax issues. They conclude that while Dangote has led successful structural transformations in Nigeria and beyond, there are limits to which his monopoly capitalism model yields social benefits. Since their focus was on the entire DIL, Itaman and Wolf

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<sup>22</sup> See Wallis, 2013.

(ibid) did not explore in depth the drivers of the cement industry's transformation nor the political economy dynamics that conduced to the industry's transformation against other industries. On their part, Odijie and Onofua (2020) examine the BIP issue from the perspective of policy continuity arguing that the strategy of co-opting political leaders and civil societies was employed by Dangote, and it was this factor that ensured the emergence and continuity/persistence of the BIP in the post-Obasanjo period. In all, none of the handful of works on the Nigerian cement industry has explored the issue of the BIP-led structural transformation of the cement industry from the political economy perspective or applied the political settlement framework to thoroughly explore the dynamics of the success of cement industry's transformation against the failure of policies in other industries. The essence of this research is to fill in this gap through the application of the political settlement framework and insights from the concept of rents space and the TC literature to explain the transformation with a view to identifying the proper lessons to be learnt for policy improvements and replication. Other works on the Nigerian cement industry are reports from national and international newspaper articles and monographs which report/chronicle developments in the Nigerian cement industry (for instance, see Cocks, 2012; Wallis, 2013; The Economist, 2014; Ohimain, 2014; Ekwueme, 2016).

Thus, beyond exploring the structural transformation of the Nigerian cement industry through the lens of crony or monopoly capitalism, important as they are, this thesis contributes to the literature by examining the entire political economy that conduced to the structural transformation of cement against the backdrop of the failures of the textiles and iron & steel industries.

The chapter proceeds by briefly reviewing the historical background of Nigeria's cement industry in section 6.2 where the profile of the industry is explored. The characteristics of the cement industry and processes of cement production are then explained in section 6.3. The BIP and its transformational dynamics are then explored through the lens of the political settlement framework in section 3. In section 4, we subject, to a litmus test, the conditions for successful industrial policy we developed in chapter 3 based on the PS framework and an extensive review and synthesis of the industrialization literature. Section 5 assesses the extent to which the BIP is a success and we conclude in section 6.

## 6.2 Historical background of Nigeria’s cement industry

British cement companies under the aegis of Associated Portland Cement Manufacturers (APCM) introduced cement product into Nigeria around 1851, the year of the advent of colonial explorers in Nigeria (Hay, 1971; Sherwood, 1997). Since then, the importation of the product continued but in 1919 the idea of local cement manufacture was considered by the colonial government<sup>23</sup>. However, APCM was favourably disposed to importing cement than manufacturing it locally. The high cost of electricity was specifically emphasized as a major cost constraint likely to affect competitiveness and profitability of potential local factories. The APCM would again turn down another invitation in 1950 to establish cement factories in Nigeria—that is, 31 years after the technological threshold for profitable cement manufacture (30,000 tons) had been reached. The cement syndicate still preferred ‘to supply Nigeria from APCM’s efficient well written down home plants’ (Kilby, 1969; p.102). This was despite the increase in the ex-factory cost of cement by 70% by the time it reached the Nigerian port (ibid).

Having failed to attract private investment, the Nigerian government in 1952 budgeted £1.2 million to start up local cement manufacture<sup>24</sup>. Therefore, the technical partnership of a Danish firm (F.L Smidth) and a British company (Tunnel Portland Cement Company) was sought and the first local cement plant, the Nigeria Cement Company (NigerCem) was established in 1957 at Nkalagu in South-eastern Nigeria. With this development, the APCM now afraid of losing a lucrative market, re-considered its earlier stance and swiftly moved in to partner with the Western Regional Development Corporation and established the second cement company in 1961 at Ewekoro. Ever since, several cement companies had been commissioned at Sokoto (1967), Calabar (1967), Ukpilla (1971), Sagamu (1975), Benue (1976), Ashaka (1976) and other places (see table 8 below).

TABLE 7 PROFILE OF NIGERIAN CEMENT COMPANIES.

S/N	Plants	Owner	Lines of Production	Installed Capacity (Million tonnes per annum)	Total market supply	Market Share
1	Obajana Cement Plant	Dangote Cement Plc	Lines 1-4	16.25mta	30.5mta	60.7%
2	Ibese Cement Plant	Dangote Cement Plc	Lines-12	12.mta		

<sup>23</sup> Sir Lord Lugard, Nigeria’s Governor General suggested the idea of local cement manufacture to the APCM because of cement’s importance, its low-value, and high costs of transportation (Kilby, 1969).

<sup>24</sup> Kilby 1969

3	Benue Cement Company	Dangote Cement Plc	N/A	4.0mta		
4.	Sokoto Cement Plant	BUA Cement Plc	Lines-1-3	5mta	10.5mta	20%
5.	Obu Cement Company	BUA Cement Plc	Lines 1-2	6mta		
6.	Unicem	Lafarge	NA	5mta	9.5mta	18%
7.	Ashaka Cement	Lafarge	NA	1mta		
8.	Sagamu Plant	Lafarge		2mta		
9.	Ewekoro	Lafarge		2.5mta		
10	Others			1.0mta		
	<b>TOTAL</b>				50.25mta	

Sources: Compiled by Author based on various company reports

Even with up to a dozen cement factories, at no time was local cement production in Nigeria sufficient to meet the ever-rising domestic demand. Influx of huge oil revenues which financially empowered successive governments to embark on numerous capital projects has been the main driver of this increasing demand. Thus, overtime, local production has often been supplemented by imports.

However, from 2007 onwards, the volumes of locally produced cement began to progressively increase up to a point in 2014 when it accounted for 96.7% of the total supply (i.e., local production plus imports). By March 2017, the Nigerian government, through its Minister for Solid Minerals and Development, Dr. Kayode Fayemi, officially confirmed that Nigeria was not only self-sufficient in cement production but also a net-exporter of the product and attributed the success to the BIP while thanking Dangote for keying into the policy<sup>25</sup>.

But how was the BIP able to resolve long-lasting appropriability problems associated with investment financing, expropriation, co-ordination, and learning which brought about the industry's transformation? This and related questions are addressed in the ensuing sections, but first, let us examine the cement manufacturing processes to gain some insights on the industry.

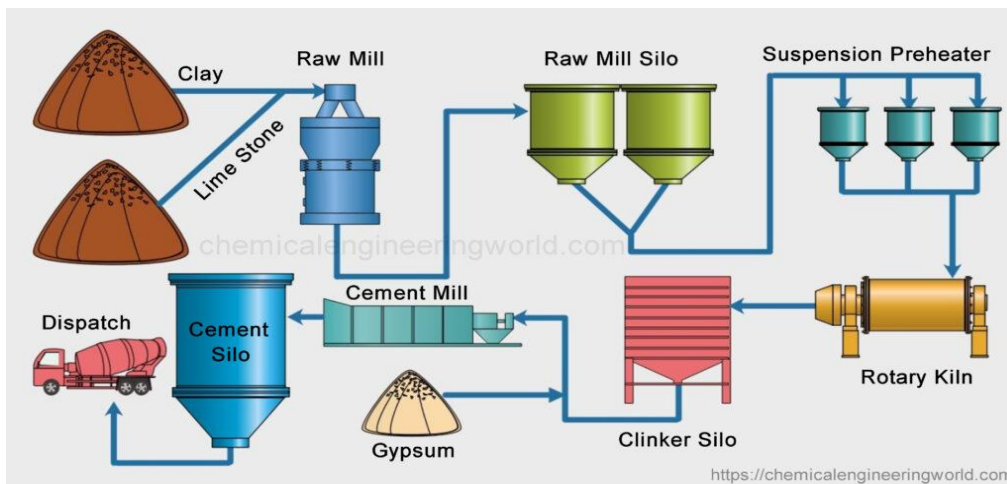
### 6.3 The cement manufacturing process

The process of manufacturing cement is fairly simple, and involves four simple steps or stages i.e., mixing, burning, grinding and storage as explained below with the aid of the following figure 10.

<sup>25</sup> Onne Van der Weijde, Dangote Cement Company's Managing Director at the time while presenting the company's financial reports for 2016 confirmed in March 2017 that Dangote had exported around 0.4 million metric tonnes in 2016/17 (see *The Daily Post*, 2017).



FIGURE 10 CEMENT PRODUCTION PROCESS



Source: Chemical Engineering World ([www.chemicalengineeringworld.com](http://www.chemicalengineeringworld.com))

**Stage 1 (Mixing):** Cement production process starts with the mining of limestone and clay or shale at the quarry. These calcareous and argillaceous materials are crushed and ground to required proportions and blended in the raw mill container. The mixing can be done either via the dry or the wet process. What differentiates the two processes is that in the wet process the ground calcareous and argillaceous materials are stored in two separate silos indicated in figure 10 above, and the argillaceous materials are first washed before being mixed in preheaters to form paste.

**Stage 2 (Burning):** The prepared mixture stored in silos/preheaters are fed into the rotary kiln for burning. The rotary kiln is powered by fuel, coal or hot gases and is divided into three parts with varying degrees of temperatures in each part. In the upper part, temperature is around  $400^{\circ}\text{C}$ , in the central part around  $1000^{\circ}\text{C}$ , and in the lower part the temperature range is between  $1500\text{--}1700^{\circ}\text{C}$ . The temperature variations is to allow water/moisture to evaporate in the first part, limestone to decompose in the central part, and small and hard granular stones called clinkers to form in the lower part. These clinkers which are rounded nodules of sizes ranging between 1-25mm are the output of the kiln which are the input for the next stage of the production process.

**Stage 3 (Grinding):** Cooled clinkers are conveyed into the grinding machine with some quantity of gypsum added into it before it is ground into fine cement powder. The added gypsum regulates the cement setting properties so that it does not set quickly when water is added to it.

**Stage 4 (Storage):** Ground cement powder are then stored in silos and packaged into bags of different kilograms of cement usually 50kg for distribution and sale.

#### **6.4 Analysis of the cement industry's trends**

With vast deposits of limestone, the main raw material for cement production and a fairly educated population, it can be argued that cement manufacturing is an area where Nigeria should have a comparative advantage in. However, it was clear that while the Nigerian state might have had the capital to invest and activate this comparative advantage in cement manufacture, the technical expertise of foreign partners, was of necessity, required for production to take off. But these foreign partners as represented by the Associated Portland Cement Manufacturers (APCM) had always preferred to import cement to Nigeria to manufacturing it locally (Kilby, 1969). The reason for this tendency according to the APCM was the absence of public infrastructure, especially electricity which was undersupplied and too costly to have allowed for a competitive cement manufacturing (Kilby, 1969). Other reason related to this included lack of investment in the cement sector. First, as stated in section 6.2, the cement industry is a capital-intensive venture with huge sunk costs. Normally investment in the cement industry takes between 20-30 years to deliver returns, hence investors cannot be expected to rush investment without concrete assurance of the security and profitability of their investments (Ugoh, 1977). Characterized by political crises, coups and countercoups, lack of property rights and a well-entrenched system of rule of law, post-independent countries such as Nigeria did not offer such investment promise. Secondly, the bulk of the profits of cement industry comes from scale economies hence with the APCM home plants able to profitably (despite transport costs) supply foreign markets such as Nigeria. Thus, there was obviously little economic sense for another huge capital investment in a foreign country given that such country can be profitably supplied from existing factory in Britain (Kilby, 1969).

Thus, it was only the threat of losing Nigeria's lucrative cement market encouraged by the Nigerian government's budget of £1.2 million in 1952 for direct investment in cement manufacture that could make APCM decide to invest in the Nigerian cement industry (Pugh & Ajayi, 1990). The APCM and other foreign firms' investments in the industry were in form of partnership with regional governments. This was due to the absence of indigenous private Nigerian entrepreneurs with the capital to be engaged as partners and the need to guard against expropriation risks in volatile political environment of the time (Kilby, 1969; Pugh & Ajayi, 1990). If Nigeria indeed had a comparative advantage in cement production, there was little, if any, evidence to show that the markets sent the right signals for the development of such latent advantage. Rather, it is clear

that it was the government's move (and success with the establishment of the first Nigerian cement factory at Nkalagu in 1957) that opened up the industry for investments.

However, all things considered, it is my submission that two major factors—the first internal, and government-induced and the second external, and oil-shock-inspired, appeared to have sowed the seeds of the decline and eventual collapse of the Nigerian cement industry.

The first factor is the infamous Nigerian cement armada scandal of 1974<sup>26</sup>. With the three-year old Nigerian civil war ended in 1970, there was massive need for reconstruction in Nigeria (Marwah, 2018). This coincided with the onset of the first oil boom of 1973 which doubled Nigeria's oil revenues between 1970 and 1972 and meant that Nigeria had the money to pursue its post-war reconstruction projects (ibid). However, the cement need for reconstruction projects was way more than the half a dozen cement factories at the time could provide, and instead of expanding the capacities of existing factories given the availability of limestone across all regions, Nigeria, in my view, responded rather impulsively. The Ministry of Defence (MoD) which had also planned to build military barracks for the then 200,000-strong Nigerian army across the countries awarded series of contracts for the importation of cement totalling up to 16.23 million tonnes and valued at \$900million! (Marwah, 2018). This was way more than the Nigerian ports could even have handled as Nigeria's annual cement consumption in 1970 was just 1 million tonne (ibid). Hence, with the award of such massive contracts, Nigerian ports became badly congested with hundreds of ships waiting for an average of 250 days to unload, and yet the ports were still congested by 1978 (Marwah, 2018). These massive cement imports adversely affected the growth of the Nigerian cement industry. A respondent I interviewed (Saminu, 2020; Interview 10) who used to work in one of the first-generation cement companies (now a manager at Dangote cement) argued that the cement armada was '*the death knell for the Nigerian cement industry*'. He added that "*To be frank, some of the cement companies such as the Sokoto and Bendal cements had attempted to expand capacities, however, the machines they bought for expansion were stalled at the ports due heavy gridlock and incurred huge demurrage which sapped the meagre finances of these companies. So, you can see, the Armada had both direct and indirect consequences*". Clearly, the armada

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<sup>26</sup> For details of the cement armada scandal see Marwah (2018)

affected capacity expansion and productivity development in the Nigerian cement firms.

The second factor pertains to the effects of the oil booms on relative prices and the value of the naira, the Nigerian currency, on the cement industry. The inflows of huge oil revenues to Nigeria in the 1970s resulted in the rise of the relative prices of non-tradable goods in terms of tradable manufactures through a phenomenon known as the Dutch Disease (Collier, 1987). This made manufacturing in Nigeria uncompetitive as the prices of locally manufactured goods (such as cement) did not rise in proportion to the rise in the prices of non-tradables such as services. The overvaluation of the naira also made cement import cheaper, and albeit same goes for the importation of cement making equipment, the general unprofitability of manufacturing caused by the Dutch disease that afflicted the Nigerian economy severely constrained capacity expansion. Since the study of development economics began in earnest in the post-war period, resource-endowed countries have been observed to fail in achieving industrial growth and innovations (Prebisch, 1950). Natural resources like oil are volatile in terms of their dynamism of demand, supply and prices and this fuels concerns that government policies may be subject to these vagaries and hence affect the confidence of private investors (Nurske, 1958). The easy rents that comes from natural resources could also make governments and private individuals slothful and incapable of exerting efforts to achieve their best or realize their potentials (Levin, 1960). However, later economic analyses found that resource abundance does not inhibit growth but the quality of institutions in terms of whether they are ‘grabber-friendly’ or ‘producer-friendly’ actually does (Mehlum *et al.*, 2006).

In any case, oil revenues in Nigeria distracted the attention of successive governments away from supporting and monitoring the growth of the cement industry in a protected market that provided the fiscal incentives for learning. During this time, Saminu, 2020 (Interview,10) revealed that managers of state-owned cement companies had “*free reigns to run the companies in whatever way they pleased. The floodgate of cement import never shut since the 1974 cement armada and locally produced cement played second fiddle to imported cement which progressively grew to dominate the total amount of cement consumed in the country*”. With this haphazard approach to industrialization, the Nigerian state did not show concrete commitment to building a sustainable cement industry through the design of robust industrial protection and promotion strategies. Cement imports appeared to have increased during the periods of the oil booms

(1970s and 2000s) and decreased when the booms ended as the following figures 11 and 12 show. Local cement production began to dramatically rise in 2005, that is, three years after the BIP was introduced by the Obasanjo ruling coalition in 2002 (see figure 11).

FIGURE 11 CEMENT CONSUMPTION IN NIGERIA 1946 - 2014, BY ORIGIN OF PRODUCTION (BY METRIC TONNES)

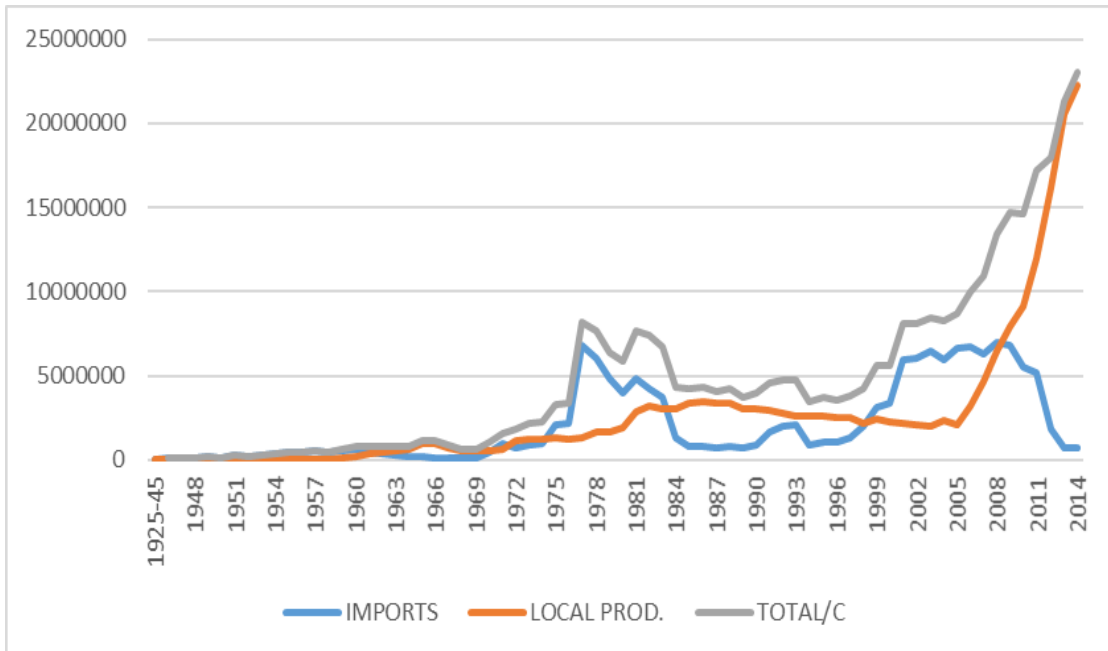
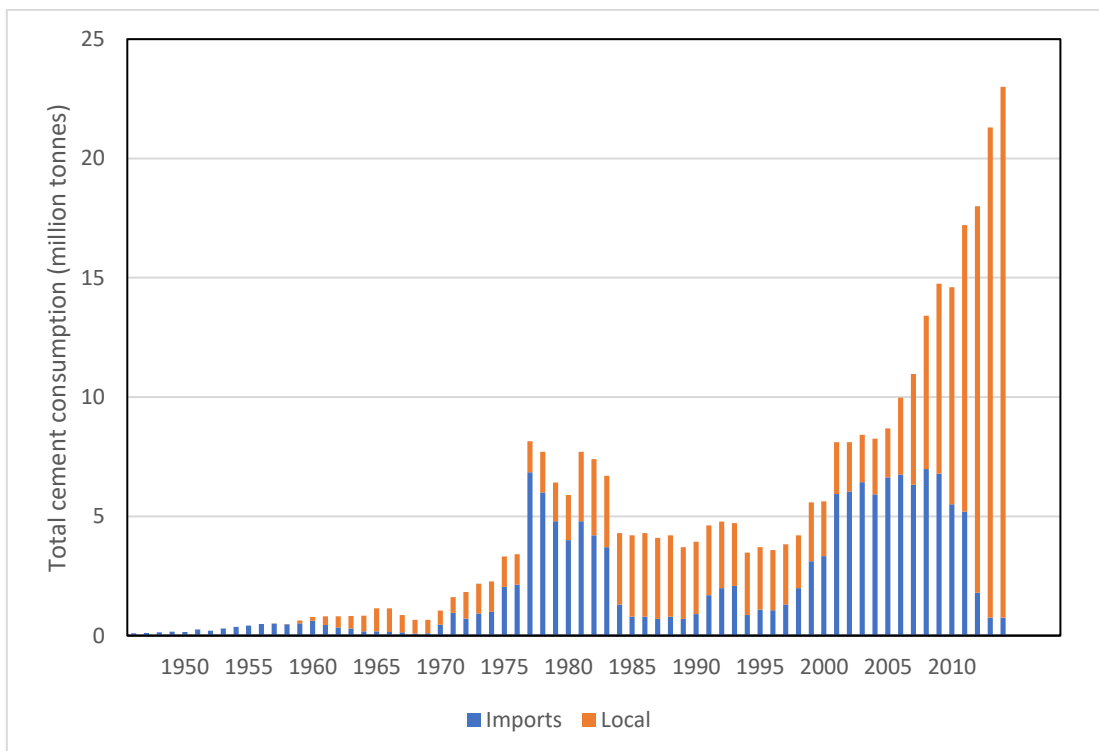


FIGURE 12 CEMENT CONSUMPTION IN NIGERIA 1946 - 2014, BY ORIGIN OF PRODUCTION



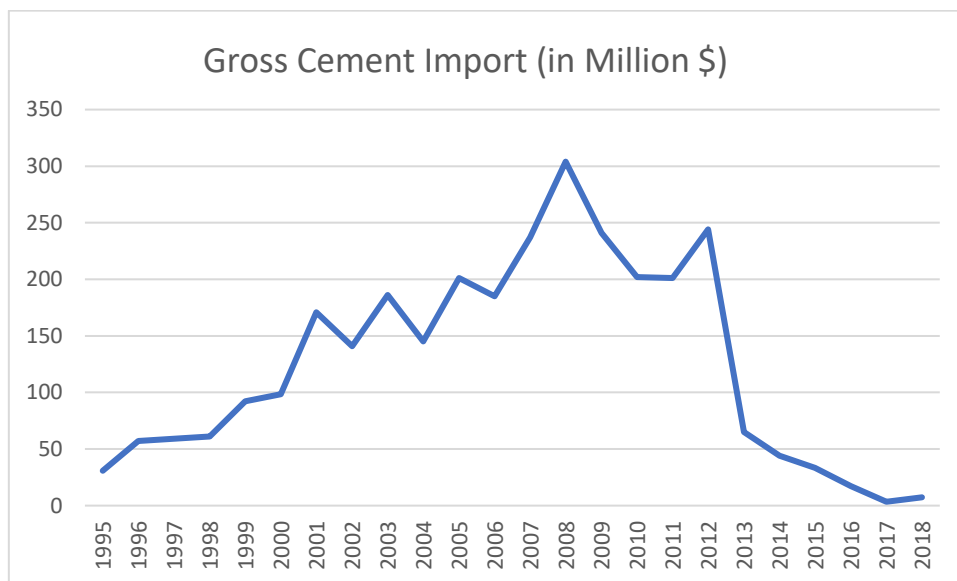
*Source: Author based on data from Pugh & Ajayi (1990), Akinyoade & Uche (2018) and Fieldwork visit to the Abuja office of the Cement Manufacturers Association of Nigeria (CMAN)*

From the figures 11 and 12 above, it can be seen that during the oil booms of the 1970s, cement import rose and began to decline only with the end of the second oil boom in early 1980s. From the mid-1980s when oil revenues dramatically declined and the Nigerian economy was in a serious turmoil leading to the implementation of the IMF and the World Bank-sponsored Structural Adjustment Programs (SAPs) in 1986, cement import temporarily stabilized and almost equalled local production in the early 1990s. This, however, as one of my respondents (Shehu, 2020, Interview 11), confirmed was largely due to the cut in public expenditure due to the provisions of the SAPs. Hence, the performance of locally produced cement against imports during this time was more a result of the decrease in public sector cement consumption occasioned by the fall in oil revenues, cut in public spending, and the need to run a small government *ala* the requirements of SAPs. With the rise in global oil prices in the 2000s and the need to fill an estimated infrastructure gap of \$300billion<sup>27</sup>, the volume and value of cement import again rose up reaching an all-time peak of \$304million worth of import bills (see figure 13 below). Although the Nigerian cement companies did not show evidence of having developed productivity and competitiveness in the pre-SAP decades, the introduction of SAPs especially the devaluation of naira affected them adversely. With the devaluation of the naira during the SAPs era, the importation of cement manufacturing equipment and spare parts were made prohibitively expensive. Saminu (2020, Interview 10) confirmed to me that the introduction of the SAPs made it ‘*extremely difficult*’ for cement companies to secure spare parts because ‘*the naira had little value then compared to the US dollar*’.

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<sup>27</sup> BUA (2019)

FIGURE 13 THE VALUE (IN MILLION \$) OF GROSS CEMENT IMPORTS (1995-2018)



Source: Author based on data compiled from Atlas of Complexity

By 1999 when Nigeria returned to democratic rule, capacity utilization in the Nigerian cement industry was less than 40% (Gwom, 2020; Interview 6). Thus, the incoming Obasanjo administration moved in to privatize moribund cement firms in a controversial privatization process (Orokpo and Ejeh, 2014). This was followed by the introduction of the BIP in 2002 which made grant of cement import licences conditional on proving commitment to manufacturing cement locally. Those who already bought privatized cement firms especially Mr Dangote and some cement multinationals such as Lafarge who had some controlling shares in Ewekoro, Sagamu and Ashaka cement companies, swiftly keyed into the policy and became the major cement importers who were rallied and relied upon to develop the capabilities for local cement manufacture. By 2017, cement import was almost completely phased out with local cement production satisfying domestic demand for the first time in Nigeria’s history (see figures 11 and 12 above and the *Daily Post*, 2017).

### 6.5 Drivers of the BIP-led transformation and an assessment of its ‘success’.

There are several factors that can affect the performance of a policy strategy. According to McKay & Grant (1983), an effective industrial policy is characterized by two broad socio-political conditions. These are:

- (i) A widespread acceptance among the elites in a country on the need for government to actively participate in helping industries to adapt to change. This acceptance traverses party lines and also comes from

permanent government officials as well as a substantial portion of other critical stakeholders.

- (ii) The presence of good communication networks between the political/bureaucratic officials and economic players/private investors who also accept the need for government interventions.

As observed by Dauda (1993), in Nigeria industrial policies are coordinated centrally by the federal government and these policies often lack political consensus. At the minimum, these policies might have aimed at, or to an extent even succeeded with, securing some support and acceptance of critical stakeholders from members of ruling coalitions, opposition parties, economic actors, religious, traditional, and ethnic leaders and associations. However, generally, industrial policies in Nigeria are often “*characterized by dissension and group indiscipline*’ (Dauda, *ibid*). But then this begs the question of what might have made the BIP different?

If anything, at the macro-level, one of the factors that appeared to have worked for the BIP was that at the time of its introduction there were some consensus reached among Nigerians (both leaders and private citizens). First, there was a consensus among Nigeria’s military and political elites that power (or the presidency) be shifted to the south which greatly reduced inter-regional, inter-ethnic, and inter-religious tensions among the elites and ordinary citizens. Second, there was a consensus that the economy needed to be diversified to guard against the incessant problems of oil price shocks. These must have made it easier for the Obasanjo ruling coalition to construct consensus around the BIP by rallying political elites and the citizenry around to support the policy and thereby leaving little room for the exploitation or manipulation of ethnic, religious and regional fault lines to which policy losers often resort in order to mount effective protests against new institutions that threaten their interests. However, while the opportunity for ruling elites to be able to easily build broad-based coalitions or consensus around policies is a recipe for success, it could also be problematic as credibility can be undermined when leaders possess excessive power (MacIntyre, 2003; Khan, 2010). Hence, the recommendation was made for delegation of authority to an economic policy team that is empowered to intermediate policy design, implementation, communications, and modifications and or the use of selective lock-in mechanism to punish violators of policy institutions (see Dixit, 1996; Lewis, 2007). Led by the current Director-General of the World Trade Organization (WTO), a strong economic team was assembled by Obasanjo



in 2003 to oversee the effective implementation of the BIP and the management of the general macroeconomy. The hitherto dispersed rents (from imports) in the cement industry were now centralized and regulated with conditions for access encapsulated in the BIP institutions.

The return to democratic rule in 1999 also presented the Nigerian political leadership with a new reality. Since the Buhari-led military coup of December 1983 that toppled the elected government of president Shehu Shagari, the process of power acquisition had always been through the barrel of the gun. However, the new political reality from 1999 onward meant the replacement of bullets with popular votes as means for power acquisition. This implies that for any political coalitions to be (re)elected to office, they have to demonstrate to the electorate what they have to/have offer(ed) in terms of the so-called “dividends of democracy”<sup>28</sup> to justify their (re)election by the electorate. For the Obasanjo ruling coalition, coming as it did at a time of serious economic decline, the bar was set high with such huge expectations by Nigerians for diversification of the economy away from its dependence on oil, creation of jobs and improvement of general living standards. This public pressure could have possibly provided the impetus for the Obasanjo ruling coalition to have cobbled together the BIP policy in 2002—just a year before it contested for re-election. The choice of the cement industry is understandable given that its requirement, adoption and implementation of capabilities, learning and routines are relatively simple compared to other industries; being one of the so-called ‘low hanging fruit’ industry (see Hidalgo *et al.*, 2007; Pinheiro *et al.*, 2018).

The cement industry, as I will discuss shortly, also has huge regulatory rents that can be harnessed within relatively short period of time unlike the textile or iron & steel industries—where rents are market competition-based and therefore difficult and take longer time to harness. Interestingly, it has been argued that, faced with domestic challenges such as economic crisis or political uncertainties, leaders may be compelled to credibly commit to industrial policies for their own political survival (Lewis, 2007; Whitfield *et al.*, 2015).

But the legitimate question could be asked here as to why the opportunities presented during the Obasanjo ruling coalitions were not harnessed for the successful transformation of other industries (e.g., the textile and iron & steel) for which there were also revival policy attempts? As a response to this, it is

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<sup>28</sup> With increased incidence of unemployment and poverty, ordinary Nigerians now talk of and demand the “stomach infrastructure” from political leaders. For more on this, see Stober (2016) and Omilusi (2019)

important to note here that other industry-specific differences, factors or variables—such as the nature of an industry (in terms of the relative simplicity or complexity of the requirement, adoption and implementation of learning, capabilities, and routines intensity and extent of its (inter)mediation by machines) as well as the distribution of power and capabilities among entrepreneurs in particular industries—also come into play. Furthermore, there were allegations of rent-seeking and corruption around the BIP following the crucial conversation between President Obasanjo and Mr Dangote over why Nigeria could not produce cement which led to the formulation and implementation of the BIP in the cement industry. Be that as it may, elements of rents seeking and corruption activities are also said to have characterized the process of industrial development in North and Southeast Asia (see Khan & Jomo, 2000; Kang, 2002). Thus, it is the political organization of rent distribution that determines the extent to which corruption hinders industrial/economic growth (Khan, 1996, 1998; Lewis, 2007).

Regarding McKay & Grant (1983)'s second condition of robust communication channels between state/bureaucratic officials and industrialists, this research established the presence of a good line of communication between relevant state officials/bureaucrats and cement entrepreneurs (especially with the first mover, Mr. Aliko Dangote)<sup>29</sup>—however, I did not find evidence of such high-level communication line between private textile and iron & steel industrialists and political elites/state officials. In fact, it is worth recalling that the BIP came after a direct private conversation between the then President Obasanjo and Mr Aliko Dangote. A respondent (Anonymous, 2020, Interview) confirmed to me that, not only was there a direct line of communication between the president and Dangote, but also the latter had access to customs and other heads of the relevant agencies (e.g., the police, military, and other relevant officials) tasked with the responsibility of enforcing the BIP institutions.

According to Lall (1990) quoted in Ikpeze (1991), given stable macroeconomic conditions and availability of infrastructure, a successful industrial policy is differentiated on the basis of the kinds of incentives it provides, the capabilities of the state and agents pursuing policies as well as the institutions that support policy implementation. On incentives, a successful policy is characterized by its being selective, and based on incentive structures that support export-orientation and internal competition among firms. Export-orientation and internal competition provide incentives for discipline, high

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<sup>29</sup> This was among other sources confirmed by Gwom (2020, Interview 6).

efforts, compulsions and productivity (World Bank, 1993). This facilitates dynamic comparative advantage or long-term investment for which markets may provide no signals or incentives. Subsidies and other supports are thus tied to export target achievements, technology upgrade, adaptation, and innovations. In Nigeria, the BIP and similar policies are import-substituting (rather than export-oriented) and facilitate no internal competition. Though there have, over the years, been several export promotion schemes/incentives such as the Export Credit Guarantee and Insurance Scheme (ECGIS), the Export Grant Scheme (EGS), the Export Expansion Fund (EEF), and the Export Adjustment Scheme Fund (EASF), yet the design of these export incentive programs has failed to reflect and prioritize the important links between the attainment of international competitiveness (by domestic firms at the costs, quality and price levels) and making successful inroads into the global export markets. This makes the heavily protected state-owned cement firms in Nigeria unable to achieve competitiveness and high productivity since the incentive structures are not tailored towards that achievement. On capabilities, firms or entrepreneurs must have the knowledge to select, buy and install the right technology (Lall, 1999, 2004). They also need to possess the organizational capability to organize production at competitive and profitable costs (Khan, 2019). At the national level, apart from physical investment, the presence of human capital and exertion of technological effort are necessary for building capabilities (Lall, 1992). However, human capital is not limited to the skills acquired through formal education, but the tacit knowledge and skills gained from learning by doing (Khan, 2019). Also, institutions, both market and nonmarket, have to exist for a policy strategy to succeed. In addition to rules (e.g., property rights) governing the process of technology acquisition, political and economic organizations such as the customs, the police etc. have to be efficient in the discharge of their duties. These institutions and organizations facilitate firms' operations and their efficiency and although such organizations exist in large number in Nigeria, they fall short on enforcement capabilities. In terms of the structure of its incentives and the institutions guiding its implementation, the BIP is no different from other policies. However, at the firm/industry-level, as it will shortly be made clearer, three factors were decisive and, therefore, appear to have made the difference in favour of cement: (i) the simplicity of the cement learning process, capabilities requirement, and routines' adaptation and regulation largely by machines, (ii) the relatively high financial, investment, managerial, technological and organizational capabilities of the cement entrepreneurs, and (iii) the importance of cement entrepreneurs to ruling

coalitions in terms of contributions to campaign funding using parts of the proceeds from the regulatory rents generated in the cement industry and in exclusive licensed-imports business.

To summarise, in terms of its instruments and structure of incentives, the BIP was no different from other policies. Protectionist policy measures, rebates on imported equipment, fiscal incentives were instruments not exclusive to the BIP. The BIP, like other policies in other industries, was also inward-looking and facilitated no internal competition. However, the credible commitments the BIP enjoyed, and the consensus built around it informed by the need for diversifying the economy all worked in the policy's favour. However, in the final analysis, what appear to have made the difference were the relative simplicity of the cement industry in terms of learning, requirement of basic capabilities, and less intense routines that are largely intermediated by machines/computers. For instance, unlike in the case of Nigeria's textile/garment firms that I visited where different supervisors have to control quality at various production stages and take adaptive (not in the manual) measures for correction, cement quality is automatically controlled literally at the tap of a button. Also, cement entrepreneurs especially Aliko Dangote and Abdussamad Rabi'u have, over the years, accumulated huge financial fortunes, managerial and investment skills and experience (capabilities) in import/export businesses and light manufacturing. These crucial capabilities contributed greatly toward resolving the appropriability problems hitherto affecting the cement industry thereby leading to the success of the BIP in transforming Nigeria's cement industry. Finally, the political networks these entrepreneurs have cultivated with the top echelon of Nigeria's political and military leadership and their financial capability to finance successive ruling coalitions in exchange for favourable policy commitments in their industry/areas of operations also partly explains the cement industry's success story. These appear to have made the difference more than the exclusivity of the BIP design as we shall see by examining the BIP institutions/instruments.

### **6.5.1 The BIP institutions/instruments and success drivers**

The Backward Integration Policy (BIP) was an import-substituting industrialization (ISI) policy introduced in 2002 during the administration of former President Olusegun Obasanjo (1999-2007). Typical of Nigeria's approach to policy making, the BIP as an industrial policy was not contained in a single policy document (Saleko, 2021, Interview 14). Rather, it was the collection of the Obasanjo administration's series of fiscal policy pronouncements on the Nigerian

cement industry that are collectively referred to as the Backward Integration Policy (BIP) by researchers.

In the first instance, as Nigeria's president, Mr Obasanjo once wondered why despite Nigeria's huge reserves of limestone (the main raw material for making cement), the country was heavily reliant on cement import to meet its domestic demand. He, therefore, expressed this concern to a major cement importer at the time, a wealthy and influential business mogul, Mr. Aliko Dangote. Without mincing his words, Dangote told the President that it was more profitable to import and sell cement in Nigeria than to manufacture it locally (Wallis, 2013). Part of the problems as Dangote once explained pertained to the dearth of infrastructure especially lack of stable supply of electricity from the national grid, good road networks, and high price of fossil fuels or alternative sources of energy/power. This is pertinent given that cement-manufacturing is not only a capital- but also an energy-intensive undertaking.

Privatization of moribund state-owned companies which had been started by the military regimes that preceded Obasanjo continued under the new democratic dispensation. Moribund cement companies were privatized with Blue Circles winning the bid for WAPCO Ewekoro. Mr Dangote succeeded with the purchase of majority shares of the Benue Cement Company (BCC) before he later bought the Obajana Cement Company from the Kogi State government in a controversial privatization process (Orokpo & Ejeh, 2014). In 2002, the Obasanjo government made an important policy pronouncement that made the grant of further cement import license conditional upon importers' demonstration of credible commitment to set up firms to manufacture cement locally. As incentives to encourage investors, VAT and custom duties' waivers on imported cement manufacturing equipment were granted and a promise to sell foreign exchange to cement investors at the official rates was also made and fulfilled. Other incentives/instruments of the BIP as shown in the following table 9 included a cumulative 7-year tax holiday (five years in the first instance) for local cement companies.

TABLE 8 THE BIP INSTITUTIONS/INSTRUMENTS

Instruments	Applications
1. Import licenses	The Nigerian cement markets are lucrative. Prior to the BIP, cement importers (local entrepreneurs and multinationals) used to secure licenses to import bulk cement, re-package into 50kg bags and resell at prices higher than obtainable at frontier markets. Award of licenses then was arbitrary, unconditional and subject to the discretion of ruling coalitions. With the BIP, award of import licenses was made conditional on commitment to establish local cement factories. This reduced the number of players.
2. Credit guarantee	The Federal government did not give financial support to the cement investors but served as credit guarantor for them with local banks and the International Financial Organization (IFO) from whom Dangote was able to secure some loans to complete his Obajana plant.
2. VAT and custom duties waivers on import of cement making equipment.	To encourage the establishment of local factories, importers of cement manufacturing equipment were relieved from paying VAT and custom duties.
3. Tax Holiday	The BIP exempt local cement producing companies from paying taxes for a period of 7 years under the Pioneer Tax Scheme.
4. Grant of foreign exchange at official rates	Foreign exchange is granted to cement industrialists at the official rates to subsidize the costs of imported cement making machines and inputs like gypsum that are not available or exploited in Nigeria.
5. Ban on cement imports	As local cement production rose, cement imports was phased out. When capacity began to satisfy local demand, cement import was completely banned. The ban was not difficult to impose because the same local cement producers were the (conditional) importers, and hence when their capacity grew they stopped imports and the government ceased to grant further import licenses.

Source: Compiled by Author<sup>30</sup>.

In a little over a decade, the BIP transformed Nigeria from a country substantially dependent (for over 70%) on imported cements to one self-sufficient in locally produced cement. But developing countries such as Nigeria have been observed to possess imperfect or limited governance capabilities to drive successful Asian-type industrial policies (Khan, 2013a). The bureaucracy in Nigeria is far from being Weberian as its politization over the years has resulted in its being inefficient, corrupt, and incapable of successfully implementing

<sup>30</sup> The institutions and instruments of the BIP are not codified in any single official documents as the Executive Secretary of the Cement Manufacturers Association of Nigeria (CMAN), Mr James Saleko, confirmed to me. Rather, there were irregular press releases that phased out cement imports before it was eventually banned.

industrial policy (Dauda, 1993). Since the return to democracy in 1999, Nigerian governments have pursued industrial policies often geared towards reviving three prominent industries that had been moribund since mid-1980s, that is: cement, textile and iron & steel industries. Effectively, with the return to democracy, Nigeria's political settlement became *competitive clientelist* though the Obasanjo's regime was identified as having some elements of the *dominant party settlement* (Roy, 2017). Yet, under more or less the same political settlement setting, only the BIP implemented in the cement industry emerged successful in terms of replacing cement imports with local productions, creation of employment opportunities and saving foreign exchange that would have otherwise been spent on imports. Textile and iron & steel policies failed to achieve their stated objectives. This prompts the question of how did the outcome of the BIP diverge sharply from those of the textiles and iron and steel industries given the same political settlement? An examination of the BIP institutions depicted in table 9 above reveals that the BIP was not marked by any unique or superior policy design or instruments. What factors then explain the success of the BIP in the cement industry against the backdrop of the failures of similar policies in the textile and iron & steel industries?

Based on the evidence gathered in the course of fieldwork and desk research, and in addition to the importance of the support of the political leadership or the macro-political settlement to the BIP policy design, implementation and performance, three factors were found to have influenced the success of the BIP in transforming the Nigerian cement industry. These factors are: (i) the relative simplicity of the industry's requirement, adoption and implementation of learning, capabilities, and routines (ii) the possession of capabilities (financial, investment, managerial, technological and organizational) by the cement capitalists/entrepreneurs especially the major players: Dangote, the owner of BUA cement, Abdussamad Isyaku Rabiou and Lafarge, and (iii) the importance of these cement entrepreneurs especially Dangote and Abdussamad to ruling coalitions in terms of their contributions to political financing from the regulatory rents that they generate in their businesses. These factors combined to have resulted in the success of the BIP in transforming the Nigerian cement industry.

In contrast, and as it shall soon be proven in subsequent chapters on the textile and iron & steel industries, although the textile and iron & steel industries were also the targets of similar import substitution industrial policies by successive Nigerian ruling coalitions from the period of the Obasanjo-led

dominant party coalition to the transition to fully-fledged competitive clientelist settlement, the outcomes of the policies for these industries have turned out to be abysmal failures. The reasons for this, as the evidence suggest, relate to the fact that: (i) the textile and iron & steel industries are relatively more complex in terms of their requirement, adoption and implementation of learning, capabilities and routines, and (ii) the bulk of the textile and iron & steel entrepreneurs—i.e., mainly the state as the owner of majority shares in the large, integrated textile and iron & steel companies and some well-connected Nigerian personalities from the military, political and traditional institutions who possess controlling shares in the large, integrated but still moribund textile companies—lack the investment and managerial skills (capabilities) to mobilize capital and efficiently organize profitable production using the right technology, and (iii) the few active/successful textile and iron & steel industrialists who possess critical capabilities to drive structural transformation in their respective industries are largely of foreign origin and, clearly, operate in industries where profits/rents come from market competition rather than from the easy regulatory rents created through the discretionary actions/inactions of ruling elites and bureaucrats, as obtained in the cement industry. Hence, it was found that because these few surviving/successful textile and iron & steel industrialists had little to contribute to political financing for building/maintaining ruling coalitions in power, they also had little influence to exert on policy design and enforcement in their respective industries of operations; hence the lack of feasibly pragmatic policy design that aligns with the incentives of all critical stakeholders and effective policy enforcement that results from the alignment of incentives for the transformation of these industries.

We now explain, in some details, the contributions of the macro-political settlement and firm/industry-specific factors that appear to have led to the success of the BIP-led structural transformation of the cement industry.

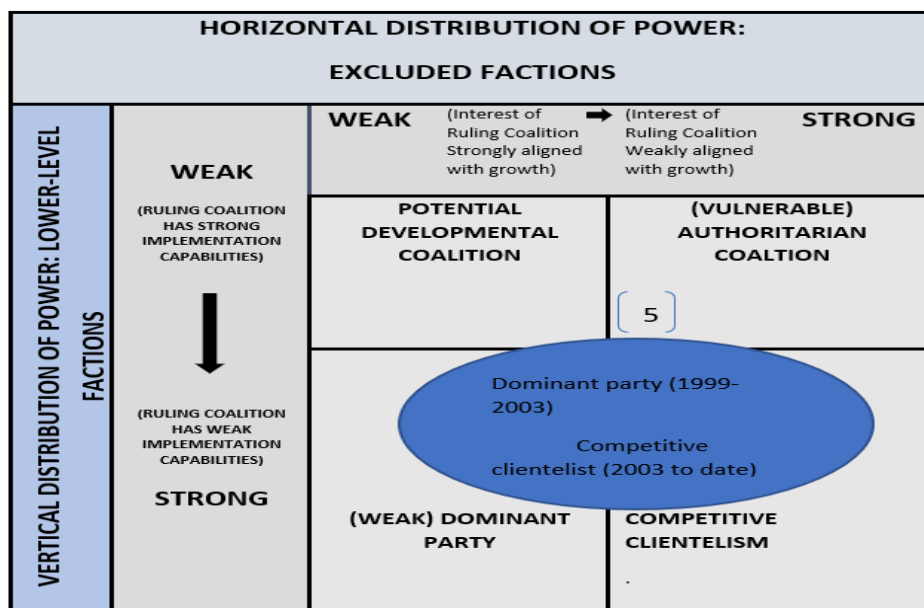
#### Power Configuration, Enforcement Capabilities, Rents Distribution, and the Support of Political Leadership

The political settlement in Nigeria since the return to democracy in 1999 has been, more or less, *competitive clientelist* with the first term of President Obasanjo (1999-2003) seen as, in the main, possessing the features of a *dominant party* coalition with elements of competitive clientelism (see Roy, 2017 and figure 14 below). For, the Obasanjo-led ruling coalition from 1999 to 2003 had very low degree of vulnerability occasioned both by the small number and weak



holding power of excluded factions. This was informed by a consensus reached by powerful army generals led by Gen. IBB (then retired) who resolved that power had to be shifted to the Southwestern, Yoruba region of the country whose presidential candidate, Chief MKO Abiola, was alleged to have won the 1993 presidential elections which the IBB junta annulled before the announcement of the final results<sup>31</sup>. Towards that end, Northern and other politicians in the People’s Democratic Party (PDP) who wanted to contest against Obasanjo in the PDP’s primary elections were all prevailed upon to step down. And taking their cue from the PDP, other political parties also surrendered their platforms to politicians of southern, Yoruba ethnic extraction the most prominent of whom was Chief Olu Falae who contested the general presidential elections against Obasanjo on the platform of the All People’s Party (APP).

FIGURE 14 THE ‘PRODUCTIVE’ DOMINANT PARTY SETTLEMENT DURING THE ADMINISTRATION OF OBASANJO



Source: Author based on Khan (2010)

Given that background and Obasanjo’s eventual victory over Falae, the PDP-led ruling coalition at least from 1999 to 2003 (Obasanjo’s first term) faced no formidable threat from excluded factions as most of the powerful military and civilian patron clientelist organizations including the traditional and religious organizations had been co-opted into the coalition. And with no strong opposition

<sup>31</sup> As the most powerful (retired) army General at the time, Gen. IBB was said to have felt the need to compensate the South for his alleged roles in annulling the ‘victory’ of Chief MKO Abiola by masterminding the enthronement or election of another Southern Yoruba man as president. Other powerful northern army Generals and officers (serving or retired) were also disturbed by unending criticism from the influential southern press over the prolonged period northerners had ruled Nigeria.

coalition available for any potentially disaffected lower-level PDP factional patrons to turn to, the power of these lower-level PDP patron-clientelist factions was, to a considerable extent, checked. Discipline was therefore not difficult to impose as was enforcing industrial policy institutions even with a handful of politically well-connected capitalists around. This might have helped in dispelling investment fears from the minds of potential investors, since with a developmentally-minded ruling coalition possessing enforcement capabilities, appropriability problems hitherto inhibiting investments in the cement industry such as those pertaining to financing, expropriation risks and co-ordination failures were sure to be decisively addressed—and so they were to an appreciable extent. This could have happened under all the political settlement variants that Nigeria went through in as much as the ruling coalition is favourably disposed to such policy, hence whatever box we choose to place the period of Obasanjo's first tenure among Khan (2010)'s four typologies of the clientelist political settlement, the macro-power configuration may not be sole determinant of the performance of a policy. In any case, the support of the Obasanjo ruling coalition to the BIP appeared to have sent compelling signals of incentives to the financial and capital markets which in no time made funds available to investors such as Dangote who, with the federal government's guarantee, borrowed from local banks and the International Financial Organization (IFO) to fund his cement projects (see Ekwueme, 2016). This resolved another critical and deep-seated appropriability problem of financing that had, for decades, constrained the development of the cement industry.

The BIP policy instruments successfully enforced by the Obasanjo ruling coalition were simple and included the grant of import license strictly based on commitment to local cement manufacture, banning of cement imports when local capacity was sufficient to meet domestic demand, and meting out severe punishment to violators of the BIP institutions such as Mr Cletus Ibeto whose ordeals for violating the BIP we will recount shortly to demonstrate the credible commitment of the Obasanjo ruling coalition to enforcing the BIP institutions.

As indicated above, though the BIP institutions/instruments (as depicted in table 9) could have, in any case, been enforced under any of the political settlement variants that Nigeria went through, the occurrence of an incident during the Obasanjo administration appeared to have especially incentivized the ruling coalition and firmed up its commitment towards the enforcement of the BIP institutions. This event relates to the feud between then President Obasanjo and his vice, Alhaji Atiku Abubakar, who was the main financier of the ruling

PDP (El-Rufai, 2013). Hence, it was no coincidence that most of the institutions of the BIP were hastily introduced in 2002 at a time when the feud between Obasanjo and Atiku got intense in the build up to the 2003 elections in which Obasanjo had sought for re-election. Atiku was effectively ‘the People’s Democratic Party (PDP)’s money man’ expected to fund Mr Obasanjo’s re-election (Fawehinmi, 2017). However, because of political feud between the president and his vice, the former became unsure about the commitment of the latter to his re-election bid and hence the need for a fallback option that will finance Obasanjo’s re-election campaign was seriously considered (El-Rufai, 2013).

That fallback option, according to Obasanjo’s former minister of Federal Capital Territory (FCT) Abuja, Mr. Nasir A. El-Rufai, was to be found in Mr Aliko Dangote.

*“Obasanjo had to resort to raising money from other sources and that was how Aliko Dangote came into prominence in the government.”<sup>32</sup>*

A US Embassy report leaked by the Wikileaks (2005) corroborated El-Rufai’s assertions and added that:

*“Dangote purportedly contributed 200 million naira (about \$1.5 million at the time) to Obasanjo’s first term election campaign, and in 2003 at least another 1 billion naira (about USD 7.5million) for the second term. Dangote is a known contributor to the PDP party.”*

Hence, the report concluded:

*‘It is no coincidence that many products on Nigeria’s import ban lists are items in which Dangote has major interests’<sup>33</sup>*

Thus, with Nigeria’s political settlement past gravitating towards full-fledged competitive clientelism in 2003 especially with internal contestations within the PDP becoming fiercer and excluded factions becoming increasingly formidable, the Obasanjo government, more than in 1999, needed a lot of money to execute its re-election campaign. The observation has been made that in developing countries there are no sufficient income-generating formal organizations to bankroll political parties in exchange for favourable policy climate, hence ruling coalitions in developing countries often resort to creating rents for capitalists who use a part thereof to fund (re)elections campaigns in these countries (Khan, 2010).

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<sup>32</sup> El-Rufai (2013, p.170)

<sup>33</sup> See Wikileaks (2005)

Adapting the *rents space* concept developed by Pritchett, Sen and Werker (2018), it can be shown that the structure of opportunities and incentives differs among the cement, textile and iron & steel industries. These differences importantly pertain to the sources of profitability or rents in individual industries which have important implications on the kind of political influence or holding power capitalists/entrepreneurs in particular industries possess to influence the design and enforcement of policy, and whether the ruling coalitions have incentives to work with capitalists/entrepreneurs in ensuring the effective enforcement of policy institutions for successful structural transformation or not. Among other things, the nature of rents in an industry is said to determine the propensity of a ruling coalition to support an industrial policy or not (Whitfield *et al.* 2015). In the rents space reviewed in section 4.2, the private sector is analysed along two dimensions: (i) the type of market (export or domestic) that private entrepreneurs in a developing country target, and (ii) the sources of profitability (i.e., whether rents come from state regulation or market competition) in a particular industry (see table 10).

TABLE 9 THE RENTS SPACE: NIGERIAN CEMENT ENTREPRENEURS AS POWERBROKERS

	Regulatory rents	Market competition
Export-oriented	<i>Rentiers</i>	<i>Magicians</i>
Domestic market	<i>Powerbrokers</i>	<i>Workhorses</i>

Source: Pritchett, Sen & Werker (2018)

In developing countries, businesses are observed to target either the domestic market or export market, but seldom do they target both (Musacchio & Werker, 2016). In Nigeria, industrial policies have been patterned along the lines of import-substituting industrialization strategy and hence, industries are almost always geared towards serving the domestic markets. Hence, for our purposes here, we are concerned only with firms/entrepreneurs that target the domestic markets (i.e., *powerbrokers* and *workhorses*) as opposed to those that target the export markets (i.e., *rentiers* and *magicians*). Domestic-market-oriented firms in developing countries that generate profits (rents) through discretionary rents created in an industry by politicians and bureaucrats are referred to as *powerbrokers*. This category of firms/entrepreneurs operate in industries where government can, through its actions or inactions, create rents by constraining domestic market for and or allowing entrepreneurs to charge prices that are higher than their costs of imports or production. The accrued rents from these

arrangements are shared through informal arrangements among politicians and bureaucrats. Based on available evidence, the Nigerian cement entrepreneurs can be considered as *powerbrokers*. The second category of firms/entrepreneurs in developing countries are those that target domestic market but generate their profits through market competition with other firms. These are referred to as *workhorses*. Firms under this category have to work hard to earn their profits through costs minimization (and hence reduced prices for their products), attainment of higher productivity and quality as well as through other competitive advantages. Based on available evidence, the Nigerian textile and iron & steel industries/entrepreneurs can effectively be considered as *workhorses*.

By way of emphasis, the Nigerian cement industrialists are *powerbrokers*, for the bulk of the profits/rents made by these entrepreneurs comes from regulatory/discretionary rents created by governments. In fact, even before the introduction of the BIP in 2002, cement import licenses were awarded only to politically influential businessmen because of the lucrative rents involved in the business. Cement importers used to import bulk cement, repackage same into 50kg bags and resell at exorbitant prices (see figure 17 in section 6.6.2 for a comparison of cement prices in Nigeria and eight other comparator countries). Hence, political patrons in Nigeria had been in the business of lobbying political leaders to secure cement import license for themselves or their clients to secure rents which served as *quid pro quo* for the support they had given in enthroning or maintaining a ruling coalition in power. In fact, even with the introduction of the BIP, the use of discretionary powers in the cement industry by political leaders and bureaucrats had continued; for the first indigenous entrepreneur to have bought some privatized cement factories and aggressively moved in to invest in the industry was Mr Aliko Dangote. Dangote is a politically well-connected business mogul and an alleged financier of the PDP (Wikileaks, 2005), and according to a source, even that of the currently ruling All Progressives Congress (APC) party of President Muhammadu Buhari (Oluwasanjo, 2020).

Through market protection that has remained to this day for almost two decades after the introduction of the BIP, successive ruling coalitions have continued to create rents through their actions and inactions for cement industrialists (see table 11 below). Therefore, because the sources of the Nigerian cement companies' profits/rents come from discretionary/regulatory rents created by the government and shared among entrepreneurs, politicians and bureaucrats, and the fact that cement companies do not compete in terms of prices and quality, it is no wonder that the BIP industrial policy succeeded while policies aimed at

transforming textile and iron & steel industries failed woefully. In both textile and iron & steel industries, the bulk of the rents or sources of profits come from market competition with both domestic and foreign firms. This means that while a cement company in Nigeria does not have to out-compete either domestic or foreign firms to break even due to the existence of cheap regulatory rents from protection, textile and iron & steel firms will necessarily have to do so since the bulk of their rents comes from market competition as there are very limited, if any, regulatory rents that can be created through the discretionary actions/inactions of governments and bureaucrats in these industries. The prices of most inputs for the textile and iron and steel industries are globally traded, hence these firms will have to produce at the global minimum costs and quality thresholds to be competitive. In other words, there are costs, quality, prices and productivity gaps to be bridged before profitable production of textile and iron & steel materials begins in a competitive market setting.

Therefore, informal rents arrangements between the Obasanjo and successive ruling coalitions and cement entrepreneurs especially Aliko Dangote and later Abdussamad Rabiou might have provided the incentives for the aggressive and successful enforcement of the institutions of the BIP as has been corroborated by credible sources (Wikileaks, 2005; Allison, 2014; Anonymous, 2020, Interview 5). There, indeed, were several discretionary rents in the Nigerian cement industry that could be created through the actions and inactions of governments (see table 11). In fact, rents were easier for ruling elites to create and benefit from in the short-term in the cement industry than in the textile and iron & steel industries with relatively more complex learning, capabilities and routines requirement and intensity. For, of our three case-study industries, the cement is the one that requires the simplest capabilities, has the easiest learning process and less intense routines largely managed automatically (via machine intermediation) to start profitable production especially behind a wall of heavy protection.

TABLE 10 DISCRETIONARY RENTS IN THE NIGERIAN CEMENT INDUSTRY

Discretionary Rents in the Nigerian Cement Industry		
	<i>Rents due to government action</i>	<i>Rents due to government inaction</i>
1	Issuance of cement import licenses	Allowing a cement monopoly or oligopoly market which charges prices above marginal cost to form

2	Allocation of limestone mining rights licenses	Non-application of anti-trust laws
3	Award of tax incentives	Non liberalization of the cement market.
4	Market exclusivity	Not taxing cement companies appropriately

Source: Author's

For the Obasanjo government, apart from the rents in the cement industry and the ease with which it can be created and harnessed through regulations in the short-term with protection and reduced players in the industry, there was also political capital to be made when Nigeria is transformed from a net cement importer to a self-sufficient producer. The return to democratic rule in 1999 had greatly raised the hopes of Nigerians who had placed high expectations on elected leaders to create employments by diversifying the economy through the revival of moribund industries to which Nigerians had long-lasting nationalistic and emotional attachment. However, perhaps having realized the enormity of the challenges involved in reviving the textiles and or iron & steel industries within a short period, given their relative complexity, Obasanjo decided to settle for cement whose structural issues/weaknesses could obviously be sorted more easily and quickly with tangible results delivered for all to see and appreciate.

The case of Mr Clestus Ibeto illustrated the commitments of the Obasanjo ruling coalition to the enforcement of the institutions of the BIP. Like Dangote, Mr Ibeto was also one of the major cement importers in Nigeria before the introduction of the BIP in 2002. As stated earlier, the introduction of the BIP made further grant of tentative cement import license conditional upon demonstration of commitment by importers to manufacture cement locally. Yet, without any concrete evidence of such commitments to show, Mr. Ibeto appeared to have used his networks within the Obasanjo ruling coalition to secure a 10-year license to import unlimited amount of bulk cement into Nigeria. This was however a clear violation of the institution of the BIP since Ibeto did not have a single cement factory at the time as proof of commitment to local cement manufacture, and hence the Obasanjo government, acting upon a petition by Lafarge and Dangote, swiftly moved in to seal off Ibeto's Port Harcourt cement bagging warehouses in November 2005. Initially, Ibeto thought this was a minor communication gap that would soon be sorted out upon his reaching out to government officials, but this was not so, as the Obasanjo government locked up his warehouses till it handed over power to the new YarAdua administration in 2007. All entreaties by Mr Ibeto including an appeal to Obasanjo's 'Christian

heart' fell on deaf ears, and Ibeto had to pay the price before YarAdua came to unseal his warehouses and even granted him some VAT waivers to compensate for his losses. The sanctioning of a well-connected business mogul of Ibeto's calibre for violating the provisions of a policy in Nigeria was very rare and hence this must have served as a potent deterrence to potential violators of the institutions of the BIP. The message must have been sent that "this time around the government means business and no one, no matter how well-connected can wilfully violate the BIP and go scot-free." (Anonymous, 2021c).

While there is no doubt that the support and credible commitment of the Obasanjo ruling coalitions had contributed greatly to the effective enforcement of the institutions of the BIP, the potentially easy rents to be accrued in the cement industry and the need for that to maintain the ruling coalition in power beyond 2003 especially after the President had fallen out with the PDP's 'money man', his vice, Atiku Abubakar, provided the incentives for the successful implementation of the BIP given the imperfect governance structure occasioned by lack of bureaucratic 'pockets of efficiency'. The genuine support the BIP enjoyed at the highest political leadership especially from Obasanjo himself was critical for the successful implementation of the BIP policy institutions. The observation has been made that the support of the highest political leadership in a country to the transformation of a particular sector or industry matters more than 'a general policy commitment to industrialization' (Khan, 2013a). This kind of credible leadership support to a particular policy project was instrumental in the success of the textile industry in Thailand (Doner & Ramsay, 2000), the automobile and textile industries in India and Bangladesh respectively (Khan, 2013a).

However, under the same Obasanjo-led dominant party coalition and the competitive clientelist political settlement that followed it, all three industries (cement, textile and iron & steel) could be said to have had some kind of industrial policies designed for their transformations, and enjoyed at least the nominal support of the political leadership even if the incentives and motivations for such support might have varied based on how easily and quickly rents could be harnessed and other considerations. Hence, divergences in policy outcomes cannot be exclusively understood within the contours of power and capability configurations in the macro-political settlement or the support of the political leadership *per se*. Hence, the evidence pertaining to industry-specific factors and actors is comprehensively examined below.



## The Nature of the Cement Industry: Capital-intensive with Simple/Basic Capabilities Requirements, Easy Learning Process and Less Intense, Largely Mechanized Routines

The cement industry is a capital-intensive industry with large sunk costs (Boyer & Ponsard, 2013). The production process involves ‘several large units of capital equipment’ and hence it has both labour and scale economies (Norman, 1979). The cement product has a simple manufacturing process (Rodrigues & Joekes, 2011). Cement production is highly labour-saving. In fact, being a standardized product, cement requires mainly the manipulation of mechanical equipment/processes by a few skilled workers to produce output at the globally established standards (Ugoh, 1977).

Lall (2000b) categorizes products into two major groups by technology. The first group is *primary products* (namely, crude petroleum, gas, meat, fresh fruit, rice, cocoa, tea, coffee, wood, and coal). The second group is that of *manufactured products* which are further sub-divided into four sub-groups, namely, resource-based manufactures (RB), low-technology manufactures (LT), medium-technology manufactures (MT) and high-technology manufactures (HT).

Cement product fell under the resource-based (RB) manufactures. According to Lall (ibid), products in this category generally ‘tend to be simple and labour intensive’ in their production processes though some segments (for example, petroleum refining and or modern processed foods) use capital, scale- and skill-intensive technologies. Also, competitive advantage in the production of resource-based manufactures like cement products generally comes from natural resource availability of the main raw material, hence, Lall (ibid) concludes that not many or serious competitiveness and productivity issues are encountered in the production/sales of the cement and other products in this category. Thus, the productivity gap even for new starters is naturally low. Also, this category of industry have low intensity of research and development (R&D)—measured by the amount spent on R&D as a proportion of total value of output. On this measure, the cement industry has an R&D intensity of 0.4% compared to textile and iron & steel industries with 0.5% and 1.2% respectively (OECD, 1988; Carroll *et al.*, 2000).

Cement products are standardized and require no further innovations. Hence, while the cement and textile industries have less than 26% innovation rate, the iron & steel industry for instance has 31% (Carroll *et al.*, 2000). Cement

manufacturing simple/basic organizational capabilities compared to other industries like textiles and iron and steel industries. Lall (1992) categorizes capabilities into simple/basic routine, adaptive duplicative, and innovative in ascending order of sophistication of capabilities. Using this criteria, the cement industry can be placed under simple or basic routine category of capabilities requirements. The capabilities for cement manufacture are very easy to adapt and master once the capital equipment are installed and the skilled personnel are employed (Gwom, 2020, Interview 6).

In fact, during my visit to Dangote's biggest cement factory at Obajana, I observed that the cement production processes—right from the point of conveying mined limestone on conveyor belt to the application of additives, controlling quality, and producing the finished output— were almost entirely mechanized. Skilled operators mainly received and responded to automatic signals and acted accordingly. The host of low-, semi-skilled and management workers (of over 70% of the total staff) were mainly engaged in cleaning, truck-driving, sales, administrative and other activities not directly linked to cement manufacturing. With the mechanization/computerization of activities such as quality control, there was little need for a host of supervisors required in the textile companies to control quality at successive production stages. Since, these host of supervisors that would have otherwise been employed to control quality in the cement industry (were it not for machine intermediation) would have required not only the codified knowledge embedded in manuals but also tacit on-the-job skills (capabilities) to take flexible and adaptive (not in the manual) actions to make corrections, it follows that the cement industry requires less human/organization capabilities, learning and routines compared to the textile/garments industry. In fact, as the case of the textile and garment industry in Bangladesh demonstrates, learning how to set up the organization and provide the right incentives to the right people require a lot of learning by doing (Khan, 2011a, 2012, 2019).

Not only that, the speed of human operation at the cement industry was regulated by machinery rather than by within-factory monitoring and response incentives. This, to a large extent, addresses the Olsonian collective action problem<sup>34</sup> in the cement industry by making it harder for cement workers to free ride on effort. In contrast, textiles and to a lesser extent steel manufacturing require much greater supervisor-led coordination of labour inputs on production

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<sup>34</sup> See Olson (1965) for details.

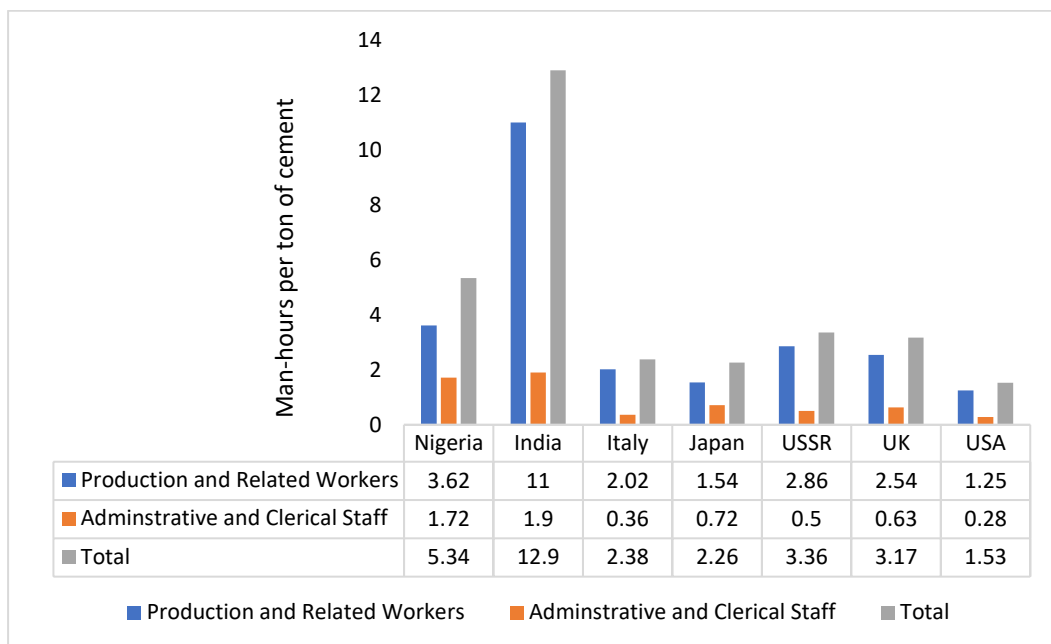
lines and coordination of production lines to prevent slowdowns and stoppages. Some workers on some production lines not operating optimally can slow down other lines and it certainly require organizational skills to identify and address the problem. This adds to the complexity of requirement, adoption and implementation of learning, capabilities and routines in the textile and iron & steel industries. My visit to textile/garments and steel companies in Lagos, Kano, Kogi, and Kaduna confirm this. In particular, at the state-owned Ajaokuta steel company (ASCL) (see pictures in Chapter 8), I observed that dozens of interdependent departments/sections were scattered across the 59,000-acre vast company. Intuitively, when ASCL starts production, harmoniously efficient coordination of workers and production lines across these host of departments would require a lot of organizational capabilities that must be learnt through trial and error. This certainly was not the case in the largely machines-regulated routines at the Obajana cement factory I visited.

At Obajana, I also confirmed that the most commonly produced/used cement product, Portland cement, is standardized and almost undifferentiated; there are basically three grades of Portland cement (33,43 and 53) differentiated merely based on the minimum 28<sup>th</sup> day compressive strength. This means that the industry does not require the kind of dynamic capabilities needed in the textile and steel industries for the production of textile/steel products with constantly changing specifications. For instance, textile materials differ based on texture, lustre, washability, permeability and durability, and imputing any of these qualities to a piece of fabric does not only involve the mechanical process but also the tacit knowledge, skills and capabilities of the textile machine operators. These operators have to learn these capabilities on the job over a period of time and at some costs. And even if textile/steel firms possess the resources to finance the learning of these tacit capabilities by their workers, monitoring the learning efforts put in by workers is a difficult task without providing the right incentives to the right people. Thus, with the standardization of the cement product and the substantial mechanization of its production processes (routines), the complexity of the requirement, adoption and implementation of a lot of human/organizational and other capabilities have, to a large extent, been minimized/simplified. This is especially so when compared with the textile/garment, and iron & steel industries.

Moreover, there are other industry-based differences/factors, some of which are historical/path-dependent (e.g., the extent of previous productivity development in the defunct cement, textile and steel industries) or pertain to the idiosyncrasies of individual industries, that appear to have contributed to the

success of the cement industrial policy and the failures of the textile and iron & steel development policies in Nigeria. For instance, as can be discerned from the previous paragraphs, the cement industry does not appear to be susceptible to substantial labour productivity challenges especially given its very high capital-labour ratio, however, it is crucial to note that even at that the productivity gap in the Nigerian cement industry prior to privatization and the recent structural transformation had been quite narrow when compared with some comparator countries (see figure 15 below).

FIGURE 15 FIGURE: AVERAGE LABOUR PRODUCTIVITY IN SELECTED COUNTRIES



Source: Author based on data from Ugoh (1977)

There are several ways of measuring the productivity of cement workers in an industry and one of these is through the computation of the average man-hours spent in the production of a ton of cement. Based on this criterion, I used data sourced from Ugoh (1977) to plot the chart in figure 14 above<sup>35</sup>. From figure 17, it can be seen that cement “Production and Related workers” in Nigeria expended, on average, 3.62 hours to produce 1 ton of cement. Compared to cement workers in India who had to spend 11 hour to produce a ton of cement, Ugoh (1977) found that the Nigerian cement workers were over three times more productive than the Indian cement workers (see figure 14 and Ugoh, 1977). However, compared to other comparator countries especially the USA, the productivity of Nigerian

<sup>35</sup> Calculating the number of cement workers (production and administrative) in cement factories in Nigeria and some comparator countries and the ton of cement produced by these workers, Ugoh (1977) found the productivity of the Nigerian cement workers to be higher than some comparator countries. I summarised his findings in figure 15 above.

cement workers trailed far behind. While these productivity disparities could be attributable to differences in the age/sophistication of cement manufacturing equipment among the comparator countries as Ugoh (1977) rightly suggested, it is interesting to note that Kilby (1969) too made similar observations. Based on his survey of the Nigerian (Ewekoro Cement Plc) and the UK APCM cement factory branches, Kiby (ibid) observed that with four workers operating four filter presses in each factory, the productivity of the Nigerian operators “was exactly equal to, and sometimes better than that of their U.K. counterparts”<sup>36</sup> even though the Nigerian operators were illiterate and trained just for three weeks. Thus, suffice it here to state that labour productivity was/is not as much an issue of serious concern in the cement industry, as it possibly was/is in the textile and iron and steel industries. Hence, with little to no labour productivity development gap to attain in the Nigerian cement industry, the success of the BIP cement industrial policy against the failures of policies for the textile and iron & steel industries—where labour productivity is a very important variable—should not be a surprise.

Moreover, establishing a cement industry through industrial policies is relatively easier. It requires less stringent administrative and bureaucratic capabilities from the state—for instance, cement smuggling is easier to monitor/detect by customs officials because it is a heavy product that cannot be easily concealed. The supply of the main cement raw material (limestone) and the demand for the finished product are ubiquitous, in addition to cement’s weight to value ratio being so high as to make transport costs prohibitively high thereby giving local firms a ‘natural’ protection (Lall, 1987b). However, missing public inputs such as transport and electricity infrastructure may add to the costs of cement production and hence prices (Gwom, 2020; Interview 6)<sup>37</sup>. However, where cement markets are protected (as in Nigeria), huge rents can be reaped by charging above-equilibrium prices (because cements are not easily substitutable) to offset increased costs resulting from missing public inputs. Further, the cement value chains from the upstream (limestone mining and grinding) to the mid-stream (limestone burning) and the downstream (grinding of clinkers into end-user finer cement powder) are not complex and hence easy to coordinate compared to other industries such as textiles where there are several separate independent sub-sectors (cotton farming, ginning, weaving/knitting, fabric formation and garment making) with each sub-sector or segment in the value

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<sup>36</sup> See Kilby (1969, p.221)

<sup>37</sup> The industry is also energy intensive.

chain having its peculiar systemic complexities and capabilities challenges that often spill over one another.

With the cement industry's requirement, adoption and implementation of learning, capabilities and routines being relatively simple, the manufacturing process being largely mechanized, labour productivity challenges being insignificant, the final product being standardized and requiring no further innovation, the demand for cement being huge/increasing, and the returns on investment being lucrative due to scale economies, the cement industry is well-suited for developing countries' entrepreneurs or *powerbrokers*. According to Pritchett, Sen & Werker (2018), these powerbrokers prefer to target industries with these features, especially where politicians and bureaucrats have discretionary power to help powerbrokers in the creation of huge regulatory rents in the short- to medium-term. These rents are shared informally among the powerbrokers, bureaucrats and ruling elites. It has been argued elsewhere that because of their relatively recent evolution, entrepreneurs in developing countries do not possess the complex/innovative technological know-how or capabilities to organize profitable production in heavy technology or knowledge-intensive industries (Szirmai, Naudé & Goedhuys, 2010). These make them settle for industries whose complexity of requirement, adoption and implementation of learning, capabilities and routines are relatively low/simple. Also, in developing countries such as Nigeria where existing capabilities come from the processing/extraction of agricultural commodities/natural resources, the process of industrialization is predicted to progress in industries that require capabilities not too dissimilar from existing ones (Hidalgo *et al.*, 2007). Hence, being a resource-based manufacture (Lall, 2000b), the cement industry is bound to respond more positively to policy because existing capabilities in Nigeria can more easily be assembled to address the industry's challenges. In fact, in my visit to Dangote's Obajana cement factory, I was informed that though the factory started production with the technical support of around 50 expatriates from China, India and Pakistan, soon Nigerian engineers were able to learn/adapt to doing almost all of the tasks involved in the manufacturing process (Gwom, 2020, Interview 6).

### The Financial, Investment, Managerial and Organizational Capabilities of Cement Entrepreneurs.

The capabilities of entrepreneurs to organize production efficiently contribute greatly to the performance of industrial policies (Khan, 2010). The

success of the BIP could therefore be positively influenced by the capabilities of the cement industrialists (especially the three major players, Dangote, Abdussamad and Lafarge). The list of capabilities that entrepreneurs can possess which can have positive impact on their ability to successfully drive industrial policy can hardly be exhausted, hence, we limit ourselves here to four very important ones. These capabilities include having: (a) easy access to finance (financial capability) for investment especially in capital intensive industries; (b) the skills required for identifying opportunities, preparing feasibilities, buying the right technology from the right producer, identifying the best site, (out)sourcing the staff etc (investment capabilities)<sup>38</sup>; (c) the ability to combine and effectively control physical and human resources in “systematic and cohesive ways” for maximum economic value (managerial capability)<sup>39</sup>; and (d) the ability of the organization to efficiently, harmoniously and productively carry out collective activities (organizational capability). Scrutinizing the cement entrepreneurs in Nigeria very closely revealed that they indeed possessed these (and more) capabilities to drive successful industrial policy in the cement industry. For instance, as demonstrated in the ensuing paragraphs, these entrepreneurs were able to mobilize the huge capital required for investments in the industry, and to deploy their other capabilities which they had garnered over the years in their import/export businesses and light manufacturing to organize profitable local cement production. Thus, in what follows, the profiles of such prominent industry players as Lafarge, Aliko Dangote and Abdussamad Rabiou are reviewed to highlight the important capabilities which they had brought to bear on the transformation of the cement industry through the BIP.

Founded by Joseph-Auguste Pavin de Lafarge in 1833, the Lafarge Cement Company Plc has a net worth of \$27.52billion as of September 2022 (Macrotrends, 2022). For almost two centuries, the company has been in the business of manufacturing and selling cement across the world. Thus, with this long experience and accumulated financial, investment, managerial and organizational capabilities across the cement production value chains, Lafarge was no doubt capable of leading the transformation of the Nigerian cement industry, although its being a foreign firm appear to have limited the scope of its participation in the industry. Local cement entrepreneurs such as Aliko Dangote and Abdussamad Isyaku Rabiou appear to have had an edge (over Lafarge Plc) in understanding local political dynamics better. As a blue-chip multinational

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<sup>38</sup> See Lall (1992)

<sup>39</sup> Whitley (1989)

company, the capability of Lafarge to potentially drive the success of BIP in the industry is beyond doubt, hence, in the following paragraphs I concentrate on examining the capabilities of the other two major indigenous players in the industry, i.e., Aliko Dangote, and Abdussamad Isyaku Rabi (the owner of BUA Cement Plc) who, since 2010, is increasingly asserting himself in the industry.

As the first-mover private investor in the Nigerian cement industry, Dangote consolidated his position as a major player in the Nigerian cement market with the introduction of the BIP. To what extent then has Dangote's financial, investment, managerial and organizational capabilities contributed to the success of the BIP?



PHOTO 1: AUTHOR (IN PROTECTIVE HELMET) INTERVIEWING MR SULEMAN SHEHU, DEPUTY GENERAL MANAGER (PACKAGING DEPT.), DANGOTE CEMENT COMPANY, OBAJANA



PHOTO 2: AUTHOR IN FRONT OF THE ADMINISTRATIVE BLOCK OF DANGOTE CEMENT PLC, OBAJANA, KOGI STATE

Aliko Dangote comes from the wealthy Kano-based Dantata family of commodity traders whose great grand parents made their fortunes since the time of the precolonial trans-Saharan trade. With colonization, the family concentrated in cash crops transactions dealing mostly in ground nuts, cotton and animal hides and skin, and made huge fortunes therefrom (Ademola & Neal, 2013). Dangote's foray into business started in 1977 after he completed a business degree from the Al-Azhar University in Cairo, Egypt. With a loan of N500,000 (then \$325,000) he secured from his uncle, Dangote started to import sugar, flour, pasta, salt, cereals, textiles and cement into Nigeria (Allison, 2014). As his import business



expanded, Dangote later ventured into light manufacturing or processing of such commodities as sugar, pasta, tomato paste, and cement<sup>40</sup>.

### *Abdussamad Isyaka Rabi*

Like Dangote, Mr Abdussamad Isyaku Rabi, the owner of BUA Cement Plc also came from the northern city of Kano. The son of a famous commodity trader late Sheikh Isyaka Rabi, Abdussamad's first stint with business was in 1983 when, fresh from finishing his first economics degree from the Capital University, Ohio, USA, he stood in to supervise the business of his father who was then arrested and detained by the Buhari military junta in 1983 over allegations of non-payment of custom duties on a cargo of rice he imported. Later in 1988, Abdussamad established his own company BUA International Limited, a company that dealt in the import and trade of commodities such as rice, edible oil, flour, sugar, cement, and iron & steel materials.

Before diversifying into cement production, Abdussamad had in April 2005 incorporated his sugar refining company where locally sourced and imported raw sugar materials are refined into edible sugar. The company is ultra-modern and has a capacity of 2000 metric tonne per day. In 2005, Abdussamad also set up two mills in Kano and Logos to process wheat into flour in addition to a company established to produce edible oil through his BUA Oils subsidiary headquartered in Lagos. Abdussamad's foray into cement manufacturing started with his acquisition of the Damnaz Cement Company Plc in 2010 which enabled him to own the majority share of the Cement Company of Northern Nigeria (CCNN). In 2015, BUA's greenfield cement companies in Obu and Okpella, Edo state, were commissioned. Further expansion led to the addition of extra production lines at Okpella and Kalambaina plants in Sokoto. In 2019, the merger of the CCNN Plc and Obu Cement Company Plc resulted in the emergence of the BUA Cement Plc which was listed on the Nigerian Stock Exchange in 2020 thereby becoming the third largest company by market capitalization (BUA, 2020). Thus, the point can be made that although Abdussamad joined in the cement market later on from 2010, yet it is clear that like Dangote he had also accumulated capabilities in light manufacturing and cement import business.

Moreover, being a rich business mogul, Abdussamad appeared to have had access to capital which was essential for investment in the capital-intensive cement industry. Hence, unlike in the textile and iron and steel industries—where government have had to make direct capital injections through both credit

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<sup>40</sup> See Wealth (2020) for details of Dangote's biography.

subsidies (textiles) and direct financial investments (in Ajaokuta Steel Company and state-owned textile companies)—in the cement industry, at least after privatization, the entrepreneurs were the ones who sourced their own capital. This, as it were, inculcated discipline and ensured the exertion of high effort for learning and alignment of appropriate incentives by the entrepreneurs knowing that they have invested millions of dollars in the cement projects.

In essence, the three major cement companies in Nigeria (Lafarge, Dangote and BUA) made indispensable contributions to the transformation of the Nigerian cement industry mainly through their possession of certain critical capabilities required for structural transformation. What are these specific capabilities? I review the evidence on this in some details below.

(i) *Mobilization of capital for investment*

Cement manufacturing is a capital-intensive venture because huge sunk costs for the purchase and installation of expensive cement making equipment are involved. The Nigerian entrepreneurs in the 1950s did not possess the capital required for these kinds of capital-intensive investments, hence the decision of regional governments to partner with foreign capital to pioneer the establishment of the first-generation cement companies. However, statist inefficiencies in the management of these pioneer firms did not allow for capacity expansion and technology upgrade thereby leading to the eventual collapse and privatization of these companies in the late 1990s. Dangote succeeded with the purchase of Benue and Obajana cement companies. As a famous businessman, Dangote had access to lots of capital sources to borrow and invest in the revival of the moribund Nigerian cement industry. With the size of his business empire, local banks were said to have been running after Dangote to persuade him to collect loans instead of the other way round (Ekwueme, 2016). Not only that, having known him as a productive businessman, the Obasanjo government was said to have provided some guarantor services to Dangote which enabled him to raise a credit facility worth US\$3billion at 4.5% interest rates from the International Financial Organization (IFO) (Ekwueme, 2016). Traditionally, families have served as sources of finance for many businesses, and having come from a wealthy business family, Dangote had another source of finance open to him. Whether at individual or national level, the importance of capital to economic development has long been recognized and discussed by economists (e.g., Harrod, 1939; Domar, 1946; Lewis, 1954; McKinnon, 1973).

(ii) *Activation of political influence to facilitate effective enforcement of the BIP institutions:*

Political influence of capitalists in a country is a double-edged sword. If influential capitalists are productive, they can use their political networks to influence government to provide the supports necessary for private enterprise to thrive (Khan, 2010; Whitfield *et al.*, 2015). If, However, influential capitalists are predatory and merely interested in primitive accumulation or easy rents capture, they may abuse their power to distort or block policy institutions that threaten their private interests (Khan, 2010). On the business scene for several decades and rising to become the richest African in the world, Dangote had interacted with many influential politicians and government officials in Nigeria and beyond. Hence, Dangote's political influence in the successful implementation of the BIP institutions cannot be ruled out. In fact, the Wikileaks report we quoted above asserted that Dangote was part of '*Obasanjo's inner circle of business advisors*'. Having invested millions of dollars in the Nigerian cement industry then, Dangote at least at the implementation stage of the BIP had more incentives to use his influence to ensure that the enforcement of the BIP institutions than do otherwise. In fact, a source (Shehu, 2020, Interview 11) confirmed to me the influence of Dangote was brought to bear on the implementation of the BIP.

*"You know oga [boss] sunk in a lot of capital in Obajana and Benue cement. Therefore, you cannot expect him to sit idly by seeing other people violate the BIP by importing cement without showing any concrete proof of local production. So, oga kept his ear to the ground and was in constant touch with the custom boss and government officials to ensure compliance with BIP guidelines."*

Like in Nigeria, domestic capitalists in Columbia especially decedents of European immigrants had used their political networks to influence state policy for the development of enterprises (Khan & Blankenburg, 2009). In East Asia, especially in Japan and Korea, lack of political exposure of the capitalists was made up by developmental states that were ready to support the highly capable local entrepreneurs (Khan, 2010).

(iii) *Deploying investment, managerial, technological and organizational capabilities for profitable cement production:*

Even before the introduction of the Backward integration in 2002, Dangote and Abdussamad were astute business moguls engaged not only in import/export businesses but also in the processing/manufacturing of such commodities as sugar, flour, pasta and noodles. Participation in these light manufacturing

activities for decades must have availed Dangote and Abdussamad and their conglomerates with sufficient investment, managerial, technological and organizational capabilities to successfully drive industrial policy in the cement industry, which require simple/basic (rather than advanced/complex) capabilities/learning/routines. In fact, being in the business of importing bulk cement and packaging same into 50kg bags at his cement bagging factories in Lagos, Dangote must have already acquired/mastered the tacit capabilities that are critical in managing the downstream end of the cement industry. This would, as it were, make Dangote's move into to the upstream end (of limestone mining and cement manufacture) relatively easier to manage. Moreover, with the experience of managing sugar, flour and noodle mills, the Obasanjo government might have felt satisfied that Dangote has had enough experience in light manufacturing to help drive successful industrial policy in the cement industry.

Historically, when regional governments collaborated with foreign technical and managerial partners to establish the first generation of industries in the post-independence period, the participation of Nigerians was insignificant and largely concentrated in the unskilled aspects of the (cement and other industries) production value chains. As the following table 12 shows, all critical stages in the construction of cement firms in Nigeria from feasibility & pre-investment through engineering design, infrastructure & civil work, equipment fabrication & supply, plant construction & installation to training (technical and managerial) were all dominated by foreigners with a proportion of over 80% in most. This left a huge gap of technological and organizational capabilities among Nigerians especially with the departure of foreigners following the indigenization decrees of 1973 and 1977 which sought to enhance the participation of Nigerians in the productive sectors of the economy. However, being in light manufacturing for several decades, Dangote has acquired substantial capabilities to support cement production.

TABLE 11 TECHNOLOGICAL CONTRIBUTIONS OF NIGERIANS (N) AND FOREIGNERS (F) IN THE NIGERIAN CEMENT INDUSTRY (1954-1982)

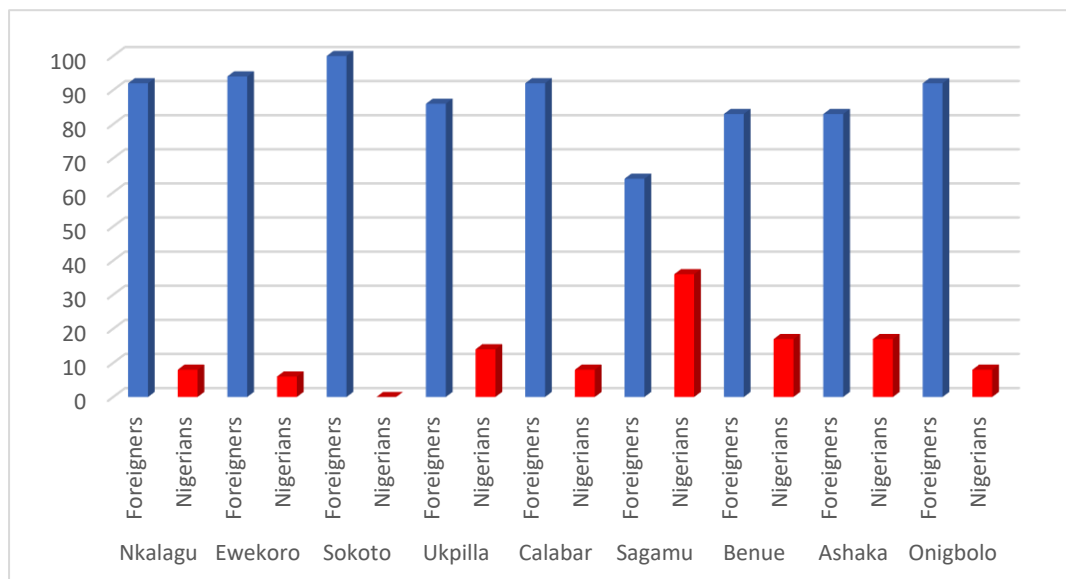
TECHNOLOGICAL CONTRIBUTIONS OF NIGERIANS (N) AND FOREIGNERS (F) IN THE ESTABLISHMENT OF CEMENT PLANTS IN NIGERIA(1954-1982)																		
Activity	Cement companies																	
	Nkalamgu		Ewekoro		Sokoto		Ukplilla		Calabar		Sagamu		Benue		Ashaka		Onigbalo	
	F	N	F	N	F	N	F	N	F	N	F	N	F	N	F	N	F	N
Feasibility & Pre-investment activities	6	0	6	0	6	0	5	1	6	0	4	2	5	1	5	1	5	1
Engineering Design	6	0	6	0	6	0	6	0	6	0	5	1	6	0	6	0	6	0
Infrastructure & Civil Works	4	2	5	1	6	0	4	2	4	2	3	3	4	2	4	2	5	1
Equipment fabrication & Supply	6	0	6	0	6	0	6	0	6	0	6	0	6	0	6	0	6	0
Plant Construction & Installation	5	1	5	1	6	0	5	1	5	1	3	3	4	2	4	2	5	1
Training (technical & managerial)	6	0	6	0	6	0	5	1	6	0	2	4	5	1	5	1	6	0
<b>Total</b>	<b>33</b>	<b>3</b>	<b>34</b>	<b>2</b>	<b>36</b>	<b>0</b>	<b>31</b>	<b>5</b>	<b>33</b>	<b>3</b>	<b>23</b>	<b>13</b>	<b>30</b>	<b>6</b>	<b>30</b>	<b>6</b>	<b>33</b>	<b>3</b>
<b>Percentage (%)</b>	<b>92</b>	<b>8</b>	<b>94</b>	<b>6</b>	<b>100</b>	<b>0</b>	<b>86%</b>	<b>14%</b>	<b>92</b>	<b>8</b>	<b>64</b>	<b>36%</b>	<b>83</b>	<b>17%</b>	<b>83%</b>	<b>17%</b>	<b>92</b>	<b>8</b>

Source: Adubifa (1988)

Here it is pertinent to point out that standard economic theory assumes away these requirements of tacit capabilities as ingredients for structural transformation (see Lall & Teubal, 1998). Entrepreneurs in developing countries can simply select and buy new technology from the international technology market and start production efficiently with no extra costs or efforts incurred in learning and adapting the new technologies to local condition (Lall, 1993). Organising profitable production with efficient routines in the local environment does not also require any previously acquired skills or experience. However, the evidence suggest that unlike physical products whose transactions end with the delivery of the product, the purchase of technology does not mean it can instantly be put to efficient use. It requires time, efforts and learning costs to use efficiently (Nelson & Winter, 1982). Learning to use new technology is not automatic and costless but gradual, time-consuming, risky and prone to failures (Lall, 1987, 2004). Hence, entrepreneurs in developing countries have to learn to manage and organize production and their countries as a whole also need to build capabilities at both national and firm level to engage in manufacturing even simple products (Lall, 2000a). Capabilities are however not acquired in blueprints or through formal education. Rather, they are tacit knowledge acquired through learning by doing (Khan, 2019). Capabilities are a necessary ingredients for the success of

structural transformation in developing countries (Lall & Pietrobelli, 2002 Lall, 2000b). However, there are but a few islands of capabilities in Nigeria because of the historical domination of manufacturing by foreign capital from feasibility and pre-investment activities to production (see table 12 above and figure 16 below). The departure of foreign capital following the indigenization policies of the 1970s further worsened the situation for Nigeria thereby leaving a huge capability gap Nigerians have not yet been able to fill up optimally. However, individual enterprise owners such as Dangote, Abdussamad and others who had been engaged in import/export trade and light manufacturing/processing of commodities such as pasta, sugar, noodles and flour have been able to accumulate some investment, managerial, technological and organizational capabilities over the years. These capabilities had been deployed to drive structural transformation in the cement industry. In this vein, the contributions of the cement entrepreneurs appear to be crucial in transforming the Nigerian cement industry.

FIGURE 16 TECHNOLOGICAL CONTRIBUTION OF NIGERIANS AND FOREIGNERS IN THE ESTABLISHMENT OF CEMENT COMPANIES (1954-1982) BY PROPORTION (%)



Source: Author based on data from Adubifa (1988)

### The importance of Cement Entrepreneurs to Ruling Coalitions for Political Financing

Business entrepreneurs almost always require the support of governments (or ruling coalitions) to thrive, for, it is the government that provides the enabling environment for firms and businesses to profitably operate (Bornstein & Davis, 2010). In fact, through the design and implementation of policies, government “shapes the institutional environment in which entrepreneurial decisions are

made” (Minniti, 2008). In developing countries where governments possess weak fiscal strength, the supply of critical infrastructure and services such as electricity, good road networks, water, skills acquisition centres, property rights/law enforcement, subsidies and related supports are inadequate; hence, many sectors or industries lack the basic infrastructure and services to efficiently operate (Rondinelli *et al.*, 1989). For this reason, governments in these countries may be compelled to choose or prioritize which sectors/industries to support as available resources cannot support all economic sectors/industries/activities (Lin & Monga, 2012). This reality makes entrepreneurs in particular industries compete for the attention of government or ruling coalitions so that they can attract state supports to, and influence the design and implementation of government policy in, their sectors/industries of operations.

However, to attract state supports through policy interventions, entrepreneurs/capitalists have to not only contribute to the economy by way of jobs creation, revenue generation and foreign exchange conservation but also be supportive of ruling coalitions through political financing (Whitfield *et al.*, 2015). In countries that practice liberal democracies, money is required to carry out electoral campaign activities (Lindberg, 2003). In advanced liberal democratic nations, the main source of political financing comes from wealthy formal economic organizations which finance political parties in return for favourable policy interventions (Khan, 2010). However, in Nigeria (and other developing countries) such wealthy formal economic organizations are too few to provide any substantial financial support to political parties/ruling coalitions, and this places enormous pressure on ruling elites to look for alternative sources of financing to enthrone/maintain their coalition in power. One of these potent sources of financing is through the creation of regulatory rents in lucrative sectors/industries via the exercise of the discretionary power of government (Shleifer & Vishny, 1998). In Nigeria, the governmental need for meeting clientelist demands and sustaining legitimacy have compelled successive ruling coalitions in to creating and harnessing regulatory rents by constraining markets and creating special profit-making opportunities to favoured entrepreneurs/capitalists (Lewis, 1994). Hence, as Krueger (1974) and Bhagwati (1982) had predicted, many Nigerian capitalists operating in sectors such as the cement industry with regulatory rents engage in rent-seeking activity geared towards capturing lucrative market rents and sharing same with ruling elites through political financing.

The Nigerian cement industry—from the era of bulk cement imports to the time of phasing out and eventual banning of imports under the BIP to protect domestic producers—has always been a source of lucrative regulatory rents (see table 6D above). Initially, these rents came from the differentials between bulk cement import and resale prices which allowed successive governments to grant the license for bulk cement import to politically connected businesspersons, oftentimes as rewards for their political support/financing (Anonymous, 2021c, Interview 27). These well-connected business moguls that benefited from award of lucrative import licenses and other economic/industrial policies pursued by ruling coalitions have always been at the centre of political financing of successive ruling coalitions especially since the return to democracy in 1999 (Anonymous, 2021c, Interview 27). In fact, according to the *Africa Report* (2015) “Aliko Dangote [of Dangote Cement Plc], Femi Otedola and Abdulsamad Rabiou [of BUA Cement Plc] were among the largest donors to the PDP.” This is corroborated by a US (Nigeria) Embassy report leaked by the Wikileaks (2005) which revealed that Mr Dangote contributed \$1.5m and \$7.5m to Obasanjo’s first and second terms election campaigns in 1999 and 2003, respectively. Again, Mr Dangote would in 2011 also publicly pledge a donation of about \$1.7m worth of cement for the construction of the PDP national secretariat (Kura, 2011). Similarly, in October 2010, Mr Abdulsamad Rabiou of BUA cement donated N250m (about \$1.9m) to the election campaign of then president Goodluck Jonathan (*Africa Report*, 2015).

The outcomes of all these rent seeking inputs expended by cement entrepreneurs have been succinctly summed up by the US Embassy report quoted above thus: “*It is no coincidence that many products on Nigeria's import ban lists are items in which Dangote has major interest*” and by Mr. Jide Ojo quoted in the *Africa Report* (2015) that “*when you hear of import waivers, fuel subsidy scams, immunity from prosecution – that’s just payback for those who have supported the cause of a [winning] party*” in Nigeria. This kind of quid pro quo or symbiotic relationship between the ruling coalitions and productive entrepreneurs/capitalists is what Whitfield *et al.* (2015) refer to as “mutual interest” which they conclude is a necessary condition for the success of industrial policy in Africa. While this researcher also found evidence of the existence of *mutual interest* between ruling coalitions and the cement entrepreneurs in Nigeria, there was no such evidence for Whitfield and associates’ second condition that a bureaucratic “pocket of efficiency” also has to exist in a country’s bureaucracy for industrial policy to succeed. If anything, the contribution of the



Nigerian bureaucracy or a pocket therefore to the successful transformation of the cement industry was ambiguous. However, it was found that learning in the cement industry did not take long to achieve mainly due to the array of capabilities the cement entrepreneurs possessed in addition to the narrow productivity gap in the cement industry compared to the textile and iron & steel industries—where productivity gap are wide and firms/entrepreneurs are *workhorses* who have to compete domestically (among themselves) and internationally (with foreign firms whose products are smuggled in to Nigeria), and at both price and quality levels.

In contrast, and as it shall soon be made clear in the chapters on the textile and iron & steel industries, for *workhorses* or entrepreneurs who operate in the textile and iron & steel industries, the rents/profits that accrue to industrialists largely come from market competition and is therefore too little to allow for any substantial contributions to ruling coalitions for favourable state policies interventions. Also, the fact that most, if not all, of the successful private entrepreneurs or *workhorses* in the textile and iron & steel industries are of foreign origins severely limit their political reach, and hence their influence on attracting the design and effective enforcement of the right policy institutions in their industries of operations.

Finally, though the structural transformation of the Nigerian cement industry is seen by many—and, to an extent, justifiably so for some reasons put forward in the next section—as a ‘success’, it was, in the course of this research, discovered that the transformation was not, after all, the absolute/unqualified success government officials, industry players and the couple of existing research claim or imply it is. Though a whole research topic in its own right, in the next section, I explore the contradictions of the BIP led-structural transformation in the cement industry where it was found that because of both weak governance capabilities and cement entrepreneurs’ strong political connection that shields them from being subjected to any form of discipling, there are issues of evasion of fiscal responsibility (payments of taxes), internal/organizational distribution of profits (payments of meagre amounts as salary/allowances to cement workers) and consumer exploitation (through the charge of excessively high cement prices behind heavy wall of protection) among other things that combine to dilute whatever successes believed to have been engendered by the transformation. In essence, cement producers such as Dangote have been found to violate fiscal incentives (pioneer tax holiday) with impunity knowing that governance capabilities to monitor and enforce compliance and to penalize violations was

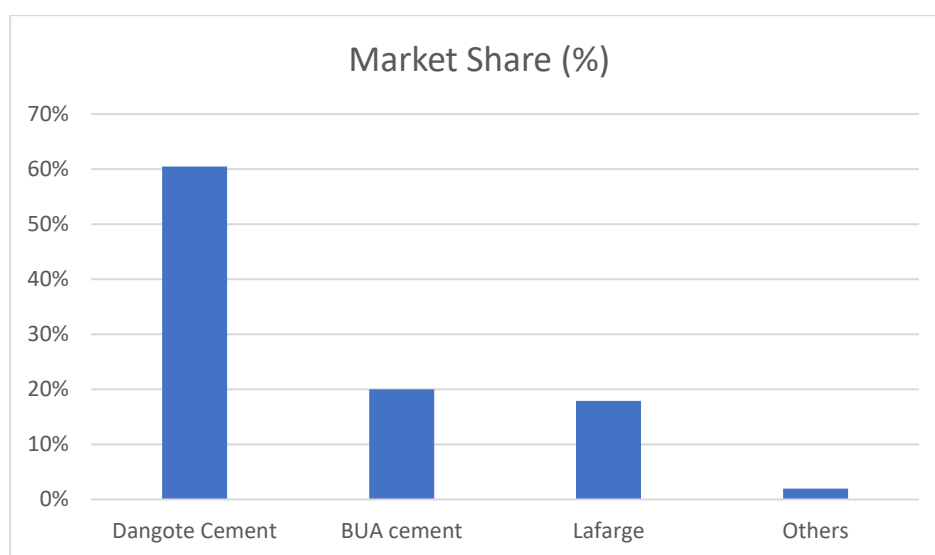
weak especially in the face of their political reach and influence. Moreover, caught between mutually beneficial rents sharing arrangements between ruling coalitions and industrialists, the cement consumers in Nigeria appear to be at the receiving end of the deal as they have been found to pay excessively higher for the same quantity of cement when compared with consumers in comparator countries with similar costs of production. This assessment/interrogation of the ‘success’ in the cement industry is dwelt upon in some details in the next section.

### **6.5.2 The BIP and its contradictions.**

Almost all the handful of literature on the Nigerian cement industry have taken the success of the BIP for granted. What these literatures, and indeed politicians and industry players have usually referred to as the ‘success’ of the BIP revolves around the instrumentality of the policy in making Nigeria self-sufficient in cement production (with a combined total production of around 50 million metric ton per annum (see Table 8)), creation of job opportunities (with an industry total of around 30,000 direct employees including transporters), saving foreign exchange (which at the peak import year 2008 was \$304 million (see figure 12), and promoting exports (which, excluding clinker, is currently very negligible since the initial 0.4mmta reported for 2016/17 (see the *Daily Post*, 2017)). While all of these could indeed be taken as acceptable evidence of success attributable to the BIP, is it the case that the BIP is the absolutely successful industrial policy that politicians, industry players, and existing research claim or imply it is (see *inter alia* Ohimain; 2014; the *Daily Post*, 2017; Akinyoade & Uche, 2018; Odijie and Onofua, 2020)? Or is the BIP a success still in the making? Also, considering some crucial social issues/questions pertaining to distribution (wages), consumer welfare (prices), and firms’ fiscal responsibility (payment of taxes)—which have often been glossed over by existing literature in their attempts to depict the BIP-led structural transformation as an unqualified success—what insights can the PS approach we adopt offer us? We address these questions in this section in light of our PS approach and available evidence.

Structurally, the Nigerian cement market has three prominent players in Dangote, BUA, and Lafarge. Thus, as depicted in the following figure 6H, Dangote Cement Company (DCC) is the dominant player with a 60% market share whereas BUA, Lafarge and others have market shares of 20%, 18% and 2% respectively (see figure 17 below).

FIGURE 17 MARKET SHARE OF CEMENT COMPANIES IN NIGERIA



Source: Author based on data compiled from companies' reports

Effectively, the Nigerian cement market is therefore oligopolistic<sup>41</sup>. Like monopoly, an oligopoly market is observed to have adverse effects on consumer and social welfare (Krugman & Wells, 2006). Cement markets generally tend towards oligopoly with cement companies across the world often accused or penalized for colluding to share markets or fix prices (Connor, 2007; GOV.UK, 2019). Recently, Zambia's Competition and Consumer Protection Commission (CCPC) fined two cement companies (Lafarge Zambia Plc and Mpande Limestone Limited) 10% of their 2019 and 2020 annual turnovers for having colluded to share markets and fix prices<sup>42</sup>. Dangote Cement Zambia Plc was, however, let off the hook by the Zambia's CCPC '*for having cooperated with the commission during investigations*' (Zambia Reports, 2021). In Nigeria, cement companies have never been tried or found guilty of colluding to share markets or fix prices even though the Nigerian cement market is the biggest and the most lucrative in sub-Saharan Africa. This according to a source (Anonymous, 2021c, Interview 27) is mainly because the Nigerian cement industrialists are "politically well-connected and know how to play the game well."

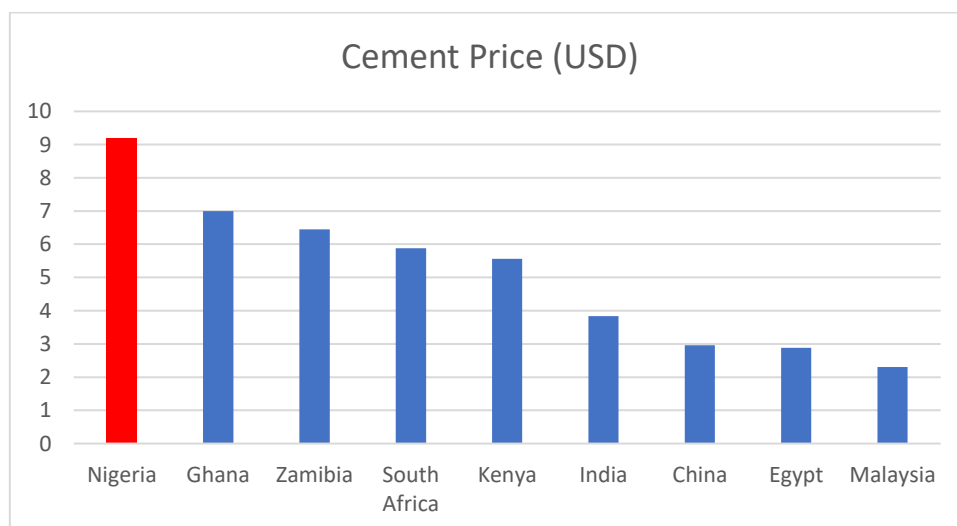
Historically, trade and industrial policies in Nigeria have, over the years, involved the use of import tariffs, quotas or complete import bans and grant of

<sup>41</sup> Across countries the cement market is generally found to tend towards oligopoly which is why governments in countries such as Brazil, India, Thailand, and United Kingdom regulate their cement industries through competition commissions/agencies. These agencies apply several antitrust measures to check collusive tendency for market sharing and price fixing. For instance, in October 2019, the UK government fined three cement companies £36 million pounds because they were found to have broken competition laws (GOV.UK, 2019).

<sup>42</sup> See Zambia Reports (2021)

production subsidies (Ikpeze, 1991). These policies have produced mainly two major gainers i.e., the local importers/protected producers who make supernormal profits by selling products at exorbitant prices and the government which accrues revenues from tariffs, taxes and rents for political financing. On another hand, the main policy losers have often been identified to be consumers who lack a voice in policy discourse, design, and implementation (Cuts International, 2015). For instance, between 1999 and 2010 when cement import was severely restricted and eventually banned, the Nigerian cement consumers are said to have, on average, lost N19.63 billion (that is, around \$51.4 million in 2021 USD/Naira value) per year<sup>43</sup>. In fact, during this period, cement prices are said to have increased by 300% (Itaman & Wolf, 2019). Hence, it is no wonder that cement companies in Nigeria have profit margins of 63% against the 30-40% margins obtainable in frontier markets (The Economist, 2014). Nigerian cement consumers continue to pay higher than their counterparts not just in frontier markets but in even other developing countries in SSA with similar production costs. When I researched and compared the prices of a 50kg bag of cement among some selected countries, Nigeria’s price emerged as the highest with a price of \$9.21 per 50kg bag higher than the price for the same quantity in China (\$2.96), Malaysia (\$2.3), India (\$3.84), Kenya (\$5.56), Zambia (\$6.45), Egypt (\$2.88), South Africa (\$5.88), and Ghana (\$7.0) (see the following figure 18).

FIGURE 18 PRICES OF A 50KG BAG OF CEMENT IN NIGERIA AND COMPARATOR COUNTRIES



Source: Compiled and converted to a common currency (\$) by author.

In terms of the Nigerian wage structure or the national minimum wage, Nigerian cement companies especially the dominant Dangote Cement Company

<sup>43</sup> See a report by Cuts International (2015)

Plc (DCC) pay monthly salaries that are higher than the N30,000 (\$73.13) national minimum wage by more than 300% for the least (Level 1) floor worker or ‘operator’ as is called in the DCC nomenclature. At the highest level 16 (Senior General Manager), a DCC staff earns N3million (\$7,312.61) per month (which is more than the combined monthly salary of 6 Professors in any Nigerian public university)<sup>44</sup>. Also, after every 2 years, a flat rate salary increment of N9000 (\$21.94) is awarded to all staff from operator to senior manager. Salary review is also done after every 2-5 years though this has not been done since 2015 with management sources citing market downturns as the reason for the delay (Anonymous, 2021d, Interview 28). At BUA Cement Plc, although all my contacts refused to share specific details on salary structures with me, yet they confirmed that it is not as generous as that of the DCC (Anonymous, 2021a, Interview 5). However, this seemingly generous wage structure in the cement industry especially at the DCC pales into insignificance when analysed considering the rising cement companies’ profits (see the following figure 20) or the wage structures in frontier markets where the average cement profit margins is comparatively lower (that is, 30-40% against Nigeria’s 63%).

Moreover, through the exploitation of loopholes in the pioneer tax break law, the Dangote Cement Company (DCC) has, effectively, operated by paying meagre amounts in taxes as reports have shown (see DCC’s Annual Report (2016); Fawehinmi, 2017; Melik, 2017). For instance, the DCC raked in around one trillion naira (\$6billion) as pre-tax profits between 2010 and 2015; however, out of that amount, only a paltry twelve billion naira (\$72 million) was paid in taxes, that is at a rate of just a little over 1%!<sup>45</sup>. Similarly, in the 2016 DCC Annual reports (p.139), its own independent auditors have pointed out that the company’s directors had made an ‘assumption’ about the pioneer statuses of different lines of productions at Ibese and Obajana factories. Without this ‘assumption’, the auditors concluded:

*‘..an additional tax charge of N64.4 billion (2015: N40.0 billion) would have been incurred by the company if this assumption was not made in determining the tax liability.’<sup>46</sup>*

The assumption pertains to the DCC excluding lines of production whose pioneer tax holiday status had expired in its calculation of taxes for payment to

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<sup>44</sup> This is based on the Centra Bank of Nigeria’s N410.25 per US \$1 official exchange rate as of 28<sup>th</sup> October 2021. At the unofficial black-market rate, a dollar goes for around 600 naira.

<sup>45</sup> See Fawehinmi (2017)

<sup>46</sup> See Dangote Cement’s 2016 Annual Report (p.139)

the government. In other words, when the pioneer tax holiday for a factory with some production lines, say Ibese, approaches expiration, Dangote would add a new line of production and assumes that this new line is also entitled to tax holiday which applies for the whole factory (including the old lines whose tax break had expired)<sup>47</sup>. This can be confirmed in the following figure 19 depicting the DCC's pioneer tax schedules according to production lines rather than the entire factory for which the holiday was statutorily meant to cover. Governments since the time of Obasanjo appeared to lack the capability to discipline the DCC and other firms for violations of this BIP institution largely due to the huge political influence wielded by cement entrepreneurs like Dangote and Abdussamad Rabiou who, according to several sources cited earlier, are the major financiers of successive ruling coalitions from 1999 to date. This goes to confirm the finding that the relative political influence or holding power of domestic capitalists in particular industries is important for industrial policy success in Nigeria. With this and the credible support of ruling coalitions, enforcing policy institutions becomes relatively easy. However, when policy institutions graduate from the grant of incentives (protection, tariffs, subsidies etc.) for investment to imposing conditions for raising productivity such as the grant of tax holidays, governments appear to lack the capabilities for such. This is often due to the power wielded by domestic capitalists/entrepreneurs and the rent-seeking activity they engage in through the deployment of resources into lobbying/political financing to protect their rents. This, in a way, confirms the prediction of such neoclassical economists as Krueger (1974) and Bhagwati (1982) who contend that interventions result in directly unproductive (DUP) profit-seeking. However, the generalization by these authors that all rents and rent-seeking activities are damaging to the economy have been challenged in a recent work by Khan & Jomo (2000).

FIGURE 19 DANGOTE CEMENT COMPANY PIONEER TAX HOLIDAY SCHEDULE



<sup>47</sup> A pioneer status exempts 'pioneer' investors in an industry from paying taxes on profits for a period of five years. This is granted in Nigeria to encourage private investment with a view to growing the domestic economy.

*Source: Dangote Cement's 2016 Annual reports.*

In addition, the DCC and indeed its parent company, Dangote Industries Limited (DIL) have, over the years, been beneficiaries of preferential foreign exchange allocations by successive governments through the Central Bank of Nigeria (CBN). In a report (Laessing & Ojha, 2016), Dangote was said to have secured \$161 million at the official exchange rate (of naira 197/199 per 1 USD) from the Nigerian central bank between March to May 2016<sup>48</sup>. This was, supposedly, to ease business for strategic industrialists or businesses hard hit by currency depreciation due to oil shocks. However, because of adverse selection issues and moral hazard problem, the CBN could neither identify those who are really in need of the foreign exchange support nor how they may end up using the subsidized foreign exchange granted them. Thus, some well-connected entrepreneurs and pseudo-entrepreneurs have converted this policy into a rent-seeking racket for receiving dollars at official rates only to re-sell same in the expensive 'black market' and make instant fortunes effortlessly. For instance, if Dangote were to re-sale his March to May 2016 allocation of \$161 million in the unofficial black market, analysis shows that he would have made a profit of \$100 million (£68 million) without any effort<sup>49</sup>. So, in effect, between March to May 2016 only, the Nigerian government subsidized Dangote to the tune of \$100 million US dollars with taxpayers' money under the guise of supporting 'strategic businesses' including cement production.

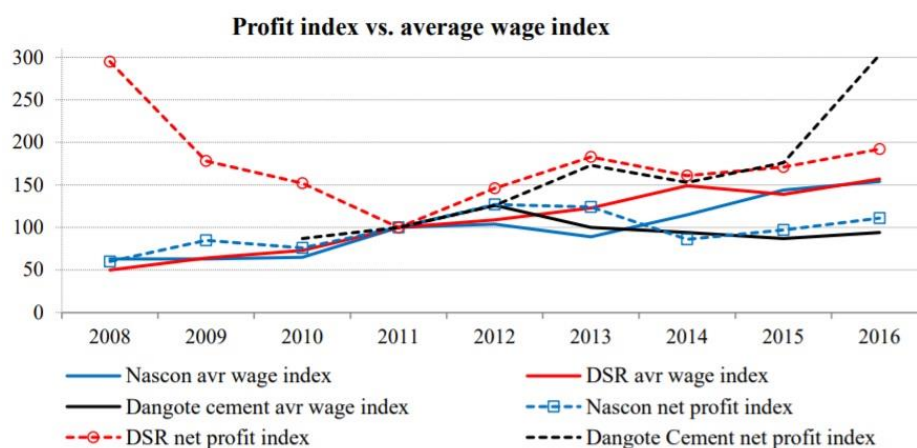
Also, as hinted earlier, internal distribution dynamics within the industry and indeed the DCC is far from being fair and equitable. Taking the DCC as a case in point, although the Dangote cement is the biggest cash cow of the entire Dangote business conglomerate, wages for cement workers do not keep pace with rising profits. In fact, in their analysis of the dynamics of the movements of wages and profits across three of Dangote's companies listed on the Nigerian Stock Exchange (NSE)—that is, NASCON, Dangote Sugar Refinery (DSR) and the DCC—Itaman and Wolf (2019) found that not only do average wages per cement worker fail to keep pace with exponential rise in profits, but also average wages actually reduced slightly in 2016 from what it was in 2011. This is despite the fact that, over this period, the cement company's profits have risen by more than three folds (See Figure 20 below).

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<sup>48</sup> The Nigerian government through the Central Bank sells foreign exchange at officially subsidized rates to companies it considers strategic to the national economy. The policy has been criticized as it is prone to abuse through unproductive rent seeking and capture activity.

<sup>49</sup> See Laessing & Ojha (2016)

FIGURE 20 EVOLUTION OF PROFITS RELATIVE TO WAGES IN DIFFERENT DANGOTE ENTERPRISES



Calculations based on Nascon, DSR, Dangote cement annual reports 2010-2016

Source: Itaman & Wolf (2019)

In the final analysis, a critical examination of the evidence presented above in light of our PS framework presents with two important points. One, given the contradictions of the BIP on issues related to firms' internal distribution of gains, higher cement prices, and the failure of cement firms to adequately fulfil their fiscal responsibility by paying taxes as due, it can be safely concluded that the BIP is, at most, a success in the making. Evidentially, this challenges the conventional official and academic narrative that the BIP is an unqualified success story. Two, as demonstrated in section 6.6.1, it was a particular fragmented clientelist balance of power under the Obasanjo ruling coalitions that facilitated the entry and dominance of Dangote and Abdussamad in the cement industry via the BIP. However, it is important to point out here that this same balance of power has its own downside, which we argue, based on insights from our PS analysis, catalyzed the conditions for the BIP contradictions. Khan (2010) suggests that the insufficiency of large formal economic organizations/firms in developing countries to legitimately finance political parties in exchange for policy changes means that ruling coalitions in developing countries have to rely on patron-clientelist networks of entrepreneurs to finance their campaigns. This is exactly what we observe in Nigeria with cement entrepreneurs such as Aliko Dangote and Abdussamad Rabi'u reportedly making material and monetary contributions to the cause/campaigns of successive ruling coalitions (see Wikileaks, 2005; Kura, 2011; Africa Report, 2015). Predictably, this appears to have strengthened the holding power of the cement entrepreneurs/powerbrokers to the point where successive ruling coalitions have found it difficult to discipline them to resolve the BIP contradictions raised above. In other words, the



fragmented clientelist balance of power that enabled the BIP has led to the situation where the state/ruling elites have not been able to discipline the same capitalists to achieve other socially beneficially economic goals such as more entry and competition between local cement firms, affordable cement prices, equitable internal distribution of gains, and payment of taxes by cement companies as due.

In fact, the BIP appears to be a case of ‘he who pays the piper calls the tune’ with ordinary Nigerians paying the price for a structural transformation whose outcomes are, on a critical reflection, appear to, at best, be mixed and therefore requires a whole research to assess. This is an interesting area for further detailed research especially as statistics begin to gradually build, and the market tends towards duopoly— with BUA increasingly becoming more assertive and a formidable competitor to Dangote. Would the market players (Dangote and BUA) compete to beat prices down or would they, as the industry is globally notorious for, collude to share markets and charge extortionary prices? Can a courageous ruling coalition, under the current competitive clientelist settlement, ever emerge to dismantle the wall of protectionism behind which the Nigerian cement consumers are made to pay double or in some cases triple the prices their counterparts in other countries pay for the same quantity of cement product? These and similar questions remain for future research to explore. Our objective here is to examine and analytically explore the political economic factors/variables that facilitated the transformation in the industry using the political settlement approach.

## **6.6 Conclusion**

The chapter traced the evolution of the Nigerian cement industry from 1950s to date. Cement was introduced to Nigeria by the British colonialists through the British cement conglomerate, Associated Portland Cement Manufacturers (APCM). Although Nigeria adopted an ‘open-door’ industrial strategy, the cement industry could not attract investors due to coordination problem occasioned by missing public inputs especially lack of reliable and affordable supply of electricity (Kilby, 1969). Being a capital-intensive industry, investments in the cement industry was also affected by fears of expropriation given the volatile post-independent political climate in the 1950s and 60s. But determined to set Nigeria on the path of industrial development, nationalist leaders moved into partner with foreign capital and establish the first cement industry at Nkalagu in 1957. This opened up the industry for further investments mostly through partnerships between regional governments and foreign technical

partners. However, lack of a coherent industrial strategy allowed cement companies to grow at very slow pace. Subsidies were not tied to any conditions and appointments in to the board of companies was a matter of political connection. Hence, companies failed to gain productivity and competitiveness. Also, the end of the Nigerian civil war in 1970 brought the need for reconstruction and hence there was a massive demand for cement. However, instead of Nigeria to expand existing capacity, it, buoyed by the inflow of huge Petro-dollars, ordered for the importation of 16 million tonnes of cement into the country in what came to be known as the ‘cement armada’ of 1974. The Nigerian cement market had a capacity of 1 million tonnes in 1970, yet contracts for the imports of 16million metric tons of cement were awarded. This led to the heavy congestion of the Nigerian ports as ships could not unload even by 1978 (see Marwah, 2018). Cement companies continued to survive on subsidies but the end of the second oil boom in 1981/2 saw the Nigerian economy tumbled from the effects of a fall in global oil prices. By mid-1980s, Nigeria was plunged into serious economic crisis with oil revenues dissipated and sources of credit completely dried up. Capacity fell to less than 30% by the end of 1980s as cement companies struggled to remain in business unaided by the lavish subsidies of the past.

With the introduction of the IMF/World Bank-sponsored structural adjustment programs (SAPs) in 1986, privatization of moribund state-owned companies was considered. However, it was not until late 1990s when Nigeria returned to democratic rule that cement companies were privatized. The privatization by the Obasanjo government was soon followed by the introduction of the BIP in 2002. The BIP was an import-substituting industrial policy which made cement import conditional on commitment to establishing local cement factories. Such incentives as VAT and custom duty waivers on imported cement making machines, credit guarantees, foreign exchange subsidization, and tax holidays were granted to investors in local cement manufacturing. Within a little over a decade, Nigeria became self-sufficient in local cement production. However, although from the time of the Obasanjo-led ruling coalitions in 1999 to date, import substitution industrial policies such as the BIP have also been introduced not only in the cement sector but also in the textile and iron & steel industries, it was a real puzzle that the outcomes of the BIP diverged from the norm of constant policy failures. The BIP policy in the cement industry was, in many respects, successful as (among other things) within a short time span cement imports came to be replaced by locally produced cement. However, we

have seen that the same power configuration that facilitated the successful implementation of the BIP led to the increase in the holding power of cement capitalists occasioned by their roles as contributors to the cause/campaigns of successive ruling coalitions. This constrains the capability of the state/ruling coalitions to discipline the cement entrepreneurs with a view to achieving some socially desirables economic outcomes in the industry.

In contrast to the cement industry, import-substitution policies directed at reviving the textile and iron & steel industries by the same Obasanjo and subsequent ruling coalitions thereafter failed to achieve the objectives of transforming their respective industries. Reviewing the evidence presented, it can be concluded that three factors appear to have accounted for success of the BIP in the cement industry. These are:

*First*, though the support of the political leadership was found to be significant in reviving the cement industry, it was demonstrated that the requirement, adoption and implementation of learning, capabilities and routines in the cement industry are relatively simple and hence appear to have significantly accounted for the BIP's successful implementation. In other word, the cement industry's capabilities/learning/routines' requirements were found to be simple. Routines in the cement industry are largely machine-regulated which obviate the need for supervisors with the necessary tacit and codified skills/capabilities to control quality/set the speed of production non-mechanically. This and other dynamics lead to the success of the BIP transformation. Also, with the argument that countries tend to move to the production of 'nearby goods' whose requirements of capabilities can easily be met by current capabilities (Hausmann & Klinger, 2006), the success of the cement industry against the backdrop of the failures of the textiles/garment and iron & steel industries is not something unexpected/unpredicted. Nigeria's exports are dominated by primary products. This means current capabilities in Nigeria are basic and can only support simple manufacturing such as those related to resource-based productions.

*Secondly*, the financial, investment, managerial, technological, and organizational capabilities of the cement entrepreneurs in Nigeria were found to have played critical roles in the success of the BIP's transformation of the cement industry. Unlike in especially the state- and Nigerians-owned textile and iron & steel industries, in the cement industry, there were investors (such as Dangote, Abdussamad and Lafarge) who possessed both the capital and capabilities required to successfully drive the BIP policy. The importance of capabilities in

driving industrial development has been emphasized in the industrial policy literature (see Nelson & Winter, 1982; Lall, 1992, 1987, 2004; Lall and Teubal, 1998; Lall & Pietrobelli, 2002). Though lacking in the discipline often associated with the Asian-type export-oriented industrial strategy, the fact that these cement entrepreneurs had invested huge capital in the cement industry compelled them to put in high efforts and work towards the successful implementation of the BIP policy because the stakes (in fixed capital investments) were too high for them to afford to fail.

*Thirdly*, the cement industry possesses huge regulatory rents the extraction of which empowers cement entrepreneurs to finance political campaigns to install or maintain ruling coalitions in power. This confers enormous political clout on these entrepreneurs that enabled them to influence the design and implementation of the BIP policy implemented in their industry of operations. By the same token, incentivized by this informal rent distribution arrangements through campaign financing from regulatory rents generated in the industry, ruling coalitions from the time of the Obasanjo-led dominant party coalition to date have played their part by enforcing the institutions of the BIP to the best of their ability. For instance, during the Obasanjo-led ruling coalition, violators of the BIP institutions such as Cletus Ibeto who continued to import cement without concrete proof of investment in local capacity were severely punished, and this undoubtedly served as deterrent to others. Subsequent governments have also maintained the BIP institutions. Additionally, the need for government to deliver on election campaign promises to diversify the economy and create employment opportunities also pushed the Obasanjo ruling coalition to work assiduously towards the success of the BIP. Of the three industries under study here, the cement is relatively the easiest for government to transform within the shortest possible time. The requirement, adoption and implementation of learning, capabilities and routines are, as we shall soon see in subsequent chapters, relatively more complex in the textile and iron and steel industries. However, the same political settlement that permitted the implementation of the BIP appears to have limited the capacity of the state to enforce socially desirable institutions on these powerful cement entrepreneurs/powerbrokers leading to several socially costly contradictions. Nevertheless, in many respects, the BIP structural transformation of the Nigerian cement industry can be viewed as a success. For instance, the policy successfully replaced import, saved Nigeria foreign exchange, and created jobs for many.

## 7 The Textile Industry

### Chapter Summary

*This chapter explores the policies, factors and forces that have historically underpinned the development and structural deformations in the Nigerian textile industry. It also seeks to unravel the puzzle of poor policy performance in the industry. Under the same clientelist political settlement in which the BIP was designed and implemented leading to its transformation of the Nigerian cement industry, textile industrial policies were also introduced with the objective of reviving the moribund Nigerian textile industry which, at its peak in the 1980s, provided direct employment to over 250,000 people. However, while the BIP cement industrial policy succeeded in transforming Nigeria from a net cement importer to a self-sufficient producer, policies directed towards reviving the textile industry have failed to achieve their objectives. Given that policies for both industries were designed and implemented by ruling coalitions under more or less the same clientelist political settlement, what factors might have accounted for the poor performance of textile industrial policies? Setting out to find the answer(s) for this and other questions, this research found the often less emphasized problem of lack of productivity and capabilities development to be instrumental to the industry's collapse. As for the failure of textile revival policies to successfully transform the industry, it was found that notwithstanding the apparent support of successive ruling coalitions to textile revival policies, the Nigerian textile industry remained comatose mainly due to the relative complexity of the requirement, adoption, and implementation of learning, capabilities and routines in the textile industry compared to the cement industry. The over-ambitiousness of the Nigerian textile policy makers in attempting to address all the structural weaknesses in all the textile industry's sub-sectors at once rather than sequentially also added to the complexity in transforming the industry. Moreover, while few foreign textile industrialists in Nigeria were found to possess the requisite capabilities to drive the industry's successful structural transformation, they appear to lack the political connection to influence the design and effective enforcement of textile revival policies for two reasons: (i) being foreigners of mostly Asian descent, these active/successful textile industrialists possess weak holding power compared to two set of powerful industry players: (a) the powerful pseudo-industrialists who own controlling shares in large, integrated but mostly inactive textile companies which they use as fronts to capture the rents that come with textile intervention policies and (b) the wealthy, politically influential textile importers who make fortunes by importing foreign textiles into Nigeria, and (ii) operating in an industry whose sources of profits/rents largely come from market competition rather than from the kind of easy regulatory rents obtainable in the cement industry, the few active/successful foreign owners of textile companies are effectively workhorses who have little surpluses to spare for political financing, and hence, little influence to exert on textile revival policy designs and enforcement.*

## 7.1 Introduction

Agreements between Northern Nigerian Regional Government led by its premier, Sir Ahmadu Bello, and a British textile firm, David Whitehead & Sons (DWS), signed on 7<sup>th</sup> September 1955 led to the establishment of the first integrated, large-scale textile producing company, the Kaduna Textiles Limited (KTL). DWS brought some twenty staff members consisting of engineers, supervisors, and managers from Lancashire to Kaduna to start the KTL which commenced production on 22<sup>nd</sup> November 1957 (Maiwada & Renne, 2013). The company ownership structure was based on a US\$1.8 million worth of share capital contributed equally by the partners<sup>50</sup>(Onyeiwu, 1997). With KTL's success, other large, medium, and small-scale mills soon came on the stream across the country, especially in what would later become the three major textile cities of Kaduna, Lagos, and Kano. These mills were mostly established through northern and other regional governments' collaborations with foreign technical and managerial partners initially from Britain, America, Japan, Germany and later China/Hong Kong, India, and Lebanon. These mills include among others: Nortex (est. 1962), Nigerian Textile Mills (1962), Norspin (1963), United Nigerian Textiles Limited (UNTL,1964), Arewa Textiles (1965), Textile Printers of Nigeria (1965) and Funtua Textiles (1978). These companies produced gray bafts, African wax prints of various qualities, towels, shirtings, beddings, blankets etc.

From 1957 to 1973, the Nigerian textile industry (henceforth simply referred to as 'the industry') phenomenally grew to have consisted of some 125 mills with employments reaching up to 49,011 workers in 1973—up from 9,381 workers in 1964. From 1970 to mid-1980s, the industry witnessed its most explosive growth ever (Onyeiwu, 1997). During this period, there were two oil booms in Nigeria (1973/4 and 1979/80) which accrued huge revenues and foreign exchange to the country. Predictably, this had a big impact on the strength of Nigeria's currency, the Naira, which dramatically appreciated thereby facilitating imports of machineries, equipment, and spare parts. Domestic purchasing power was also boosted as governments, buoyed by the accrual of these oil windfalls, embarked on massive public spending and transfer payments to civil servants. This boosted demand for textile materials in a society where wealth and social

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<sup>50</sup> The northern Regional Government had surplus funds accumulated during the agricultural products booms of the late 1950s which spurred its search for investment partners in a bid to industrialize the north and provide jobs to its teeming population.

status are determined by the quality and quantity of cloth owned and occasionally displayed (Andrae & Beckman, 1987).

The industry continued to grow in both size and mix of products up to mid-1980s when it became the third largest of its kind in Africa after Egypt and South Africa. By then the Nigerian textile industry was the second largest labour employer after government as it directly employed over 250,000 workers and accounted for 20% of manufacturing value added (Maiwada & Renne, 2013). By the mid-1980s, the smuggling of textile materials (and other articles of trade) encouraged by the strength of the naira in the 1970s, depressed the Nigerian economy, and inevitably, the industry (Andrae & Beckman, 1987). The state of industry worsened with dramatic fall in oil revenues which started in 1981 (ibid). With mounting debt profile that resulted in serious balance of payments problems and loss of value of the Naira, the importation of textile equipment and spare parts became prohibitively expensive. The industry began to cave into recessionary pressures from the mid-1981 onwards (Andrae & Beckman, 1999). Exports, which should have been encouraged by the devalued naira did not significantly take place because, in my view, the industry did not in the earlier years develop sufficient productivity and competitiveness to do so. This, consequently, had adverse effects on production capacity, employment levels, and textile output (see Onyeiwu, 1997; Andrae & Beckman, 1987, 1999). Stabilization and austerity measures applied by the governments of president Shehu Shagari (1979-1983) and General Muhammadu Buhari (1983-1985) to ameliorate the problems affecting the economy and industry had failed to produce palpable positive outcomes when the military junta of General Ibrahim Badamasi Babangida (IBB) (1985-1993) introduced, in June 1986, the Structural Adjustment Programs (SAP). A market-led adjustment policy, SAP was sponsored by the International Monetary Fund (IMF) and the World Bank to re-orient the Nigerian economy away from its entrenched statist foundation (which was blamed for Nigeria's economic and industrial crises) to the free market system. With SAP, the industry was exposed to international competition with which it appeared ill-prepared to cope.

Existing literature on the industry contributes greatly by way of chronicling historical events, and policies in the development of the industry since inception in the late 1950s (see, among others: Onyeiwu, 1997; Maiwada & Renne, 2013; Renne, 2015; Muhammad et al. 2019). Andrae & Beckman (1987, 1999) critically explore how import restrictions forced textile companies to resort to cotton production in their *Industry Goes Farming*. In Andrae & Beckman (1999), the

authors examine labour relations in their *Union Power in the Nigerian Textile Industry*. However, the common conclusion across almost all these studies is the attribution of the steady decline and eventual collapse of the industry in the 2010s mainly to the consequences of the implementation of SAPs and the problem of poor infrastructure, especially electricity. While this conclusion stands to reason, it is the contention of this researcher that, in addition to the SAPs and infrastructural problem, some other factors/issues such as the failure of the industry to develop capabilities, productivity and competitiveness (prior to SAPs and afterwards) played important roles in the fall of the industry. Thus, this research sets out to explore the evolution of the industry, analyse and build on the factors that have shaped the growth, decline and collapse of the industry, and using Khan (2010, 2018)'s political settlement framework and insights from rent analyses (Pritchett, Sen & Werker, 2018; Khan & Jomo, 2000), identify the political economy factors/variables that militate against the success of textile revival policies. Thus, this research is novel in at least three important respects: One, the research goes beyond the simple refrain of existing literature that the introduction of SAPs in 1986 and poor supply of critical infrastructure, in and of themselves, sounded the death knell for the industry (see Onyeiwu, 1997; Maiwada & Renne, 2013; Muhammad et al 2019; Renne & Maiwada, 2020). Two, the research applies, for the first time, the political settlement framework and the concept of rent space to explain why textile revival policies introduced under Nigeria's clientelist political settlements have failed to achieve their objectives. Three, the research offers feasible, pragmatic and sequential solutions/recommendations on how the Nigerian textile industry can be successfully transformed. The sequential policy approach suggested offers a refreshing break from the over-ambitious attempts by Nigerian policy makers to address all problems in the industry's almost independent sub-sectors (cotton farming, textile manufacture and garment making) at once which risk, and indeed record, failures in all.

This chapter therefore has three important research questions to address as follows: (a) How did the Nigerian textile industry evolve from inception in 1957 to date? (b) What factors might have accounted for the failure of the industry? (c) Why have textile revival policies failed?, and (d) Given (a), (b), and (c) above, and with the benefit of our understanding of how the BIP has succeeded in transforming the cement industry, how can textile industrial policies be feasibly designed and pragmatically implemented within the current competitive clientelism to transform the industry?



The chapter proceeds by explaining the textile manufacturing process and exploring the profile of the Nigerian textile industry in **section 7.2**. In **section 7.3**, the historical developments leading to the rise, decline, and collapse of the industry are explored. In **section 7.4** the existing explanation as to why Nigeria's textile industry has failed is first reviewed before, building on this, I highlight the importance of the problem of capabilities and productivity development that is often mentioned only in passing in existing literature. Evidence confirming the lack of development of capabilities, productivity and competitiveness in the industry are also presented and analysed in this section. In **section 7.5**, policy attempts at reviving the textile industry are reviewed before the political settlement framework and the concept of rents space are applied in **section 7.6** to explain the failure of these textile revival policies within the context of the Nigerian political economy. **Section 7.7** explores the profiles, performances, challenges and prospects of some active/successful small-scale privately owned textile firms. The chapter is concluded with **section 7.8**, which concisely summarises its content.

## **7.2 The textile manufacturing process and the profile of the Nigerian textile industry**

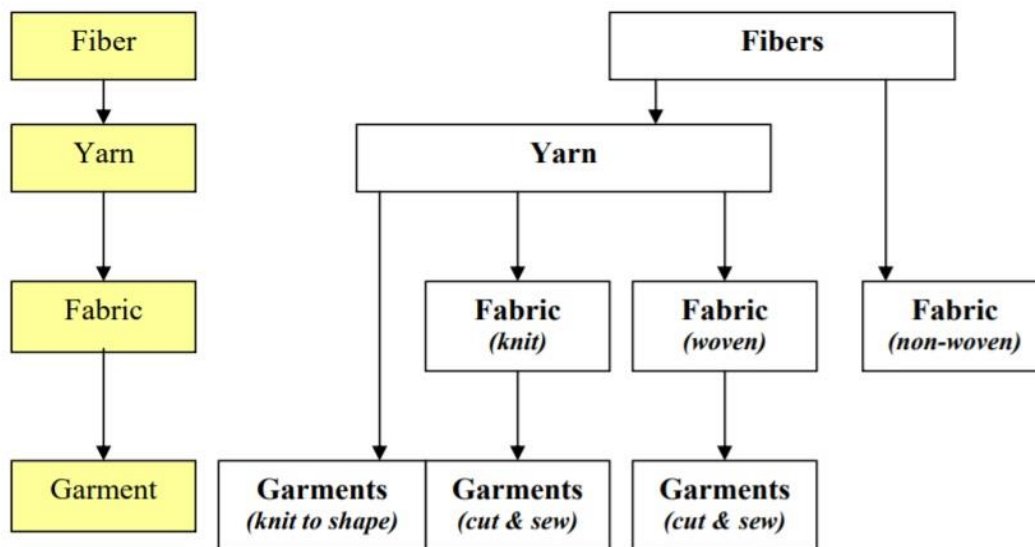
### **7.2.1 The textile manufacturing processes and sub-sectors.**

There are three major steps in the textile and garment production processes. These are yarn manufacturing (from fibre), fabric formation and garment making<sup>51</sup>. These stages can be explained below using the following figure 21:

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<sup>51</sup> The textile manufacturing processes are explained in great details by Uddin (2019), Bishop & Smith (2004) and Gereffi & Memodovic (2003). I summarise the processes here in simple terms.

FIGURE 21 PROCESSES OF TEXTILE/GARMENT PRODUCTION



Source: Bishop & Smith (2004)

- (i) *Yarn manufacturing*: This first stage begins with the preparation of the main raw materials, that is, natural fibre or synthetics (man-made fibre). The natural fibres which are raw cotton are ginned, cleaned, blended, carded, aligned, elongated, and spun into small bundles (cones) of threads called yarns. Yarns come in different linear density, diameter, hairiness, permeability, and durability depending on what end product they are made for.
- (ii) *Fabric formation*: Yarns are the raw materials for fabric formation. Fabrics could be made through the weaving process by interlacing a warp (lengthy way thread) with a weft (cross way thread) or through knitting by interlocking yarns into one another. The grey fabric is formed which could then be dyed or printed upon or simply left for use in that state. Weaving is the most common way of fabric making. Fabrics are differentiated based on texture, lustre, washability, permeability and durability.
- (iii) *Garment making*: A garment (also known as apparel) is a piece of cloth such as a shirt, a skirt, or a pair of trousers. Garments are made from fabrics. Garments can be made via one of two methods, cut and sew or knit-to-shape. In the first method, flat fabrics are cut into required pieces for sewing into a whole apparel. In the second, garments are knit to shape directly from manufactured fabric by the knitting machine.

### 7.2.2 The profile of the Nigerian textile industry.

The establishment of the Kaduna Textiles Limited (KTL) in 1957 and other subsequent textile companies in the ensuing decades gave birth to the Nigerian textile industry. Initially, regional governments were the ones who partnered with foreign capital from Western Europe and America to establish these textile companies. Later on, however, the enactment of the Nigerian Enterprises Promotion (indigenization) Decree (NEPD) of 1972 (amended in 1977) led to the withdrawal of investments by these European and American partners and their replacement with the Indian, Chinese and Lebanese textile producers who were hitherto mainly into cloth trading. The decree came up with two schedules of enterprises in Nigeria. On the list of schedules 1 were 22 enterprises (such as singlet manufacture, bread & cake making, blocks, bricks, and ordinary tiles manufacture) exclusively reserved for participation by Nigerians to the exclusion of foreigners. Schedule 2 contains 33 enterprises (such as screen printing on cloth & dying, manufactures of cement, bicycle, matches, and metal containers) for which foreigners could have a maximum equity holdings of 60%. This was with a view to retaining the expertise and capital of foreigners in these enterprises and increasing the participation of Nigerian at the same time. However, by 1977, when the decree was amended, foreigners' share of maximum equity ownership in schedule II was reduced to a 40% maximum (Mohammed, 1985).

During its heydays between 1970s and early 1980s, the industry annually produced 400 to 600 million meters of cloth (NTMA, 1985). The contributions of the industry in terms of employments and manufacturing value-added (MVA) in 1984 were 22% and 15% respectively (UNIDO, 1985). In 1981, around 250,000 workers were employed in the industry (Onyeiwu, 1997). The following table 13 provides a list of the top 20 textile firms by employment size as ranked in 1992 by Andrae & Beckman (1999).

**TABLE 12 TOP 20 TEXTILE COMPANIES BY EMPLOYMENT SIZE (RANKED 1992)**

S/N	Textile Companies	Years			
		1980	1984	1988	1992
1	UNTL, Kaduna	7,522	6,979(1983)	4679	6037
2	Arewa Tex.,Kaduna	3,863	3,177	2598	3193
3	Afprint, Lagos	3,620	3,554	3104	3170
4	Nichemtex, Lagos	NA	3099	2626	3080
5	KTL, Kaduna	4,000	2920	2144	2488
6	Specomills, Lagos	NA	2282	2131	2373

7	Five Stars, Lagos	NA	1800	1696	1679
8	Bagco, Lagos	NA	1189	940	1639
9	NTM, Lagos	2,735	2900	1829	1624
10	Zamfara Tex. Gusau	2,220	1181	1463	1616
11	Enpee, Lagos	1,780	1603	1284	1517
12	GCM, Onitsha	3400	2000	1317	1378
13	Asaba Tex., Asaba	NA	NA	NA	1331
14	Aba Tex., Aba	1894	1760	1215	1193
15	Gaskiya, Kano.	Not op.	Not op.	851	1140
16	President, Lagos	1239	843	966	1113
17	Supertex, Kaduna	NA	NA	532	1065
18	Bhojson, Lagos	NA	NA	1046	1057
19	Funtua Tex., Funtua	80	922	693	1005
20	Spintex, Lagos	NA	300	572	1004

Note: NA=not available; not op.=not opened/operational

Source: Andrae & Beckman (1999)

From table 13 above, as of 1992, the top 20 largest textile firms in Nigeria employed around 40,000 workers. Out of these 20 largest companies, 10 were based in Lagos. And although Kaduna trailed Lagos with 4 large, integrated firms, three of these four Kaduna-based companies were among the top 5 biggest in the country with the number of employees at UNTL Kaduna alone (6,037 workers) almost double those of the biggest firms in Lagos. Most textile firms in Kano were small and medium scale and hence only one Kano-based firm, Gaskiya Textiles Ltd, featured among the top 20 as of 1992. The companies were mostly owned by Indians, Chinese, and Lebanese after the American and Western European investors divested their shares and left Nigeria in the wake of the indigenization degree of the 1970s. This was despite the fact that the decrees had permitted foreigners to own up to 60% in spinning and weaving segment of the industry leaving the print and dyeing segment for Nigerians to have a share of at least 40% equity (according to the NEPD of 1972) before it was reviewed upward to 60% (as per the amended NEPD of 1977) (Mohammed, 1985; Andrae & Beckman, 1999). The profile of companies (who registered with the Nigerian Textile Manufacturers Association (NTMA)) in terms of location, whether they were integrated (spinners) or non-integrated (non-spinners), nationality of owners, and type of process are captured in tables 14 and 15.

TABLE 13 TEXTILE COMPANIES, LOCATION AND THE NATIONALITY OF THEIR OWNERS

Spinners	Indian	Chinese	Lebanese	Nigerian	Other	Total
Lagos	3	2	1	1	1	8
Kano			4	1	1	6

<b>Kaduna</b>		2		1	1	4
<b>Other South</b>		1		3		4
<b>Other North</b>		3		1		4
<b>Sub-Total</b>	3	8	5	7	3	26
<b>Non-Spinners</b>						
<b>Lagos</b>	24	1	1	3	1	30
<b>Kano</b>	1		1	1		3
<b>Kaduna</b>	2	1				3
<b>Other south</b>				2		2
<b>Other North</b>						0
<b>Sub-Total</b>	27	2	2	6	1	38
<b>Total</b>	<b>30</b>	<b>10</b>	<b>7</b>	<b>13</b>	<b>4</b>	<b>64</b>

Source: Data collected by author from the Lagos office of the Nigerian Textile Manufacturers Association (NTMA) based on its survey report of 1985 (see also Andrae & Beckman, 1999)

From table 14 above it can be seen that, the Nigerian textile industry consisted of a total of 26 spinners. Most of these spinners who integrated backward into cotton spinning were mostly owned by the Chinese (especially the Hong Kong Cha Group) and located in the north, that is, where cotton was mostly grown in Nigeria. Six of these spinning firms were located in Kano, four in Kaduna, and another four in other parts of the northern region. The entire south had 12 of these integrated firms (eight in Lagos and the rest in other southern locations). These spinners who were also weavers accounted for about 80% of the industry's weaving capacity. In terms of the nationality of owners of textile firms that were also spinners, the Chinese dominated with eight firms while seven firms were owned by Nigerians (both state-owned and private). The Lebanese had five companies while Indians and others had three each. Of the 38 non-spinning textile firms, the south led the way with a total of 32 non-spinners (30 in Lagos and 2 in other parts of the south). The Indians were the owners of most of these non-spinners mostly clustered in and around Lagos. The north had only 6 non-spinning textile firms (three each in Kano and Kaduna). These spinning and non-spinning firms, however, were mostly large-scale textile firms that were registered with the NTMA as of the mid-1980s. There were lots of other unregistered small- and medium-scale textile companies scattered across the country (Kwajaffa, 2020; interview 7).

**TABLE 14 PROCESS TYPE BY NATIONALITY AND LOCATION FOR NTMA MEMBERS (% OF INSTALLED MACHINERY)**

<b>Nationality</b>	<b>Spindles</b>	<b>Rotors</b>	<b>Shuttle Looms</b>	<b>Shuttle-less looms</b>	<b>Knitting</b>	<b>Embroidery</b>
<b>Indian</b>	13	31	17	63	86	88
<b>Chinese</b>	36	7	46	0	3	12
<b>Lebanese</b>	6	36	0	13	0	0

<b>Nigerian</b>	34	19	28	11	11	0
<b>Other</b>	11	6	10	13	0	0
<b>Total (%)</b>	100	100	100	100	100	100
<b>Location</b>						
<b>Lagos</b>	33	40	39	69	97	60
<b>Kano</b>	9	42	3	22	0	7
<b>Kaduna</b>	33	18	33	8	0	0
<b>Other south</b>	15	0	16	1	3	0
<b>Other north</b>	9	0	8	0	0	0
<b>Total (%)</b>	100	100	100	100	100	100
<b>Numbers</b>	662268	4893	18409	2060	811	215

Source: Data collected by author from the Lagos office of the Nigerian Textile Manufacturers Association (NTMA) based on its survey report of 1985 (see also Andrae & Beckman, 1999)

In terms of the technology or manufacturing process, textile companies owned by Indians, and to an extent, Lebanese possessed more modern technology than those owned by Nigerians and Chinese as the above Table 7C shows. From this table, we can see that in terms of the percentage of the modern rotors for spinning and shuttle-less looms for weaving and knitting, companies that had the least share were those designated as Nigerian (19% of rotors and 11% of shuttle-less looms) and Chinese (7% of rotors and 0% of shuttle-less looms). Thus, the use of the conventional spindles and looms were highly concentrated in the large-scale and integrated Chinese (with 36% of spindles and 46% of looms) and Nigerian state-owned textile companies (34% of spindles and 28% of looms). The Indians had the most modern technology exemplified by their possession of 31% of rotors and 63% of shuttle-less looms. The Lebanese followed with 36% of rotors and 13% of shuttle-less looms (see table 15 above).

However, events such as the introduction of the IMF/World Bank-sponsored adjustment programs (SAPs) in 1986 led to a sharp fall in the value of the naira. From 1970s up to mid-1980s, a US dollar had exchanged for less than 1 naira. However, with devaluation in 1986, the value of the naira fell so sharply that it ranged from N3 to N5 for a dollar in the second-tier foreign exchange market (STFEM) (Bangura, 1991). This devaluation had the effects of making imports of textile equipment and spare parts relatively more expensive. This accelerated the collapse of the industry as malfunctioned machines could not be repaired nor technology upgrade or new investments could take place. Although undervalued naira also created the opportunity for exports, the textile industry's capacity had by then fallen to less 40% and textile output could not even meet domestic demand. This, however, did not, according to some accounts, stop some amounts of textile exports from Nigeria to some Francophone countries of West Africa whose currency, the CEFA Franc, appeared overvalued compared to the naira (Andrae & Beckman, 1999). But, starting from the 1990s, the influx of

Chinese textile materials with which the few surviving Nigerian textile firms operating at less than 30% by now could not compete placed further stress on the industry (Muhammad *et al.*, 2017). However, the predictable complete collapse of the industry was to come in the 2010s which saw the domination of the Nigerian textile markets by imported textiles from China.

However, against the backdrop of all the challenges facing the industry, there are around 36 small and medium-scale textile companies still operating at between 40-70% capacity (see table 16 below). These islands of success help keep the hope of policy makers alive that the industry can still be salvaged. Looking at table 16, it is obvious that most of these surviving textile companies are largely owned by foreigners (mainly Indians and Lebanese). In fact, those wholly owned by Nigerians such as Adhama Textiles & Garments, Femro3 and others are small-scale. As it shall soon be explained, even though these foreigners lack the political connection to influence textile revival policies like the cement industrialists were able to, yet the technological and organizational capabilities they possess help them to organize profitable textile production against all the challenges.

TABLE 15 TOP TEN ACTIVE TEXTILE COMPANIES IN NIGERIA

	Company	Year Established	Location	Owners	Status	Capacity Utilization
1	Sunflag Textiles	1961	Lagos	Indians	active	Over 70%
2.	Funtua Textile	1978	Funtua, Katsina	Chinese/Nigerians	active	50%
3.	Woolen & synthetics	1968	Lagos	Indians	active	70%
4.	Jaykay Carpets & Rugs	1981	Kano	Indians	active	Over 70%
5.	ATM	1980	Kano	Lebanese	active	50%
6.	Adhama Tex.& Garment	1978/9	Kano	Nigerian	active	40%
7.	Terytex Nig. Ltd	1980	Kano	Indian	active	40%
8.	Angel Spinning	1981	Kano	Lebanese	active	60%
9.	Femro3	1985	Lagos	Nigerian	active	70%
10.	Zaria Industries Ltd	1975	Zaria, Kaduna	Kaduna State/Japanese	active	40%

Source: Fieldwork 2020/21

Also, most of the active textile/garment firms are not integrated. They import semi-finished textile products (cotton lint, yarns etc) from Asia particularly India and processed same into finished textile products. This significantly limit the

severity of their challenges as they bypass the upstream sub-sector (of cotton ginning and spinning).

### **7.3 The rise, decline, and collapse of the Nigerian textile industry.**

#### **7.3.1 The rise of the industry (1950s to mid-1980s)**

The most explosive growth period for the Nigerian textile industry was witnessed between 1970s and mid-1980s (Onyeiwu, 1997). During the early 1970s, the cotton produced in Nigeria was more than enough to meet the demand of the Nigerian textile industry (Andrae & Beckman, 1999). However, because this period coincided with the advent of the first oil boom with its consequent inflows of huge oil revenues and the overvaluation of the Naira, textile companies found it more profitable to import cotton lint from abroad than to use locally produced cotton (Kwajaffa, 2020, Interview 7). The reason for this, according to Kwajaffa (ibid), was that the local spinning capacity then was ‘too small to process the locally produced cotton’. And ‘there was little attempt either by the textile companies or the government to expand the capacity of the existing spinning firms, hence the domestic cotton was largely unprocessed and therefore under-utilized’ (ibid). The overvaluation of the naira in particular made imports of raw materials and equipment relatively cheaper and exports more expensive. Hence, during this period, there was huge investments in capacity in the industry as imports of textile machines and spare parts were encouraged by the overvalued naira. During the 1960s, the industry was effectively the largest cotton cloth producer in whole of West Africa (White & Gleave, 1971). The growth continued well into the 1970s with the number of mills which was 69 in 1968 rising to around 125 by 1973. Similarly, the number of workers employed in the industry which was 9,381 in 1964 dramatically rose to 49,011 in 1973 (Onyeiwu, 1997).

In fact, according to Ekuerhare (1978), with the establishment of the first textile company in 1957, the era of rapid growth for the industry was launched. This growth particularly accelerated in the second half of the 1960s before it decelerated in the immediate post-civil war period or the early 1970s (see table 17 and figure 22). However, the advent of the first oil boom in 1973 facilitated technology upgrade and new investments in capacity which began to mature in the second half of the 1970s (Andrae & Beckman, 1999).

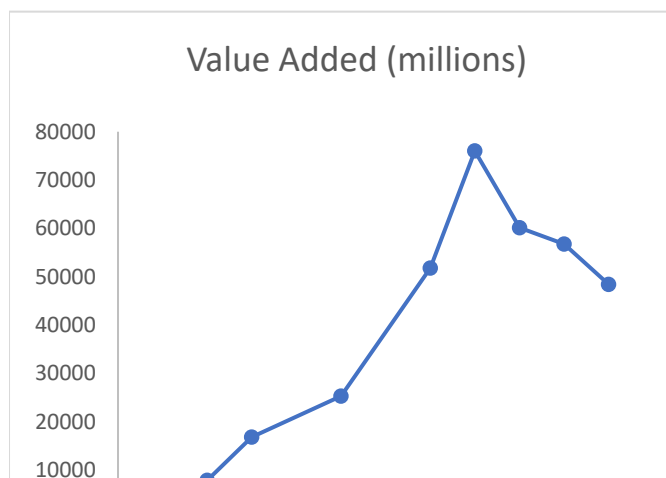


**TABLE 16 NIGERIA'S TEXTILE INDUSTRY'S GROWTH OF VALUE ADDED (1964-1973) AT 1963 PRICES**

Year	Value Added (millions)	%Change (Year on Year)
1964	7873.5	
1965	16824.2	113.7
1967	25310.3	50.4
1969	51763.6	104.5
1970	76014.4	46.8
1971	60104.2	-20.9
1972	56789.8	-5.5
1973	48379.8	-14.8
Average Annual Growth Rates (%)		
1964-1973	30.5	
1964-1970	52.6	
1970-1973	1.4	

Ekuerhare (1978)

**FIGURE 22 NIGERIA'S TEXTILE INDUSTRY'S GROWTH OF VALUE ADDED (1964-1973) AT 1963 PRICES**



From table 17 above, it can be seen that between 1964 and 1970 there was a steady growth of value added in the Nigerian textile industry. This growth, however, decelerated in the immediate aftermath of, and possibly due to, the Nigerian civil war fought between 1967 and 1970 as well as the saturation of capacity/markets. Average annual growth rates for the industry in terms of value added between 1964 and 1973 was 30.5%. This rose to 52.6% during 1964-1970 before growth dramatically decelerated to an annual average of 1.4% between 1970 and 1973 (see table 17 and figure 22 above).

Moreover, domestic fabric production as a percentage of total supply (imports plus domestic production) also continued to increase progressively from 1959 to 1971 (see table 18 and figure 23 below). Growth, however, declined between 1972 and 1973 for reasons adduced above.

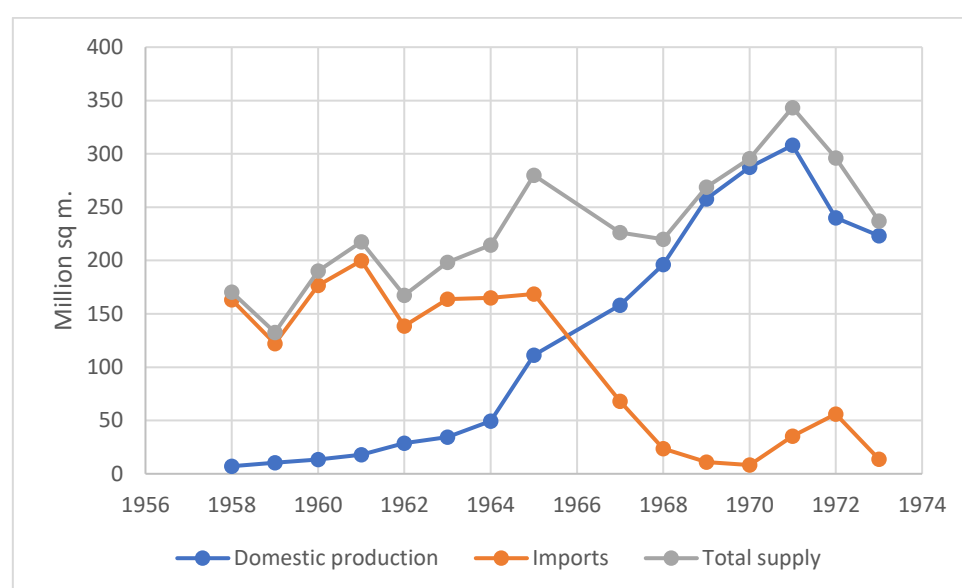
**TABLE 17 THE GROWTH OF DOMESTIC PRODUCTION OF TEXTILE FABRICS, IMPORTS, AND TOTAL SUPPLY 1958-1973 (MILLION SQUARE METRE)**

Year	Domestic production	Imports	Total supply	Domestic production as % of total supply
1958	7.1	163.3	170.4	4.17
1959	10.5	122.1	132.6	7.92
1960	13.5	176.8	190.3	7.09
1961	17.8	199.8	217.6	8.18

1962	28.8	138.5	167.3	17.21
1963	34.5	163.7	198.2	17.41
1964	49.5	164.9	214.4	23.09
1965	111.4	168.5	279.9	39.80
1967	158.2	68	226.2	69.94
1968	196.3	23.7	220	89.23
1969	257.8	11	268.8	95.91
1970	287.3	8.2	295.5	97.23
1971	308	35.4	343.4	89.69
1972	239.9	56.1	296	81.05
1973	223.1	13.8	236.9	94.17

Source: P.A Mgt. Services, S.A and Skoup & Company Ltd (1974)

FIGURE 23 THE GROWTH OF DOMESTIC OUTPUT AND IMPORTS OF COTTON (BROAD WOVEN) TEXTILES (1958-1973)



Source: Author based on table 18

The industry's contribution in terms of employments and value addition continued to increase. In fact, between 1971/2 and 1984, the Nigerian textile industry was second only to the food, beverages and tobacco industry in terms of creation of employments and manufacturing value added (MVA) as the following table 19 confirms.

TABLE 18 MANUFACTURING VALUE ADDED AND EMPLOYMENT DISTRIBUTION BY GROUP OF INDUSTRY.

Industry grouping	Years							
	1971/72		1977/78		1980		1984	
	MVA	Employment	MVA	Employment	MVA	Employment	MVA	Employment
<b>Consumer goods</b>	74.5	70.3	65.7	71.8	62.6	69.9	74.9	69.9
Food, beverages & tobacco	26.6	35.7	26.5	21	27.6	19.9	32.1	19.6
<b>Textiles &amp; wearing apparel</b>	<b>27.7</b>	<b>18</b>	<b>14.6</b>	<b>26.4</b>	<b>8.9</b>	<b>19.7</b>	<b>15.2</b>	<b>18.3</b>
Leather goods & footwear	2.3	0.7	1.2	1.8	0.7	1.3	2.5	3.8
Paper products & printing	7.6	4.6	5.2	5.6	4.3	6.6	5.2	6.7
Wood and metal furniture	6.1	2.1	3.8	5.2	3.7	6.6	2.1	3.8
Plastics & rubber products	5.1	2.3	3.3	6.1	4.1	9.1	2.9	4.5
Other non-durable goods	4.6	6.2	10.2	5.2	12.2	5.8	13.5	12.2
Television and radio	0.6	0.8	0.9	0.5	1	0.9	1.4	1
<b>Intermediate goods</b>	24.2	29	25.8	23.1	15.8	23.5	18.5	22.8
Chemicals and paints	1.9	11.5	7.9	2.4	3	2.2	1	1.3
Leather tanning & finishing	0.6	0.4	0.4	0.4	0.2	0.2	0.1	0.3
Tyres and tubes	1.5	2.4	0.8	1	0.6	0.9	0.8	0.6
Sawmills and wood products	6.1	2.1	0.8	5	3.4	7.5	0.4	1.9
Building materials	4	3.7	4.9	6.1	0.4	0.7	3.8	2.2
Metalworking industries	8.7	8.2	8.7	8.8	4.6	6.9	8.5	12.2
Miscellaneous	1.4	0.7	0.3	0.4	3.8	5.1	4	4.2
<b>Capital goods</b>	1.3	0.7	8.5	5.1	21.5	6.6	6.6	7.4
Machinery & equipment	0.3	0.2	3.5	1.6	0.6	1.1	1.1	1
Electrical equipment	0.6	0.4	1	0.9	0.7	1.1	0.9	1.3
Transportation equipment	0.4	0.1	4	2.6	20	4.4	4.6	5.1
Total	100	100	100	100	100	100	100	100

Source: World Bank (1990)

The growth of the industry can be attributed to series of incentives provided by the government. Among other measures, the industry was heavily protected with an effective rate of protection of 120% in 1968 (Onyeiwu, 1997). In 1971, Diaku (1975) and Ekuerhare (1978) reported effective protection rates of 136%, 97%, 91%, 80% and 92% for cotton prints, shirting, polyester, furnishing fabrics and suits, respectively. Other incentive measures provided by governments in Nigeria to encourage the growth of the textile (and other manufacturing activities) in the country are explained in some details belows:

- (i) *Tax incentives*: There were series of tax incentives provided by the Nigerian government to encourage the growth of the manufacturing sector in general, and the textile industry in particular. These incentives were encapsulated in three major legislations with the first being the Industrial Development (Import Duty Relief) Act of 1957. This act granted waivers on the import of machineries, spare parts, and related capital goods. The second was the Custom Duties (subsidized and dumped goods) Act of 1958 which placed high duties on some categories of imported goods and complete ban on others. The third incentive was the Company Income Tax Act of 1961, which was a tax relief granted for 3 to 5 years for both indigenous and foreign firms based on some criteria. These were profit volumes, integration, and technology levels. Assessing the effectiveness of tax reliefs to the growth of manufacturing sector in Nigeria is difficult especially in the decades following independence

in 1960. This is because tax incentives were applied by almost all post-independent governments in Africa to attract foreign investment. However, for Nigeria, between 1955 and 1968, it was estimated that the country provided the equivalents of some eighty million naira in various tax reliefs granted to firms (Ekuerhare, 1978). Moreover, between 1963 and 1973, only twelve textile mills were said to have benefited from income tax reliefs awards out of the 101 approved for all firms<sup>52</sup>. Thus, the contribution of tax incentives to the growth of the Nigerian textile industry and manufacturing generally was, in some account, minor (World Bank, 1974). In fact, World Bank (ibid) concluded that 60% of the investments that benefitted from tax reliefs would have occurred anyway (even without such incentives) given the attractiveness of the Nigerian textile markets at the time.

- (ii) *Infrastructural incentives*: Due to the shortage of infrastructural facilities such as electricity, road networks, water and other amenities, the Nigerian government especially since the early 1970s constructed several industrial estates across the country (Ekuerhare, 1978; Andrae & Beckman, 1999). These estates had good access roads and were connected to water and electricity from the national grid (ibid). This was with a view to reducing production costs. Also considered as part of infrastructural incentives were assurances given to foreign investors by the government especially prior to the enactment of the (in)famous indigenization decree of 1972 that their investments would not be nationalized, and that they were always free to ship their profits or even divest and move back home with their capital (Ekuerhare, 1978). However, the extent to which infrastructural incentives had facilitated the growth of the Nigerian textile industry was hard to come by as observed by Kilby (1969).
- (iii) *Credit incentives*: Textile industries in Nigeria benefited heavily from long-term credit facilities granted by state-owned financial institutions such as the Nigerian Industrial Development Bank (NIDB), the Northern Nigerian Investments Limited (NNIL) as well as commercial banks which provided short-term loans. Of all the other industries, the textile emerged as the top beneficiary of long-term loans from the NNIL (see Ekuerhare, 1978). In 1971, with its portfolio investment in 8 textile firms worth N5.8 million, the NNIL had 62.2% of its entire portfolio investments in the textile industry (UNIDO, 1985). Similarly, between 1964 and 1972, the textile industry was the biggest beneficiary of investment loans from the NIDB accounting for 46.3% of total loans approved (ibid). This

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<sup>52</sup> See a report by Skoup & Co. Ltd and Werner Tex. Consultants (1973).

lends credence to the conclusion by Ekuerehare (1978) that compared to other manufacturing industries, the amounts of investible funds injected into the textile industry by the duo of NIDB and NNIL was by far greater than that of any other industries. This bias in NIDB's investments portfolios towards the textile industry was because the NIDB used the effective rates of protection for various industries as a measure of the risks of investments portfolios of industries (Diaku, 1975). The viability or profitability of investments was therefore taken to be a function of the levels of effective rates of protection. Thus, with effective rate of protection for the Nigerian textile industry being as high as 136% in 1971 (see Ekuerehare, 1978; Onyeiwu, 1997), the industry was poised to attract substantial portfolio investments from the NIDB, and by extension, other financial organizations. Commercial banks have also served as sources of finance for investments in the textile and the entire manufacturing sector of the Nigerian economy. Whereas in 1958 loans to the manufacturing sector by commercial banks was just 5% of all total loans, this progressively increased over the years reaching up to 20% by 1969 (Diaku, 1975). Moreover, in its efforts towards injecting more funds in to the manufacturing sector in general, the Central Bank of Nigeria (CBN) raised the percentage of commercial banks' loans to be given to the sector to 35% and 48% in 1969 and 1970, respectively. Of the import-substituting industries that dominated the consumer-goods-oriented manufacturing sector of Nigeria, the textile and apparel industry is the second biggest (after food, beverages, and tobacco industry) in terms of value addition and employment generation. From 2009 to 2020, the CBN, according to its governor, Mr Godwin Emefiele, disbursed N44 billion (US\$ 106.9 million) towards the implementation of the Cotton, Textiles and Garment (CTG) policy introduced by President Muhammadu Buhari (The Sun, 1<sup>st</sup> June 2021). However, even well into the last quarter of 2021, none of the CTG policy target has been met.

- (iv) *Tariff incentives*: In their bid to protect domestic manufacturing firms, successive Nigerian governments have administered several measures such as imposition of tariffs, import quotas, licenses and or even total bans on imports. Industrial growth in Nigeria especially in the post-independent decades has been linked to high tariff protection (see Oyejide, 1975). Tariff measures have also been used in Nigeria for purposes of revenue generation, curtailing of imports to conserve foreign exchange, and or to correct balance of payment problems (Falola & Heaton, 2008). The structure of the manufacturing sector in Nigeria as can be seen from Table 7G above

was such that the consumer goods industries were at the centre of import-substituting industrial strategy. This was therefore reflected in the nature or structure of tariffs as the industrial strategy permitted the imports of capital and intermediate goods for the domestic production of consumer goods. Consequently, the following table 19 which compares the average effective rate of tariff protection for 8 countries reveals two important features of Nigeria's protectionist policy: One, Nigeria used high tariff to protect its industries; two, these tariffs are differentiated in favour of the imports of capital and intermediate goods against the imports of consumer goods.

TABLE 19 INTERNATIONAL COMPARISON OF EFFECTIVE RATES OF TARIFF PROTECTION (IN %)

Country	Year	Average Effective Rates of Tariff Protection			
		Capital Goods	Intermediate Goods	Consumer Goods	All Industry
Argentina	1958	133	167	164	162
Brazil	1966	31	68	230	118
Mexico	1960	55	34	22	27
India	1961	NA	NA	NA	313
Pakistan	1963/64	155	88	883	271
Philippines	1965	80	65	94	49
Kenya	1968	NA	20	69	48
Nigeria	1965	NA	76	181	147
Nigeria	1970	NA	85	315	299

Note: NA=Not Available

Source: Oyelabi (1975)

From table 20 above, Nigeria has an effective rate of protection for its manufacturing sector of 299% in 1970. This is only surpassed by India with an effective protection rate for its industries of 313% in 1961. In terms of the categories of goods for which differentiated tariffs were imposed in Nigeria, the consumer goods industries that were the target of industrial policies emerged as the most protected. This can be seen in the rise of effective rate of protection of consumer goods from 181% to a whopping 315% against the margin of the rise for intermediate goods from 76% to just 85% (see table 20 above). For the textile industry in particular, effective rates of protection was as high as 136% for cotton prints textiles (see Diaku,1975; and Ekuerhare, 1978).

Indubitably, the cumulative effects of these series of incentives were seen in the growth of the Nigerian textile industry in terms of both value addition (see table 19) and output (see table 18 and figure 22) since the establishment of the first textile company, the KTL. However, productivity growth in the industry was not as substantial. Comparing Nigeria's cotton and labour costs of producing a

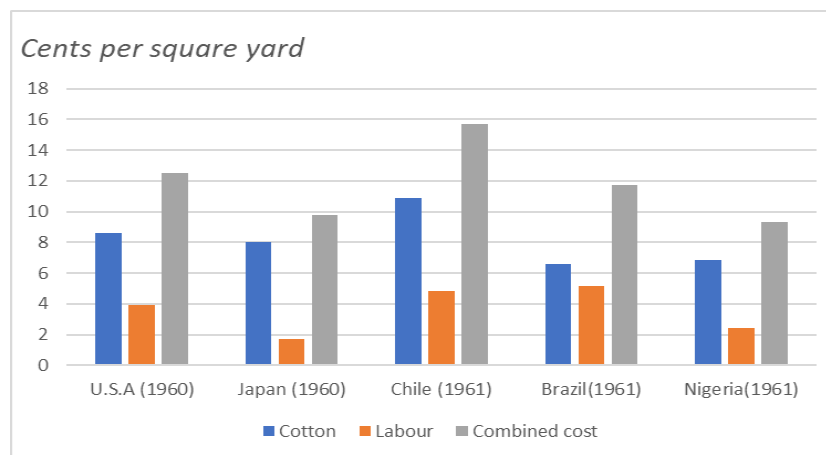
yard of grey cloth (in cents) and those in the USA, Japan, Chile and Brazil, Kilby (1969) found that based on these two input costs, Nigeria's production costs appear to be very competitive (see table 21 and figure 24). However, when other production costs such as those for electricity, fuel, and water were factored in, Nigeria's total production costs turned out to be higher than those in all four countries. For instance, the costs of fuel, power and water per yard in Japan was estimated to be 0.5d (0.5 penny) against Nigeria's 1.2d (Kilby, 1969).

**TABLE 20 COMPARATIVE COSTS OF GREY CLOTH (CENTS PER SQUARE YARD)**

	<b>U.S.A (1960)</b>	<b>Japan (1960)</b>	<b>Chile (1961)</b>	<b>Brazil(1961)</b>	<b>Nigeria(1961)</b>
Cotton	8.61	8.05	10.87	6.57	6.86
Labour	3.92	1.72	4.8	5.16	2.45
Combined cost	12.53	9.77	15.67	11.73	9.31

Source: Kilby (1969)

**FIGURE 24 COMPARATIVE COSTS OF GREY CLOTH (CENTS PER SQUARE YARD)**



Source: Author based on table 21

Textile firms in Britain, Netherlands and Japan also accessed electricity at prices less than 1d (one penny) per kilowatt hour (kWh) against Nigeria's cost of 3d (three pence) per kWh (ibid). Moreover, labour efficiency as expressed by the number of Spindles and looms per worker was also lower in Nigeria compared to what was obtainable in frontier-countries such as Japan and Singapore (see tables 22 and 23).

**TABLE 21 EFFICIENCY OF LABOUR IN TWO NIGERIAN FIRMS COMPARED WITH THE APPROXIMATE BRITISH STANDARD.**

Nigerian Textile firms/British Standard	Years	Spinning		Weaving	
		Spindles/worker	Efficiency (%)	Looms/worker	Efficiency (%)
KTL	1958	500	75	10	80
	1964	1000	90	12	92
NTM	1964	800	90	14	85
British Standard (Approx.)		1600	90	24	90

Source: Kilby (1969)

From the above table 22, it can be seen that labour efficiency in Nigeria is a little more than ½ of Britain’s. The average hourly wage (bonus inclusive) for Nigerian textile workers (sweepers and deputy overlookers) in KTL and NTM companies in 1964 was 1s. 2d. against UK’s 7s. (Kilby, 1969). Also, as can be seen from table 23 below, the picture was not significantly different in 1981 where the number of looms per worker in Nigeria was way below those in Japan and Singapore (Andrae & Beckman, 1999).

**TABLE 22 LABOUR EFFICIENCY IN NIGERIA, JAPAN AND SINGAPORE IN 1981**

Country	No. of Looms per Worker
Nigeria	18-24
Japan	160-190
Singapore	40-60

Source: Andrae & Beckman (1999)

According to UNIDO (1985), the spinning output per hour in Nigeria in the early 1980s, was 1/3 of the level in Italy, half that of Greece and around 40% of the level in Turkey. Thus, productivity growth was not commensurate with output growth leading to such a decline in capacity that by 1983, capacity utilization in the industry had fallen to around 30% (Andrae & Beckman, 1999). As the Nigeria’s economic crisis continued to worsen, output and productivity in the industry continued to plummet till the IMF/World Bank-sponsored Structural Adjustment Programs were introduced in June 1986.

### **7.3.2 The decline and collapse of the industry (mid-1980s to 2010s)**

The end of the second oil boom in 1981/2 marked the beginning of a period of reduced oil revenues for Nigeria and hence the economy was plunged into serious debt and balance of payments crises. Sources of credit had been exhausted and Nigeria had to resort to austerity measures to stem the tide of further economic decline. Imports including those of cotton lint and other raw materials



were restricted to conserve foreign exchange and correct balance of payments problems. As indicated earlier, the oil booms of the 1970s had allowed for the expansions of investments as the over-valued naira had made imports of textile machines and spare parts easier and affordable. However, the twin booms also had their unintended consequences in that they resulted in the dramatic rise in the prices of non-tradable goods in terms of tradable ones (e.g., manufactures) through a phenomenon known as the ‘Dutch Disease’ (Collier, 1987). Shift in relative prices resulting from naira over-valuation occasioned by huge inflows of foreign exchange in the 1970s did not favour the manufacturing sector as the following table 24 shows:

TABLE 23 MOVEMENT OF RELATIVE PRICES (1973-1981)

	1973	1975	1977	1979	1981
Agriculture	100	175.9	228.8	282.2	332.8
(Food crops)	(100)	(130.8)	(215.7)	(283)	(373.3)
(Export crops (1))	(100)	(94.7)	(235.3)	(216)	(157.2)
<b>Manufacturing</b>	<b>100</b>	<b>196.8</b>	<b>199.6</b>	<b>213</b>	<b>210.8</b>
Trade and Commerce	100	152.1	214.1	270.2	323.3
Government services	100	114.4	133.7	256	291.6
Exchange Rate (2)	100	134.6	156.5	161.9	187

(1) Export prices. Domestic prices higher in individual years through support programs

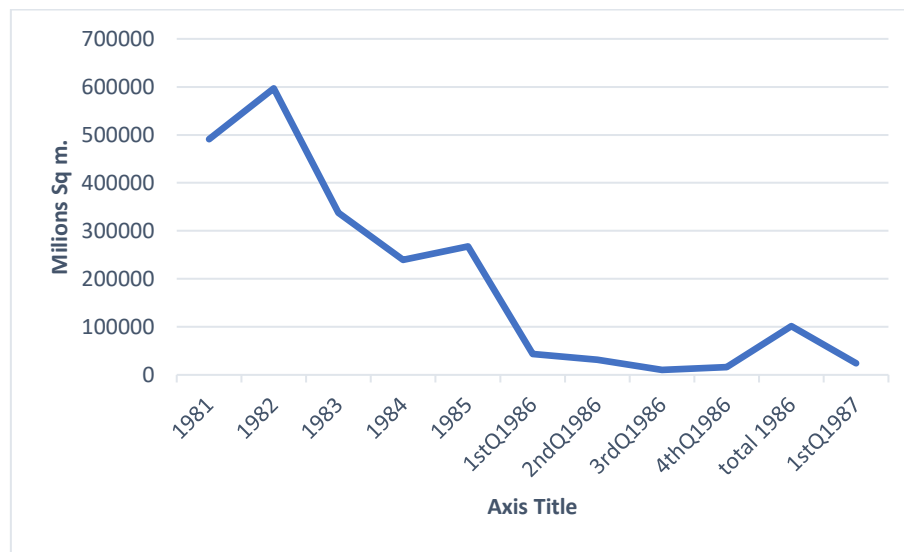
(2) Adjusted for purchasing power parity.

Source: World Bank (1983)

Public expenditure such as transfer payments (e.g., the Udoji national salary increase of 1974) and massive expenditure on infrastructures were embarked upon in the 70s. This elicited demand for labour in the construction and services sector, and hence labour migration from rural areas into the big cities in search of better paying jobs thereby sapping the rural economy of vital farmhands needed for such labour-intensive activity as cotton farming (Andrae & Beckman, 1987). The employment of educated people in government ministries and agencies resulted in the instant improvement in the employees’ living standards which encouraged parents to enrol their wards in schools thereby losing another cheap source of labour hitherto used in manual cotton planting, weeding, harvesting and ginning (ibid). This shot up rural wages and made cotton farming relatively more expensive. Hence, there was serious cotton crisis towards the end of the 1970s which textile companies did manage only by resorting to imports. However, with the foreign exchange crisis of the early 1980s, textile industries could no longer depend on imports. Consequently, by 1985, the industry’s capacity utilization fell to less than 30%, 1/3 of textile workers were retrenched with those retained underemployed (Andrae & Beckman, 1999). The industry’s textiles output which was 596,875,000 million square metre in 1982 dramatically

dropped to 23, 850,000 million square metre in the first quarter of 1987 (see figure 25 below).

FIGURE 25 DOMESTIC PRODUCTION OF COTTON TEXTILES IN NIGERIA, 1981-1987 (000, SQ. METER)



Source: Author based on data from Bangura (1991).

When it appeared that international financial organizations (especially the IMF and the World Bank) could only offer credits to Nigeria based on certain policy conditionalities, and there were no other alternative credit sources in place, the Ibrahim Badamasi Babangida (IBB) military junta was compelled to sign up for and introduce the so-called structural adjustment programs (SAPs) in June 1986. The SAPs were neoliberal policy programs that sought to liberalize the labour, capital and product markets in Nigeria. It also aimed to reduce the size of government expenditure through the removal of subsidies, commercialization and privatization of state-owned enterprises. Most, if not all, of the existing literature on the Nigerian textile industry attribute the decline and collapse of the industry wholly to SAPs. Without a doubt, the SAPs have had adverse effects on industries in Nigeria and elsewhere on the continent (see Bangura, 1991; Geo-Jaja & Mangum, 2001; Sulaiman *et al.*, 2014). However, as I have pointed out earlier, one of the key contributions of this research is to look not only within SAPs for causes of the decline and collapse of the industry but also beyond it which necessitate a thorough examination of the political economy and the nature of the industry's technology. But before that, let us address the question of the extent to which SAPs contribute to the decline of the Nigerian textile industry.

The effects of SAPs on the textile industry in Nigeria can be distilled from two key changes the program brought which pertain to trade liberalization and naira devaluation. In 1983, the World Bank (1983) observed that the naira was overvalued by around 60% hence the Bank recommended a devaluation of 25 to 30% in the first instance before further devaluation based on a quarterly review exercise could follow. However, the government opted for a 'market-led'

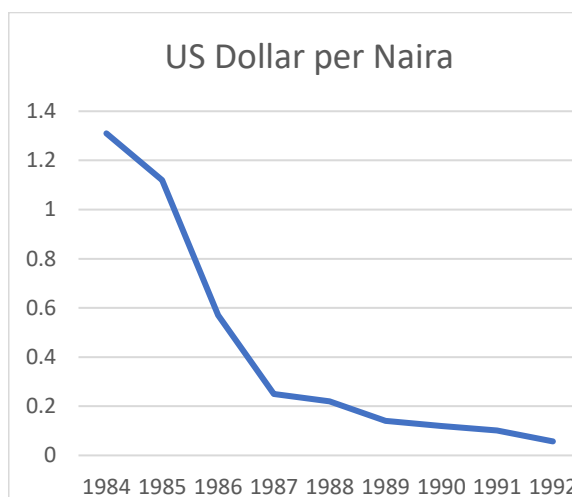
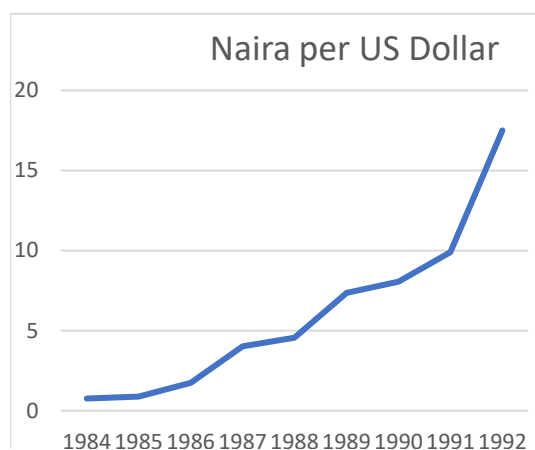
devaluation exercise where the price of the naira was allowed to be determined through an auction system called the second-tier foreign exchange market (SFEM)<sup>53</sup>. The SFEM was to be financed from foreign exchange accrued to Nigeria from sales of oils, domiciliary account, foreign direct investment and a special World Bank trade & export policy loan of \$452 million (World Bank, 1993b). Government and private transactions were undertaken under the SFEM with the notable exceptions being debt service and other official transactions which were undertaken in the first-tier foreign exchange market.

TABLE 24 AVERAGE EXCHANGE RATES IN NIGERIA (1984-1992)

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992
Naira per \$	0.76	0.89	1.75	4.02	4.55	7.35	8.06	9.9	17.5
\$ per naira	1.31	1.12	0.57	0.25	0.22	0.14	0.12	0.101	0.057

Source: World Bank (1993b)

FIGURE 26 AVERAGE EXCHANGE RATES



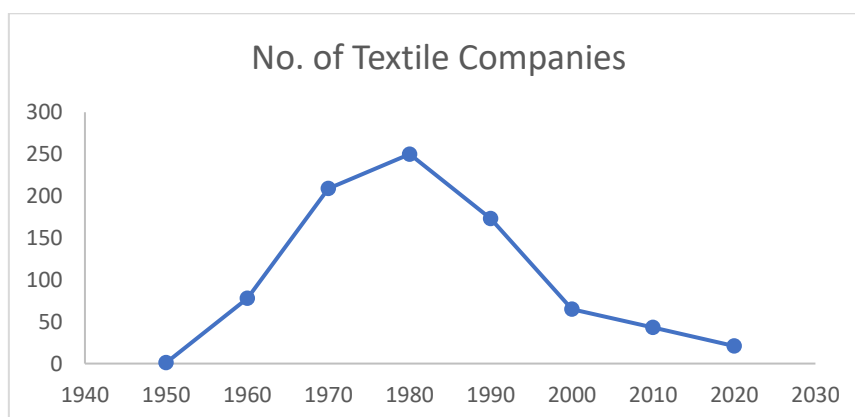
Source: Author based on Table 7M

The SFEM's first auction session opened on 29 September 1986, and ever since the value of the naira against the US dollar has been plummeting (see table 25 and figures 26 above). On the first day of the session/auction, the value of the naira fell almost by four-fold from N1.33 per \$1 to N4.5 per \$1. This is substantial given that a naira equalled one dollar just in January 1986 (Bangura, 1987). For the import-dependent and protected Nigerian textile industry, devaluation was a double-edged sword. On the one hand, devalued naira served as a protection device as it meant smugglers of foreign textile materials would now have had to pay higher to import. Also, exports of Nigerian made textile goods was incentivized by the under-valued naira although capacity utilization in the industry had by then already fallen to less than 30% to allow for any substantial volume of textile export (Andrae & Beckman, 1999). However, against the odds,

<sup>53</sup> Bangura (1987) argues that since the Central Bank of Nigeria (CBN) intervened intermittently to fix exchange rate at the SFEM, the exchange rate system under SAPs cannot be said to be market-determined or fully liberalized.

some exports to the Francophone West African countries did take place especially in the late 1980s and early 1990s (ibid). This according to Andrae & Beckman (1999) was facilitated more by the wide differential between the naira and CFA Franc following the devaluation of the naira than by productivity-induced competitive advantage. In essence, it was the price of Nigerian-made textiles in CFA francs that became the cheapest in the region and hence resulted in some unofficial exports (Andrae & Beckman, 1999). On another hand, naira devaluation also made the importation of textile-making equipment and spare parts relatively more expensive and hence companies have had to resort to using parts of dysfunctional machines to start others (Andrae & Beckman, 1999). Further investments or capacity expansion was halted, and textile companies started to lay off workers as they could only operate skeletal production (ibid). The situation for the economy generally and the manufacturing sector particularly continued to worsen as the naira tumbled to N17.5 per dollar in 1992 (Bangura, 1987). The influx of Chinese textile materials in the 1990s further complicated the situation for the industry as Nigerian textile firms could not compete initially in prices (not quality) with textile products from China (Muhammad, 2019). Thus, textile firms began to reduce their shifts or shut down altogether so that by 2000 there were only some 65 textile companies remaining and mostly operating at less than 30 capacity (see figure 26). The largest-integrated textile firms in the country, KTL, Arewa Textiles and UNTL closed down in 2002, 2005 and 2007, respectively (Maiwada & Renne, 2013). In fact, as time went by, imported Chinese products took over the Nigerian textile market and hence by 2020, there were only around 30 firms mostly small- and medium-scale and un-integrated (Kwajaffa, 2020, Interview 7).

FIGURE 27 TRENDS IN THE GROWTH OF TEXTILE COMPANIES IN NIGERIA (1950-2020)



Source: Author Based on Fieldwork Data

Clearly, despite the litany of state-sponsored incentives given to textile firms in Nigeria since 1957 when the first company was established, the industry had failed to develop the requisite productivity and competitiveness to withstand the challenges posed by liberalization and competition. It appeared that, all along, structural weaknesses in the industry were masked up by incentives and supports

enabled by oil rents. Since the return to democracy in 1999 however, there were attempts by successive governments to revive the industry. These attempts, unfortunately, have not succeeded in achieving their stated objectives. In section 7.5, textile revival policies pursued by successive ruling coalitions have been reviewed. Meanwhile, the arguments of existing literature as to why the textile industry has failed are reviewed in the next section 7.4.

#### **7.4 Why Nigeria's textile industry has failed: The existing explanations.**

Surveying existing literature, one can sum up the explanations often put forward as the reasons why Nigeria's textile policies (or the manufacturing sector generally) have failed into four broad factors outlined and explained below:

(i) *Problem of infrastructure:*

Economists of all ideological leanings agree that for industrialization to occur, certain essential infrastructure are required. These infrastructures include the supply of stable electricity, water, and other energy sources, good transport system, education and other essential services. In particular, the manufacturing sector is known for its reliance on a steady and constant supply of electrical power because erratic power supply disrupts production, affect the proper functioning of machines/equipment, quality control, productivity and profitability. In Nigeria, the persistent problem of erratic electrical power supply has been identified as the major problem inhibiting the growth of the manufacturing sector (Akinlo, 2008; Obadote, 2009; Olayemi, 2012; Chete *et al.* 2014). Specifically, Andrae & Beckman (1999), UNIDO/GHERZI (2003); Maiwada & Renne (2013), and Muhammad *et al.* (2018) have identified the problem of unstable electric power as a major bottleneck to the growth of the Nigerian textile industry<sup>54</sup>. In fact, with a total electricity production at a meagre 8,751 GWh (gigawatt hours) as of June 2021, 85 million Nigerians (43% of the population) are reported to be off the national grid which makes the country ranks the least in terms of energy access (World Bank, 2021a). The costs of limited and unreliable power access to citizens and businesses are estimated to be USD 26.2billion annually, that is 2% of Nigeria's GDP (ibid) Stressing on the power problem and its impact on policy

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<sup>54</sup> In a 2003 joint United Nations Industrial Organization (UNIDO) and GHERZI report, Nigerian textile firms were found to access electricity, water, steam and capital at higher costs compared to their counterparts in such comparator countries as China, India, Pakistan, Indonesia, South Africa and Kenya. On average, electricity from the national grid in Nigeria costs around N9.5-N10.5 per Kilowatt, that is around 8 US cents per kilowatt. While at this rate Nigeria and India take the lead in terms of the costliness of electricity, what complicates the problem in Nigeria is that power supply from the national grid is egregiously inadequate and erratic forcing textile firms to resort to alternative sources of electrical energy from diesel-powered generating sets which, consequently, increases the actual costs to 14 US cents per kwh—by far the most expensive of all the comparator countries.

reforms, the Bank, in its June 2021's Nigeria Development Update (NDU) report entitled "*Resilience through reforms*", concludes that "*..any economic recovery program will be severely challenged by minimal access to electricity, an insufficient power supply, and a financially unviable power sector*"<sup>55</sup>. Other infrastructural facilities the dearth of which have also been cited as serious impediments to the growth of the Nigerian textile industry include water, steal, fossil fuel and capital (see UNIDO/GHERZI, 2003)

(ii) *The effects of the 1986's Structural Adjustment program (SAP):*

Whereas the World Bank (1974, 1983, 1990), UNIDO (1985) and some others have attributed the lack of dynamism in Nigeria's textile industry and the general manufacturing sector to 'bad' *dirigiste* policy choices especially during the 1960s through 70s, other researchers especially in the aftermath of the World Bank/IMF-sponsored structural adjustment program (SAP) implemented in Nigeria in 1986 have blamed the SAP for the dwindling fortunes of the Nigerian textile and other manufacturing industries (see Andrae & Beckman, 1999; Maiwada & Renne, 2013; Muhammad *et al.*, 2018).

With the evidence of the performance of SAP on the Nigerian economy still sketchy at the time, Onyeiwu (1997) reserved judgement on the kind of impact the policy might have had on the Nigerian textile industry arguing instead that "it still remains to be seen". However, Andrae & Beckman (1999) found that SAP has had a devastating effects on the Nigerian textile industry. The trade and exchange rate liberalization provisions of SAP were found to have particularly affected domestic investment in the industry. For instance, SAP-inspired efforts to halt the implementation of the 1984 ban on imported yarns and removal of import tariffs after huge investments were made in the spinning and other segments of the industry has been devastating. While textile industrialists had initially agreed to the implementation of what they thought was "home-grown" SAP, the reality of the implication of the program dawned on them when, apart from its failure to enforce the 1984-ban on imported yarn as promised, the Nigerian state in 1986 decided to cut tariffs on imported yarns in its bid to liberalize trade in accordance with the provisions of SAP (Andrae & Beckman, 1999). Despite the restoration of tariffs by government after fierce protests from textile industrialists, the implementation of the 1984 ban on imported yarn was halted, and this adversely affected textile industrialists, who lured by the 1984 ban, had moved in to invest heavily in the mid-stream spinning/weaving segment

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<sup>55</sup> See World Bank (2021b)

of the industry (ibid). Also, Maiwada & Renne (2013) suggest that apart from leadership changes which in turn resulted in frequent industrial policy shifts, unreliable electricity supply, and the WTO rules that constrain policy space, the implementation of SAP also adversely affected the growth of the Nigerian textile industry. The authors argue that with the liberalization of foreign exchange market and the consequent fall in the value of naira under the SAP, imports of textile-making machines, equipment and spare parts were made prohibitively expensive for industrialists with attendant adverse consequences on capacity expansion, technology upgrade and adaptation. Muhammad *et al.* (2018) also found that SAP “*hampered the development of....the textile sub-sector*”.

(iii) *The Dutch disease dilemma:*

The phenomenon of the Dutch disease and how it has impacted the growth of the Nigerian manufacturing sector under which the textile industry<sup>56</sup> is a sub-set has been explained by Jazayeri (1986), Collier (1987), and Fasanya *et al.* (2013). Several authors have observed that many resource-endowed countries struggle with industrialization and development (see *inter alia*, Gylfason *et al.*, 1999; Sachs & Warner, 1997, 1999, 2001). This is mainly due to a syndrome called “the Dutch disease” whereby the export of natural resources usually leads to the appreciation of the exporting country’s exchange rate, and thereby making manufacturing uncompetitive. Interestingly, Ellman (1981) found that oil/gas resource exploitation in the Netherlands—from where the Dutch disease originated—led to the near obliteration of the Dutch’s textile and clothing industry. Similarly, Jazayeri (1986) found that the Dutch disease has led to the decline of Iran’s textile industry. In Nigeria’s case, Andrae & Beckman (1999) also attribute the decline of the Nigerian textile industry to the Dutch disease manifested in high labour costs resulting from the inflation of domestic prices and distortion of exchange rate which, consequently, made locally produced cotton and textile materials uncompetitive with imports from Asia. In any case, given the evidence in Jazayeri (1986), Collier (1987), and Fasanya *et al.* (2013) that oil boom in Nigeria has altered the structure of relative prices in favour of non-tradable goods (construction and services) against tradable ones (agricultural goods and manufactures), it is safe to conclude that the Dutch disease has indeed had adverse effects on the Nigerian textile industry. This much was also alluded to by Maiwada & Renne (2013).

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<sup>56</sup> Interestingly, Ellman (1981) found that oil/gas resource exploitation in the Netherlands (from where the Dutch disease originated) has led to the near obliteration of the Dutch’s textile and clothing industry

(iv) *The Collective action problem:*

The problem of collective action has been used by Lewis (2006) as a shorthand to sum up the political, economic and social impediments to Nigeria's industrialization and development. However, many problems identified in the literature as obstacles to textile development policies in Nigeria seem to find coherent explanation in the collective action problem. For instance, Lewis argues that the political/military elites in Nigeria has been characterized by so much rancour, division and instability as to provide an effective leadership, produce capable institutions or provide the essential infrastructure necessary for structural transformation. These themes find expression in both Maiwada & Renne (2013)'s and Muhammad *et al.* (2018)'s identification of frequent political leadership changes and resultant policy shifts/inconsistency as factors responsible for the decline/demise of the Nigerian textile industry. Similarly, the observation by Andrae & Beckman (1999) and Muhammad *et al.* (2018) of corruption playing critical roles in the area of the award of subsidized foreign exchange under the import license scheme during the oil boom era and also resulting in the non-implementation of textile policy institutions such as bans on textile imports resonate with the issue of distributive politics that has stopped elite from forging a united front to address Nigeria's industrial/economic problems.

While this study accepts—indeed in many cases even confirms—the importance and instrumentality of these factors/problems in shaping the performance of the Nigerian textile industry, this research seeks to build on the existing explanations by arguing that the failure of the textile industry to develop productivity when it was heavily protected and generously supported by the state tolled the bell for the industry. We dwell on this in the next sub-section.

#### **7.4.1 Building on the existing explanations: The primacy of productivity/capabilities development**

Despite the relative complexity of its requirement of learning, capabilities and routines compared to the cement industry, textile manufacturing is one of the basic/primary manufacturing industries that many countries started off with in the process of their industrial/economic development. Thus, ordinarily, establishing a vibrant textile industry should not have been a big problem for Nigeria and other developing countries. This is more so given that Nigeria (and indeed other developing countries) has a decent pool of formally educated citizens, and due to its huge population size, Nigeria enjoys relatively low wage rates and big markets for textile products. Thus, *ceteris paribus*, catching up with established textile producers should not be a big issue for Nigeria especially given the enormous



fiscal and material supports channelled into the industry especially in the 1960s and 70s. This begs the question of where does the problem actually lie?

With textile inputs (cotton, machines, capital, labour etc) and products having globally traded prices and quality thresholds, even if all the above problems put forward by the existing literature as the explanations for the failure of the Nigerian textile industry were wished away/addressed, firms in the industry still have to develop the productivity to produce textile products at globally competitive prices and quality levels. However, the development of productivity requires the accumulation of technological and organizational capabilities. There are several approaches to understanding the nature, quality (typologies) and quantity (measurements) of capabilities in a country and how that affect industrial productivity (Desai *et al.* 2002; UNIDO, 2002; Lall & Albaladejo, 2003; WEF, 2001, 2002, 2019, 2020).

Thus, several measures of the levels of national technological capabilities that determine the development of productivity and affect the industrialization of nations have been put forward<sup>57</sup>. Developed by the World Economic Forum (2001, 2002, 2003, 2019, 2020), UNIDO (UNIDO, 2002; Lall & Albaladejo, 2003), UNDP (2001), RAND Corporation (Wagner, Horlings and Dutta, 2004), Archibugi & Coco (2005) among others, these measures consider as parameters of national technological capabilities measurement a combination of the following factors: Technology creation/transfer, patents & licenses, infrastructure, innovative capacity, diffusion of ICT, recent/old innovations, human capital/skills. Suffice it here to note that all of these measures consider national technological capabilities to be composed of diverse elements succinctly summed up by Archibugi & Coco (2005) as embodied and disembodied elements, codified and tacit knowledge elements, and generation/diffusion element.

Technological capabilities can be *embodied* in hardware components involving capital goods, machines and equipment and infrastructural facilities and in *disembodied* components such as human skills and technological know-how. Also, apart from knowledge gained the *codified* components of books, manuals, journal papers, blueprints and other codified texts, there are tacit skills/knowledge that are acquired only through learning by doing or on the job through trial and error (Lundvall & Johnson, 1994; Khan, 2019). However, this tacit knowledge component takes time and resources to acquire and master and is extremely difficult to measure (Archibugi & Co, 2005). Additionally, the depth

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<sup>57</sup> For a review of these measures of capabilities, see Archibugi & Coco (2005).

and extent of the production, application and diffusion of knowledge also affects the technological capabilities of nations and how quick and successfully existing and new industries gain productivity and competitiveness.

However, measures of national technological capabilities which determine the success or failure of the process of acquiring and mastering technologies, productivity, profitability, and competitiveness are problematic in many respects. Many of these problems associated with the measurement of capabilities have been raised in the literature (see *inter alia* Schmidt, 2005; Coombs & Bierly, 2006; Rush, Bessant & Hobday, 2007; Qadir, 2015; Grant & Verona, 2015). First, it is apparent that most of these measures of capabilities are premised on dynamics/data from developed countries. However, the technological challenges of developed countries who are at the cutting edge/frontier level of technological development/innovation differ remarkably from those of developing countries whose bulk of technological activity relate to catching up in light consumer goods industries. Secondly, the proxies for capabilities used to measure technological capabilities are usually national<sup>58</sup>-, occasionally industry-based data that do not reflect the drivers of capabilities and productivity at the level of the firm—though the influence of the seminal work of Penrose (1959) has recently sparked off interests towards understanding the dynamics of technological activity at the firm level. However, partly due poor data record-keeping culture in developing countries, a large body of firm-level studies are also based on developed countries' firms' innovative activity.

Therefore, with the aforementioned shortcomings associated with measures of technological capabilities and competitiveness, it is no wonder that these measures do not shed much light in understanding the challenges of technological catch-up faced by individual firms in developing countries. However, Khan (2013a) has developed a price mark-up model that shed important light on the beyond-the-surface challenges facing developing countries' firms in the processes of catching up with established producers. Technological activity in developing countries revolves around light consumer goods industry trying to learn to produce goods that are already available in the global market with known prices and quality thresholds. For instance, the main objective of the Nigerian textile industry has always been to produce quality textiles products that can successfully replace imports whose annual worth now hovers around \$10 billion. But these textile products that the Nigerian textile industry wants to produce are

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<sup>58</sup> National data are aggregates of industry or sometimes firm-level data. However, firms (including those within the same industry) could be at different stages of technological learning and hence struggling with different learning challenges.

already available with known prices and quality standards in the global market for textiles. Thus, the challenge is for textile firms in Nigeria to competitively catch up at both price and quality levels with well-established global textile manufacturers.

In Khan (2013a)'s model, the current global price for a product (say a bundle of textile material) of Q quality is set by the product's global leader's cost of production. Here, adapting Khan's model to explain the catching up challenges faced by Nigeria's textile firms, I take this global leader to be China and Nigeria the country trying to catch-up in textile manufacturing. The unit price of the textile product is then broken into three variables: (i) unit labor cost (ii) unit input cost and (iii) unit capital cost. Thus, we have:

$$P_Q^{global} = \left[ \frac{W_Q^{China}}{\Pi_Q^{China}} + \sum_i \frac{P_{Qi}}{\alpha_{Qi}^{China}} + \sum_k \frac{P_{Qk}}{\beta_{Qk}^{China}} \right] (1 + m_Q) \quad [1]$$

(Unit labor cost)    (Unit input cost)            (Unit capital cost)    (Markup)

For notation simplification, Khan did not denote products but rather, a quality which he indexed by Q. This means Q+1 denotes a higher quality product compared to Q.

Also:

$P_Q^{global}$  : is the international price of a product of quality Q.

$W_Q^{China}$  : is the wage level in the product leader country (China).

$\Pi_Q^{China}$  : is labor productivity in China measured by output per worker.

The first term on the right-hand side of eq. [1] is the unit labor cost.

The second term represents unit input cost. These inputs could be cotton raw materials or semi-manufactured goods (e.g., cotton/synthetic yarns/lint, gray cloth etc.). It is assumed that these inputs are internationally traded with a global price  $P_{Qi}$ . Input efficiency is measured by output per unit. Hence:

$\alpha_{Qi}^{China}$ : represent input productivities in China per  $i$ 's input. And it measures input wastages and loss say arising from rejected final textile materials.

The third term represents the unit capital costs of machinery and buildings.  $P_{Qk}$  is the unit cost of capital.  $\beta_{Qk}^{China}$  is China's capital-output ratio or its capital productivity. Because the stock of capital that is available in each period is fixed, the capital-output ratio depends on production scale which determines capacity utilization. Higher output and technological capabilities (of the workforce as per

proper use of machinery) therefore denote higher capital productivity which is measured by  $\beta_{Qk}^{China}$ . The last term outside the bracket is the mark-up determining price which is set at  $m_Q$ .

Similarly, Nigeria's (domestic) cost of production (in one common currency) is the domestic cost of the textile product,  $C_Q^{Nigeria}$ , for Q quality textile material. This is equals to the right-hand part of equation [1] with appropriate notational changes in domestic productivities and prices reflected, thus:

$$C_Q^{Nigeria} = \left[ \frac{W_Q^{Nigeria}}{\Pi_Q^{Nigeria}} + \sum_i \frac{P_{Qi}}{\alpha_{Qi}^{Nigeria}} + \sum_k \frac{P_{Qk}}{\beta_{Qk}^{Nigeria}} \right] (1 + m_Q) \quad [2]$$

Thus, competitiveness in textile manufacturing is achieved by Nigeria if its textile firms' domestic cost (per unit) of production of Q-quality textile product is either less than or equals to the international (Chinese) price for same quality of textile product. This is denoted by the following inequality:

$$C_Q^{Nigeria} \leq P_Q^{global}$$

If  $C_Q^{Nigeria} > P_Q^{global}$ , it means that Nigeria's textile firms' cost per unit of producing a particular textile material of particular quality (Q) is greater than China's cost of producing the same textile product of the same quality. In this scenario, Nigeria's textile firms cannot favorably compete in the global textile market for the production of Q-quality textile product because their costs of manufacturing the same quality of textile material is higher than the international standard proxied herein by China. This is so particularly because the prices of globally traded textile inputs (raw cotton, yarns, lint, dyeing chemicals) and machineries are typically similar for both China and Nigeria although wages (and some inputs prices) might even be lower in Nigeria. Interest rates on borrowed money may be higher (due to higher risks) in Nigeria relative to China but this may be offset by Nigeria in other areas say in lower wages.

Thus, a seemingly fair conclusion to draw from the above is that Nigeria should be able to achieve competitiveness if its wage differentials are significant, especially in a labor-intensive low-technology textile manufacturing industry given that Nigeria's vast youthful population has the appropriate formal education to be engaged in textile manufacturing, and being oil-rich, Nigeria can afford to buy state-of-the-art textile production technologies, among other possible advantages. For instance,  $W_Q^{Nigeria}$  may be less than  $W_Q^{China}$ , though

other prices of globally traded inputs and equipment may be the same or even slightly lower in Nigeria (e.g., the costs of land and buildings).

Yet, Nigeria has failed to succeed in founding and sustaining a competitive textile manufacturing industry which is also a light, labor-intensive industry that is a precursor to the industrialization of many of today's industrialized countries. This is despite Nigeria's apparent comparative advantages in this industry reflected in its huge market, educated population and other resource endowments, advantages which, according to Andrae & Beckman (1999), "makes Nigeria an ideal case for import-substituting industrialisation". In fact, citing same advantages, Kilby (1969) pointed out that of all industries, the textile is the one that Nigeria really has opportunities to succeed with establishing. Yet, the industry has failed with annual imports of finished textile fabrics (mainly from China) into Nigeria put at over \$10billion. Hence, the crucial question to ask is: why is that so? Using his price mark-up model, Khan (2013a) has suggested that the failure of firms in developing countries to successfully catch-up with established producers even in light labor-intensive industries where these firms should have some advantages is traceable to the inability of these firms to develop productivity due to lack of critical capabilities.

Clearly, while cost (dis)advantages are important factors in production, however, the productivities of production factors informed by a whole gamut of variables related to the capabilities and efficiency of production factors matter significantly. Essentially, developing countries like Nigeria have serious productivity disadvantages which mostly cannot be compensated for by whatever cost advantages they might have in wages and possibly in other inputs. Specifically, output per person ( $\Pi_Q^{Nigeria}$ ), input efficiency ( $\alpha_{Qi}^{Nigeria}$ ) and capital efficiency ( $\beta_{Qk}^{Nigeria}$ ) could generally be much lower in Nigeria's textile firms than in China's. This can explain the lack of competitiveness of Nigeria's textile firms (reflected in lower labor, capital, and other inputs' productivities) compared the Chinese or other frontier-country's textile firms. Under this scenario of lower inputs productivities in Nigeria, reduction of wages (even to zero level) in Nigeria cannot offset the inefficiencies of other production factors in Nigeria's textile firms. In other words, even if workers in Nigeria volunteer to work for free, such cannot compensate for inputs and capital inefficiencies resulting from lack of technological and organizational capabilities in Nigeria's textile industry. This is because prices of other globally traded textile inputs (such as cotton lint/yarns and capital goods/machineries) still remain parts of Nigeria's costs of textile

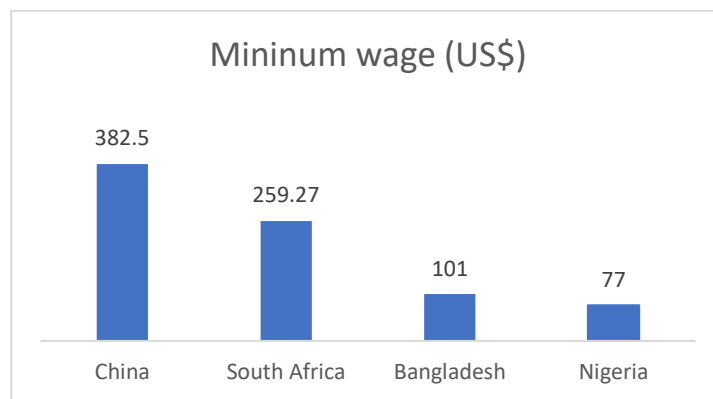
production. For example, if  $\alpha_{Qi}^{Nigeria} < \alpha_{Qi}^{China}$  it means that the productivity of the inputs used for manufacturing textile materials by Nigeria's textile firms is lower than that of similar inputs used by China's textile firms. This could mean increased amounts of input loss or wastages in the Nigerian textile companies which will result in greater quantity of rejected final textile materials, and hence increase in Nigeria's textile production costs, because inputs are globally traded and expensive. Similarly, if Nigeria's textile firms' capital efficiency is lower than the Chinese firms' (that is, if  $\beta_{Qk}^{Nigeria} < \beta_{Qk}^{China}$ ), it will be difficult for Nigeria's textile firm to compete globally. Capital efficiency could relate to improperly installed machines, lower technical know-how of workers and under-capacity utilization. In fact, even when it comes labor/wages where Nigeria and other catching up countries may have the apparent advantage of lower wages, it is crucial to note that while this is an important cost advantage in labor-intensive industries such as textile manufacture, yet what is more important is the productivity of labor measured as the output per textile worker—for instance how many spindles (for spinners) or looms (for weavers) can a textile worker handle? Thus, if  $\Pi_Q^{Nigeria} < \Pi_Q^{China}$  that is, if the productivity of Nigeria's textile workers is less than the productivity of textile workers in China (or any other frontier textile producers for that matter), competitiveness and profitability can be hard for Nigeria's textile firms or industry to attain.

Now do evidence from the Nigerian textile industry lends credence to Khan (2013a)'s suggestion of productivity gaps occasioned by lack of technological and organizational capabilities as plausible explanations for the failure of Nigeria's textile industry? This question is addressed in the next sub-section.

#### **7.4.2 Productivity/capability development in the Nigerian textile industry**

Textile manufacturing is relatively labor-intensive. This means that for a textile firm or industry to achieve competitiveness and profitability, there is a need for labor to be not only cheap but also productive/efficient. For much of its existence from the early stages of its development in the 1960s through 70s to date, it appears that the cost of labor in Nigeria's textile industry has never been a serious problem. In the 1950s and 1960s, Kilby (1999) reported that average hourly wage in 1964 for run-of-the-mill workers in two biggest Nigerian firms (KTL and NTM) was 1 shilling and 2 pennies compared to the British's 7 shillings. In fact, as shown in figure 28 below, as of 2021, the minimum wage for textile operatives in Nigeria (\$77) is lower than in such comparator countries as Bangladesh (\$101), South Africa (\$259.27) and China (\$382.5).

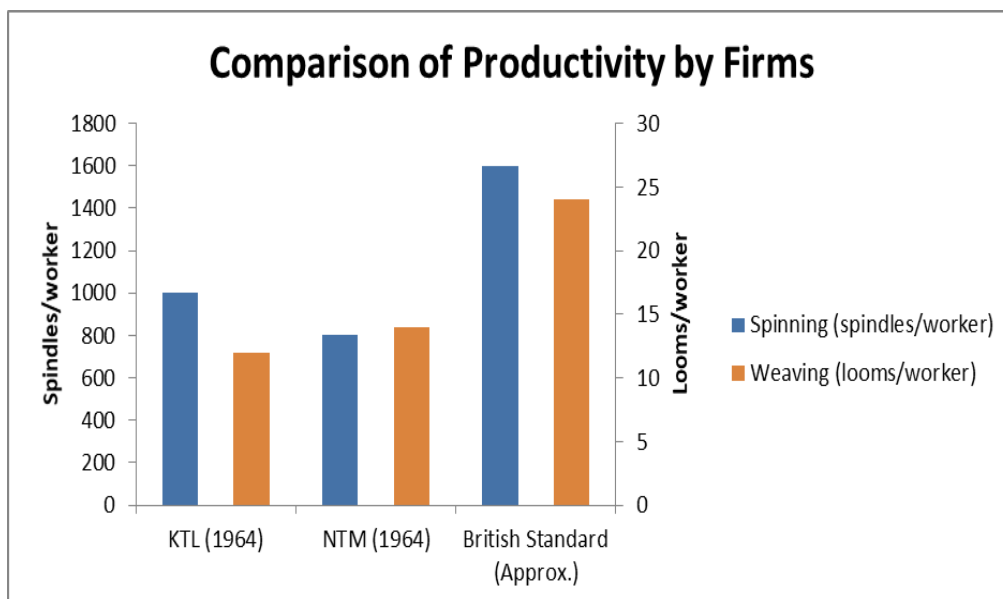
FIGURE 28 MINIMUM MONTHLY WAGE (IN 2021 US\$) FOR WORKERS IN NIGERIA AND COMPARATOR COUNTRIES



Source: Compiled by Author

However, labor productivity in Nigeria’s two biggest textile firms (KTL and NTM) —measured in terms of both the number of spindles and looms per textile worker—lagged behind the British standard in 1964 (see figure 29 below)

FIGURE 29 COMPARISON OF TEXTILE WORKERS PRODUCTIVITY BETWEEN NIGERIAN AND BRITISH STANDARD



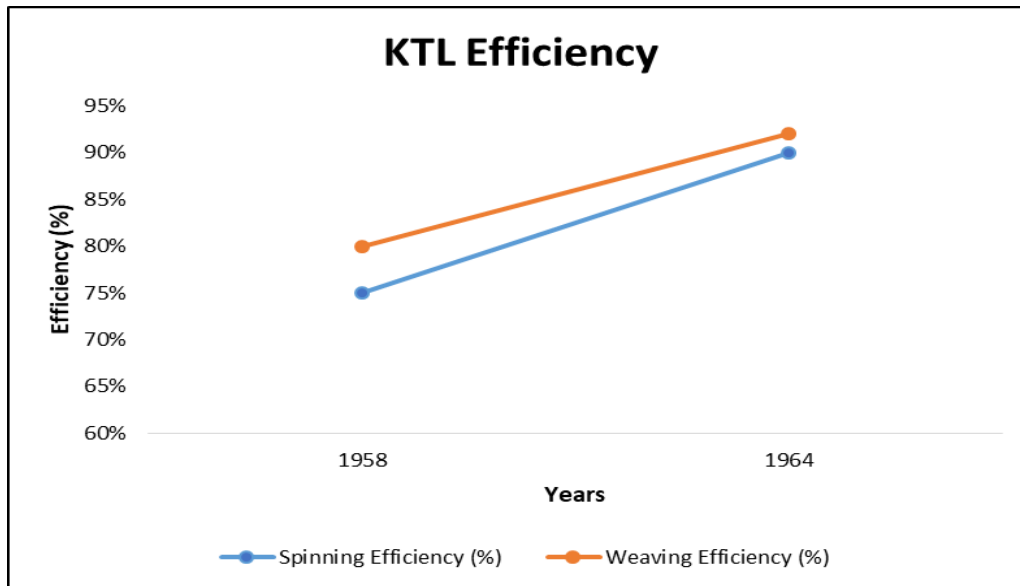
Source: Author based on data from Kilby (1969)

Thus, a comparison of productivity for the number of spindles and looms each worker can handle in accordance with his or her productivity shows a stark difference in labour efficiency between Nigerian textile firms and the British standard (see figures 29 and 30). For example, the British standard measure for spinning was twice more productive than workers at NTM in 1964. This reason for this could possibly be due to the British textile workers’ acquisition of on-the-job experience (tacit knowledge) which could see their productivity rise higher than Nigerian workers even if they have the same formal education qualification. Also, differences in working conditions and other incentives between textile

workers in Nigeria and Britain could have impacted on both workers and accounted for the disparity in their productivity.

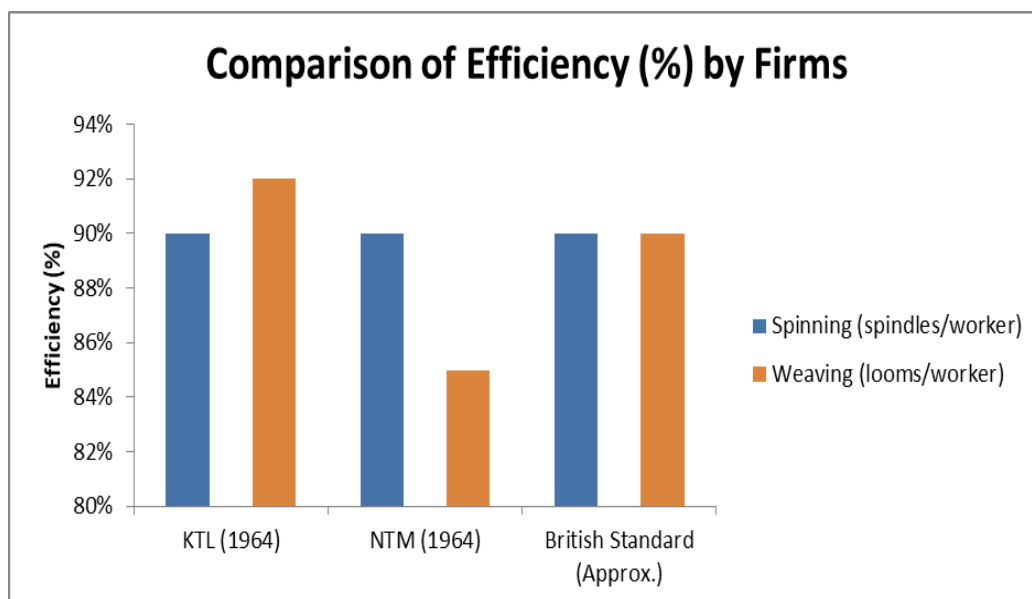
Notwithstanding, KTL has made significant improvements in their spindle per worker productivity measure, going from 500 to 1000 between the years of 1958 and 1964 (see figures 29 and 31 below).

FIGURE 30 KTL'S LABOUR EFFICIENCY



Source: Author based on data from Kilby (1969)

FIGURE 31 COMPARISON OF TEXTILE LABOUR EFFICIENCY BETWEEN TWO NIGERIAN FIRMS (KT AND NTM) AND THE BRITISH STANDARD

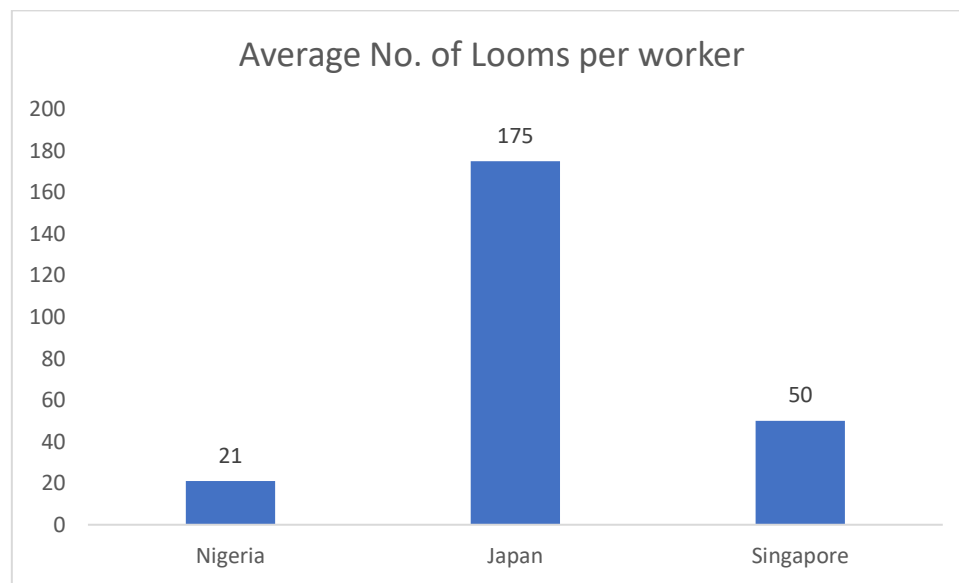


Source: Author based on data from Kilby (1969)



Nonetheless, the efficiency metrics showcasing the capacity of how much each spindle/loom is used, shows that the Nigerian textile firms were competitive (if not better than the British standard) in the 1960s (see figures 29, 30 and 32). This may indicate that with the passage of time, workers at KTL were making significant progress in leaning by doing in the 1950s and 60s. In any case, however, textile workers’ efficiency in the Nigeria—measured by the average number of looms per textile worker— had, by 1981, fallen far behind those in Japan and Singapore (see figure 32).

FIGURE 32 LABOUR EFFICIENCY IN NIGERIA, JAPAN AND SINGAPORE IN 1981



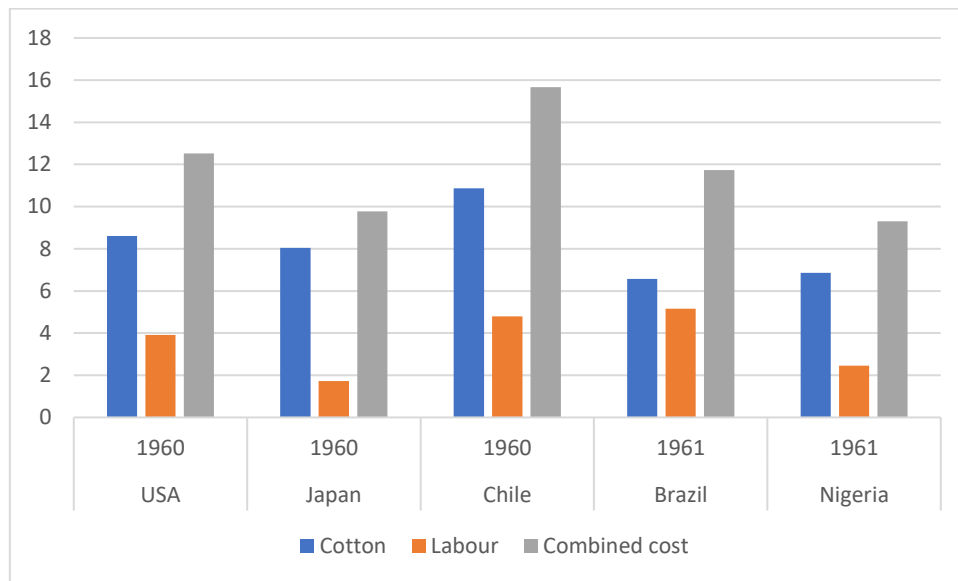
Source: Author based on data from Andrae & Beckman (1999)

From the above figure 32, whereas a Nigerian textile worker handles, on average, a paltry 21 looms, his counterparts in Singapore and Japan operates, on average, 50 and 175 looms respectively. Admittedly, this wide differential could, however, not have been solely born out of the Nigerian textile workers’ lack of productivity. Many Nigerian textile firms were established in the late 1950s and 60s using second-hand spindles and looms which would, in any case, have aged two to three decades down the line. Also, the indigenization decrees of the 1970s had led to the exodus of highly capable and experienced foreign textile personnel leaving Nigerians with minimal technological and organizational capabilities to take over their place. In any case, it is vital to note that the dismal statistics depicted in figure 32 above were at a time when capacity utilization in the Nigerian textile industry was at its record peak of 70% in 1981 before it sharply fell down sharply to between 20-30% from the mid-1980s onwards. However, even in currently active Nigerian textile firms, labor productivity still does not measure up to the global standards. For instance, in the active Lagos-based Woolen & Synthetics

textile company and many others in its category, a worker operates 5 to 8 looms depending on their capabilities (Ugwoeruchukwu, 2022, Interview 42; Akilu, 2022, Interview 43; Usman, 2022, Interview 44).

The main raw material for textile manufacturing is natural cotton fiber and or synthetic cotton. While active textile firms in Nigerian entirely depend on imported synthetics, the cotton produced in Nigeria is too small to satisfy local demand forcing firms to also rely on imported cotton lint and yarns. The total amount of locally produced cotton is 51, 000 tons in 2020. Several reasons account for the progressive decline in local cotton production in Nigeria. With the onset of oil booms of the 1970s and the consequent appreciation of the value of naira, textile firms in Nigeria found it relatively cheaper to import cotton from abroad (Andrae & Beckman, 1999). In any case, these firms did not have any other options with regard to synthetics because oil-induced purchasing power increase had created the demand for finer, ostentatious textile fabrics (ibid). Oil boom-inspired alteration of the structure of relative prices also caused significant migration of labor from agriculture to other more lucrative services and construction areas which raised agricultural wages substantially (Andrae & Beckman, 1999). This set the stage for the massive drop in cotton output from an average of 52, 700 tons in 1975 to 16, 100 tons in early 1980s (Andrae & Beckman, 1989). With added cotton and synthetics' import duty costs, the productivity of these major raw materials for textile firms in Nigeria will no doubt be affected. Also, still relying on traditional cotton yields and method of cotton farming, the productivity of locally produced cotton in Nigeria is a mere 202kg per hector, which is far below the global average of over 773kg per hector (see Olowa, 2021). In fact, the Nigerian cotton staple has for long been recognized as unproductive compared to the improved varieties of other countries (Kilby, 1969; Andrae & Beckman, 1989). Therefore, inputs productivity in Nigerian textile firms does not appear to be efficient either; though a comparison of the costs (in cents per square yard) of grey baft in 1961 among USA, Japan, Chile, Brazil, and Nigeria (see figure 33 below) shows Nigeria's textile industry to be competitive. This, however, appears so only because the costs of other essential factors have not been considered. For instance, in all four comparator countries, the costs of electricity, fuel, and water which were not included were higher in Nigeria (see Kilby, 1969).

FIGURE 33 COMPARATIVE COSTS (IN CENTS PER SQUARE YARD) OF GREY BAFT PRODUCTION



Source: Author based on data from Kilby (1969)

The trend continues to this day. Nigeria’s textile firms still access electricity at between 8 to 14 cents per kWh, water at between 15 to 20 cents per cubic meter, furnace oil at between 1 to 3 cents per kg compared to China’s 4.6 to 7.9 cents per kWh of electricity, 15 cents per cubic meter of water, and 0.58 cents per kg of coal fuel (UNIDO, 2003). Moreover, interests on loans for textile firms in Nigeria is 23% whereas the rates have been much lower in China, India, and Indonesia (ibid).

Finally, in our interviews with respondents from active textile firms, the issue of the shortage of spare parts and technicians locally—because of which these have to be externally outsourced for repairs of broken-down machines—have been raised (Ugwoeruchukwu, 2020; Usman, 2020; Adhama, 2020; Anonymous, 2020b, 2021e, 2021f ). In particular, it was pointed out that deterioration in the value of the naira in recent years has dramatically increased the costs of imported raw material including those of spare parts and technicians (Adhama, 2020; Usman, 2020; Akilu, 2022). This, it is obvious, can affect the efficiency of machines and equipment. Thus, the issue of factor productivity is critical in understanding/explaining the fall of the Nigerian textile industry.

However, in the wake of the failure of the Nigerian textile industry to develop capabilities, productivity and competitiveness, efforts have been made towards the introduction of textile revival policies with a view to revamping the industry (see *inter alia* UNIDO, 2003; Business Day, 2015; Oxford Business Group, 2010). These revival policies have, however, failed to achieve their stated

objectives. To understand why these policies have failed, it is my submission that we need to not only look at the economics but also the politics of policy design and implementation. Hence, in the next section the political economy of textile revival policy failure is explored through the application of the political settlement framework.

### **7.5 Revival policies for Nigeria's textile industry**

Since the abolishment, in 1986, of the Cotton Marketing Board (CMB) which had, since colonial times, served as the intermediary between cotton producers and buyers, successive Nigerian governments have set up/commissioned several committees/reports and introduced a number of policies towards improving cotton farming, textile manufacturing and garment production in the country (see UNIDO, 2011, 2003; UNIDO/GHERZI, 2011; Oxford Business Group, 2010; Business Day, 2015). The Federal Ministry of Industry, Trade and Investment (FMITI) and that of Agriculture and Rural Development (FMARD) have also conducted several studies, sometimes in collaboration with local and international partners, on the cotton, textile and garment sub-sectors with a view to revamping them to create employment and conserve foreign exchange (Skoup & Co., 1973; World Bank, 1974, 1984, 1993b; UNIDO, 1985; UNIDO, 2011, 2003; UNIDO/GHERZI, 2011; Oxford Business Group, 2010).

In particular, a sector-wide study (UNIDO, 2003) conducted in 2003 with support from UNIDO jolted the federal government under the leadership of President Olusegun Obasanjo to set up a Cotton Development Committee (CDC). The committee's main terms of reference was to find out ways by which the government can support the cotton, textile and garment sector. Towards that end, and upon establishing that the technologies in Nigeria's moribund textile companies are dated and requires substantial upgrade, the committee made some recommendations. One of those is that the government should set up a Textile Revival Fund from which soft loans should be given to textile companies to upgrade their technologies (UNIDO, 2003; Adhama, 2020, Interview 2). Seeking for re-election in 2003, the Obasanjo government hastily announced that N70 billion naira (later increased to 100 billion by the incoming YarAdua/Jonathan administration) was raised and will be given to textile industrialists in form of soft loans so as to assist them to upgrade technology (Adhama, 2020, Interview 2). However, the money was not given out to textile producers albeit the late president Umaru Musa YarAdua made spirited efforts in that direction before he passed away.

Thus, it was until during the current administration of President Muhammadu Buhari (2015-2023) under its own signature textile revival program called Cotton, Textile and Garment (CTG) policy that the fund was disbursed to some beneficiaries through the Bank of Industry (BOI) (Adhama, 2020, Interview 2; Adamu, 2020, Interview 1). Originally, the plan for the CTG policy was conceived during the administration of president Goodluck Jonathan under the Nigerian Industrial Revolution Plan (NIRP) Introduced in January 2015 (NIRP, 2014). The incoming administration of President Muhammadu Buhari adopted the CTG policy. The CTG policy aims to address the problems of the industry in the whole of its sub-sectors, that is, from cotton farming to textile manufacturing and garment making segments (Adhama, 2020, Interview 2). Towards that end, loans in the forms of cotton seeds, fertilizers, pesticides and other farm inputs were given to cotton farmers with repayment in form of cotton fibres to be made after cotton harvests (ibid). Soft credit facilities for technology upgrade were also given to textile industrialists. Moreover, recently, as measures to stop smuggling of textile materials, the bank accounts of prominent businesspersons linked with massive imports of textile materials from China were frozen by commercial banks at the CBN's behest, and operators of Bureau de Change were directed to stop selling foreign exchange to these importers.

Under the CTG policy, the government projected to save \$2billion in foreign exchange via import-substitution, to raise direct employments in the industry from the then 24,000 workers to 50, 000 workers by the end of 2015 and then to 100,000 workers by 2017, to expand indirect employment levels from 650,000 people to 1 million and 1.3 million by 2015 and 2017 respectively, and to increase cotton production from 200,000 metric tonnes to 500,000 by the end of 2015. Over the course of five years, a cumulative investment of N255 billion (\$0.71billion) was projected to flow in the industry (Daily Trust, 2019).

Towards achieving the CTG policy targets and objectives, Integrated Textile and Garment Parks (ITGPs) were to be established close to raw materials and markets. These parks, which were to be wholly privately owned or based on public private partnership (PPP), would be supplied with critical infrastructure such as electricity, transport networks, and gas pipeline. Both electricity and fuel would be accessed by the 30 to 40 textile and garment firms in each park at subsidized rate for an initial period of three years. Other incentives include:

- *Duty-free imports of machines and equipment*: The import of all textile machines, equipment and spare parts as well as inputs such as chemicals, dyes

and packaging materials will be free from any import duties and VAT from 2015-2019.

- *Tax Holiday*: A three-year tax holiday (2015-17) will be granted to all major textile manufacturers
- *Conditional Imports*: Any investor who invests at least \$10m in the CTG industry and directly employs 500 Nigerians can import fabrics equivalent to 50% of their projected output from the local Nigerian firm for a period of five years before imports are phased out for locally made fabrics.
- *Local Patronage*: With the passage of executive order 003 of 2007, all ministries, departments, and agencies (MDAs) agencies particularly military and para-military agencies must patronize local textile and garment firms for their uniforms and related materials.

However, despite these generous incentives, as of 2022, there is no concrete evidence that any of the CTG policy targets enumerated above has been achieved (Daily Trust, 2019; Muhammad, 2021, Interview 9). And like the case is with most of the existing reasoning/explanations for the failure of the Nigerian textile industry, the popular conclusion as why the CTG policy has failed to achieve its objectives to revive the cotton, textile and garment value chains in Nigeria has been based on the same usually trite cliches: lack of policy implementation, access to investment funds, absence of stable electricity, fuel etc. While it is true that these problems indeed represent real obstacles to the success of revival policies in the industry, this research goes a notch further by attempting to explain the failure of the CTG revival policy through an examination of the political economy of policy design and implementation in Nigeria. To do this, the political settlement framework and the concept of rents space have been adopted herein. The former enables us to understand how the distribution of power and capabilities among productive capitalists vis-à-vis ruling coalition can affect policy design and enforcement. The latter enables us to explore how the nature of profitability/rents (regulatory or market-competition-based) in an industry not only defines the nature of industry players (powerbrokers or workhorses) but also the propensity of ruling coalitions to credibly commit to industrial policies.

## **7.6 Why textile revival policies have failed: The political settlement approach.**

With the failure of the Nigerian textile industry to develop productivity and capabilities leading to the industry's collapse in the 2010s, revival policies have

especially since the return to democratic rule in Nigeria in 1999 been pursued. However, these revival policies have failed to transform the industry prompting the question of “why is that so?”. The answer to this question, I believe, lies in the exploration of not only the economics but also the politics of policy design and implementation. Hence, attempting to do justice to the question by looking at the political-economic dynamics of textile revival policy failure, I adopt the political settlement framework and draw important insights from the concept of rents space and the technological capability theory.

As we have noted in the previous chapter on the cement industry, regardless of the type of political settlement in place at any point in time in Nigeria, industrial policy implementation/performance has often been a function of a number of variables/factors including the levels of commitment of the ruling coalitions to policy design and enforcement. Other inter-industry differences/factors might have also influenced policy success or failure in Nigeria (see table 25 below). For instance, textile products, unlike cement, are highly differentiated in their quality and hence competitiveness is not only based on prices here but also on quality. This makes the adoption and implementation of learning, capabilities, productivity, efficiency and competitiveness more difficult to attain in the textile industry than in the cement where the product is standardized. Moreover, unlike the cement industry, the textile industry is generally characterized by a relatively large number of players from small-, and medium- to large-scale producers. This makes for complicated rents sharing arrangements among politicians, bureaucrats and entrepreneurs that obtained in the cement industry where players are few and can solve the collective action problem easily. The following table 26 summarises the structural differences among our case-study industries.

TABLE 25 STRUCTURAL DIFFERENCES BETWEEN THE CEMENT, TEXTILE AND IRON & STEEL INDUSTRIES

Cement	Textile	Iron & Steel
•Resource-based (RB) industry	•Low technology (LT) industry	•Medium technology (MT) industry
•Standardized products (only 3 cement grade types: 32.5, 42.5 and 52.5)	•Constantly differentiated products with changing specifications	• Constantly differentiated products with changing specifications
•Requires/adopt simple/basic capabilities, learning/routines.	•Requires/adopts relatively complex learning, capabilities and routines.	•Requires/adopts relatively more complex learning, capabilities and routines
•Capital-intensive	•Labour- and capital-intensive	•Highly capital- and skilled labour-intensive

•Short gestation period	•Short gestation period for individual segment but could be long if the whole segments (upstream, mid-stream and downstream) are considered	•very long gestation period
•Limited externalities, linkages, skills, and technology transfer	•Some externalities, linkages, skills and technology	•Very diffuse and dense externalities, skills and linkages with other sectors leading to industrialization.
•Productivity and Competitiveness may be <i>easier</i> to attain and take relatively <i>shorter period</i> to achieve	• Productivity and competitiveness are relatively <i>difficult</i> to attain and take relatively <i>longer period</i> compared to cement to achieve international standards.	•Productivity and competitiveness are <i>more difficult</i> to attain and take <i>very long period</i> to reach the global frontier.
•Demands <i>less stringent</i> administrative and bureaucratic capabilities from the state	•Demands <i>more stringent</i> administrative and bureaucratic capabilities from the state	•Demands <i>very stringent</i> administrative and bureaucratic capabilities from the state
•The main source of profitability is through <i>discretionary/regulatory rents</i> .	•The main source of profitability is through <i>market competition</i> .	•The main source of profitability is through <i>market competition</i> at the technology, products, price and production costs-effectiveness levels
•Delivers rents in the <i>short term</i>	•Delivers profits/rents in the <i>medium/long term</i>	•Delivers rents in the long term
•Simple value chains (integrating backward to a natural resource—limestone) that are easier to coordinate.	•Relatively more complex value chains (integrating backward into cotton farming, spinning and weaving before final fabric production) that are difficult to coordinate and hence few countries specialize in all the chains.	• Very complex value chains (integrating backward into iron ore mining and beneficiation and forward into steel making, vehicles, electrical, electronics, and chips production)
•Few players make collective action and rents arrangement easier	•Diverse and discrete players make collective action and rents sharing arrangements difficult to strike with bureaucrats and ruling coalitions.	•Usually started and owned by governments due to huge capital outlay which makes it prone to rent-seeking/capture activities, government failure, and long-gestation.
•Easier to control illegal imports because cement is a heavy/bulk product	•More difficult to control illegal imports because textile products are not as heavy, and can be concealed.	• not very difficult to control imports since concealment/smuggling is hard due to bulkiness.

Source: Author's

Overall, under all variants of political settlements in Nigeria, effective policy implementation has often been aided by the support/credible commitment of the political leadership or ruling coalitions. The incentives for this support



could, as we have seen in the case of the cement, come from rents that can be derived in an industry and shared informally with ruling coalitions through campaign funds contributions. However, though important, the support of the political leadership/ruling elites to a particular policy in Nigeria is not, in and of itself, the determinant of policy performance. Some critical firm/industry-level factors come into play. For the Nigerian textile industry, revival policies have been found to fail consistently due to:

- (i) The relative complexity of the requirement, adoption, and implementation of capabilities/learning/routines in the textile industry compared to the cement. This is more so given that Nigeria's textile revival policies have often been so over-ambitious in their scope as to seek to target the entire sub-sectors/segments of the industry from the upstream (cotton production) to the mid-stream (fabric formation) and the downstream (garment making) segments.
- (ii) The relatively low/modest financial, investment, managerial, technological and organizational capabilities of most textile entrepreneurs (especially indigenous individual- and state-owners of most of the moribund textile firms). The few entrepreneurs who possess high capabilities are largely foreigners whose nationality status constrains the extent of their political reach/networks, and hence, limit their influence on attracting favourable policy design and enforcement in their industry of operations.
- (iii) The nature of profits/rents in the textile industry which comes from market competition rather than from regulatory rents resulting from the discretionary actions/inactions of governments. In other words, firms/entrepreneurs in the textile industry are effectively *workhorses* who have to compete at both price and quality levels and with both domestic and foreign firms to earn their profits/rents. This means that the few active/successful textile firms that remain in Nigeria have very little surplus to spare for contributions to ruling coalitions by way of political financing; hence, this limits the importance and influence of these entrepreneurs on policy design and implementation leading to the misalignment of policy incentives that militates against the success of textile revival policies.

As pointed out above, the evidence gathered in the course of this research suggest that notwithstanding the commitment of successive Nigerian ruling

coalitions to textile revival policies, the industry remains moribund because of three factors enumerated above and explicated below.

- (i) *The relative complexity of the requirement, adoption, and implementation of learning/capabilities/routines in the textile industry compared to the cement industry.*

Evidence from my interviews/visits to textile firms in Nigeria during fieldwork and from the literature point to the fact that the requirement, adoption and implementation of learning, capabilities and routines are relatively more complex in the textile/garment industry than in the cement. For instance, in my visits to Adhama Textiles and Garment Company, Woolen & Synthetic, Zaria Industries Ltd, in Kano, Lagos and Kaduna respectively, I observed that unlike in the cement factories I visited, labour input was a crucial factor at every stage in the textile production processes. Among other things, I observed that unlike in the cement where quality was mainly controlled mechanically, in the textile/garment firms I visited such depended on flexible and rapid human/organizational responses. Hence, many different supervisors and technicians have to monitor quality of outputs at each stage of the production and take flexible and adaptive (learnt on the job) actions to make corrections. Learning to acquire these tacit skills/capabilities required for effective monitoring/supervision by these textile supervisors and how to set up the organization (organizational capabilities) to provide the right incentives to the right people takes a lot of learning by doing. Not only that, in textile firms, it was observed that labour inputs regulation greatly depended on within-factory monitoring and response incentives. The speed of operation was largely subject to supervisors' coordination of the labour inputs on production lines and coordination of production lines to prevent slowdowns/stoppages. Under this atmosphere of human/organizational monitoring/coordination/supervision, it was obvious that some workers on some production lines not operating optimally (or free riding on effort) can slow down all other lines. Clearly, in this situation a lot of organizational skills/capabilities are required to identify and attempt to address this collective action problem.

In particular, textile industrial policies in Nigeria have always sought to solve the problems of the various (semi-)independent sub-sectors of the industry all at once. This added to the complexity of requirement, adoption and implementation of learning/capabilities/routines since each sub-sector has its own peculiar structural defects.

Unlike the cement industry, the textile industry, as we have seen in section 7.2.1, has three independent sub-sectors: Cotton production, textile manufacture and garment making. And there are significant differences among these sub-sectors in terms of not only the levels of their labour and capital intensity but also their requirement of learning and capabilities. The cotton production and garment segments of the industry are the most labour-intensive and have the greatest potentials for mass employment of unskilled and semi-skilled workers. In Bangladesh, for instance, the garment sub-sector employs over 4 million workers (ILO, 2020).

The mid-stream textile manufacturing segment (yarn processing, weaving/knitting and fabric formation) has, with increasing global technological innovation, effectively become automated in especially the advanced countries (Majumdar *et al.*, 2012). This sub-sector requires relatively more skilled labour and accumulation of some amount of tacit knowledge and capabilities compared to the cotton production and garment making sub-sectors (*ibid*). The growing sophistication of all three sub-sectors and the reduction of transport and communication costs over the years has led to the emergence of an efficient cotton, textile, and garment global value chains (Morris & Barnes, 2009). Consequently, very few, if any, countries specialize in all three cotton, textile and garment sub-sectors (*ibid*). However, apparently guided by past experiences when Nigeria's textile industry used to be vertically integrated, Nigerian policy makers still insist on having a vertically integrated textile industry. This makes revival policies over-ambitiously wholistic, complex and pragmatically infeasible. Possessing different levels of productivity, capabilities and competitiveness, the cotton, textile and garment sub-sectors in Nigeria are therefore forced to link with one another and the result is the achievement of efficiency and competitiveness in none of the sectors. This is because apart from individual sectors having their own structural defects, the attempt to forcibly integrate them together results only in the structural weaknesses of one sector spilling into the other thereby complicating the problem further. This informs my recommendation of a sequential, rather than holistic, textile (and steel) policy approach given that current governance capabilities appear insufficient to address the coordination problem.

The holistic approach of the Nigerian policy makers might have been informed by the exigencies of the moments. In addition to other considerations, the current state of unemployment and insecurity in Nigeria requires the creation of opportunities for citizens, and hence the main philosophy or objectives behind

textile revival policies are to create jobs for millions of unemployed youths and conserve the over \$4 billion<sup>59</sup> foreign exchange that reportedly goes into importation of textile materials annually (Fashion Network, 2016). Employment capacity and value addition among the cotton, textile and garment sub-sectors differ significantly. For instance, although the US's textile manufacturing sub-sector has the highest value addition worth of \$18 compared to the cotton and garment sub-sectors that are worth \$5billion and \$9billion of value added respectively, yet the latter two sub-sectors perform better in terms of employments, posting 126,000 and 131,000 respectively, compared to the textile sub-sector's 113,900 employees (Obikili, 2020). This means that the choice of which sub-sector of the value chains a country should specialize is a function of policy priority. If policy objective is to create jobs for a critical mass of unskilled and semi-skilled population that is huge in Nigeria, the ideal sub-sectors are cotton production and garment making. For high value addition and saving of foreign exchange, the capital- and skill- intensive textile manufacturing sub-sector is the most ideal, but graduation into this sub-sector can be difficult but with a sequential approach possible. However, while it is more socially and economically beneficial to have all three cotton, textile and garment sub-sectors in a country, the task of having all three to be globally productive and competitive, is extremely challenging with minimal probability of success, especially in the Nigerian context. More so, each sub-sector is now at the cutting edge of technological innovation in the global value chains. In effect, this would mean huge investments in physical and human capital, relatively long period of learning by doing and hence loss-financing, and accumulation of capabilities. This is all the more complicated by the relatively wide productivity gaps in all three sub-sectors of cotton production, textile manufacture and garment making in Nigeria as we have seen in section 7.4.2.

Therefore, in terms of the production processes (routines) and requirement of capabilities and learning, the textile industry is relatively more complex than the cement industry. In fact, because of the increasing complexity of the textile industry, countries now specialize in either the upstream (cotton production), mid-stream (fabric formation) or the downstream (garment making) segments of

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<sup>59</sup> The most recent accounts (see Leadership, 2023) by Nigeria's National Bureau of Statistics (NBS) put the value of textile imports at N365.5 billion (\$792,565,088.60 million). This account, however, excludes smuggling which is a significant part of the volume of imports.

the textile industry but rarely in all (Collier, 2011)<sup>60</sup>. For instance, in this regard, while Bangladesh and Germany specializes in garment making, Uzbekistan and Pakistan mainly specialize in cotton production. Moreover, although it is difficult to say what the impact of the slight difference in R&D intensity is between the cement and textile industries, it is still worth highlighting that compared to the cement industry that has an R&D intensity of 0.4%, the textile industry's R&D intensity is 0.5% (Carroll *et al.*, 2000). This, however, stands to reason given that textile products/technology are differentiated/constantly changing, unlike the cement products/technology that has remained relatively the same over the years. Also, while cement industry's requirement, adoption and implementation of organizational learning, capabilities and routines are relatively *simple/basic*, the textiles and iron and steel industries' requirement and adoption of such are relatively more complex—with intermediate/innovative capabilities usually required (Lall, 2000as). Lall (1992) categorizes capabilities into simple/basic, adaptive duplicative, and innovative in ascending order of complexity. Using this criteria, while the cement industry requires simple/basic routine capabilities, the textile and iron & steel industries require what could be described as adaptive duplicative and innovative capabilities, respectively.

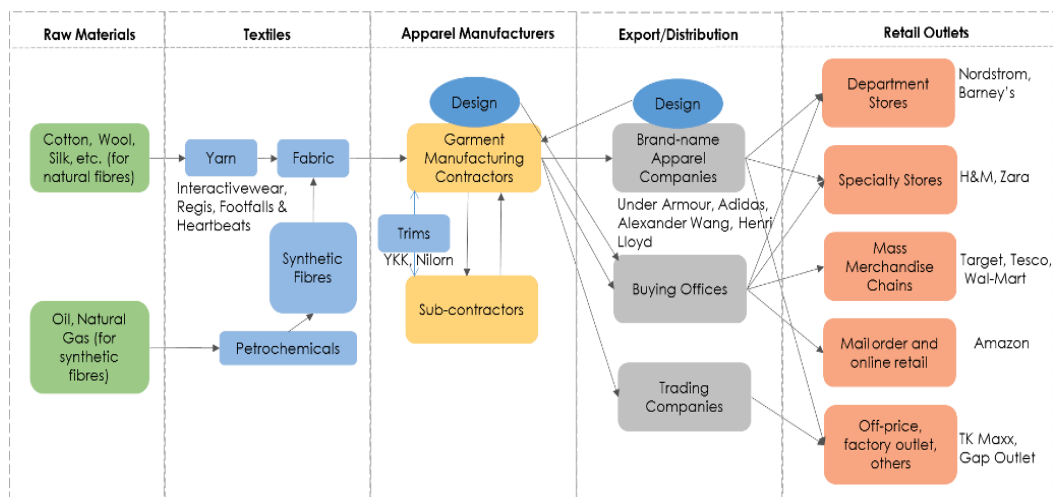
The textile industry's relatively complex value chains consists of three major segments/sub-sectors, viz: (a) the upstream (cotton production) segment, (b) the mid-stream (textile manufacture) segment and (c) the downstream (apparel/garment making) segment. There is also the exports/distribution/retails segment if an industry attains international competitiveness and starts to export its outputs. These segments/sub-sectors are depicted in the following figure 34.

After highlighting the nature and activities involved in each sub-sector, I provide brief accounts of the state of each sub-sector in Nigeria. This is with a view to establishing the fact of the relative complexity of the textile industry in terms of its requirement, adoption, and implementation of learning/capabilities/routines, and why a wholistic textile revival policy like the CTG policy stands but a little chance of success. Notably, the CTG policy was designed to address all of the issues affecting all the cotton, textile and garment sub-sectors of the industry.

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<sup>60</sup> Apart from China, and to an extent India, few countries specialize in all the segments of the textile and garment industry.

FIGURE 34 THE COTTON-TO-CLOTHING SEGMENTS/SUB-SECTORS/VALUE CHAINS



Source: PNGKey.com

(a) *The Cotton Growing and Production/Raw materials Segment (The Upstream sub-sector)*

This involves activities from ploughing the land to planting of cotton seeds through weeding, application of chemicals such as fertilizers and insecticide to harvesting, ginning, and bagging the raw cotton fibre. The USA, India and China, Pakistan, Vietnam, Uzbekistan specialize in this sub-sector. This sub-sector is more labour-intensive than the textile manufacturing subsector.

*Nigeria's cotton production:* In Nigeria, this sub-sector is still not mechanized and developed but stuck in the use of traditional methods and implements by small-holder, peasant cotton farmers. In 2020, Nigeria, which in the past few decades used to be the biggest cotton producer in Africa, was able to produce only 51,000 metric tons of cotton which represented 27.9% of the total cotton production in Africa (Olowa, 2021). Yet, even these modest cotton production figures are, according to the projections of the OECD/FAO 2020 agricultural outlook report, predicted to further decline to 20.29% by 2029 (OECD/FAO, 2020). Similarly, Nigeria's earnings from the exports of cotton fibres which was N1.71 billion in 2010 also sharply fell to N866 million in the 3<sup>rd</sup> quarter of 2020 (Olowa, 2021). This means that for Nigeria to have a functional integrated textile industry, it must address these low-output and low-productivity challenges that plague its cotton upstream farming sub-sector. Or else Nigeria should adopt a sequential approach currently practiced by many active textile firms. Here the upstream sub-sector can, for the meantime, be forgone and imported cotton lint/yarns could be relied upon for production. This could be the only feasible solution given that contemporary efforts under both the Textile Revival Fund and

the CTG policy have completely failed to transform all or any of the industry's sub-sectors. For instance, under the CTG policy, the Central Bank of Nigeria has, between 2018 and 2020, spent N120 billion to provide new cotton seeds, fertilizer, knapsack sprayers, insecticides, and other inputs to 320,000 cotton farmers with a view to boosting cotton production (Olowa, 2021). However, despite all these expenditures, both cotton output (which, as is pointed out above, was 51,000 tons in 2020) and productivity (which is 202kg per hectare against the world average of over 773kg per hectare) remain abysmally low in Nigeria. This highlights the huge output and productivity gaps Nigeria has to fill to get its textile raw materials sub-sector working if the country insists, as it does, on having an integrated textile industry in one go. Thus, it is clear that these challenges are more serious when compared with the challenges in the cement industry's upstream sub-sector where only the natural endowment or availability of limestone is required. Hence, for the cement industry, there was no significant output/productivity gaps for Nigeria to fill in the cement's upstream sub-sector before profitable production could take place. This, however, is not the case with the textile industry which adds to its relative complexity.

*(b) The Textile Manufacturing Segment (The Mid-stream sub-sector):*

This sub-sector is the most capital-intensive and the least in terms of labour intensity due to its continuous global automation/mechanization and innovation of new technologies. In this sub-sector, cotton lint or yarns are woven or knitted together by machines into rolls or bundles of grey baft for further processing into dyed fabrics or other useful finished and printed textile materials and made ups. India, China, Turkey and other countries who grow cotton specialize in weaving and knitting..

*Nigeria's textile manufacturing sub-sector:* Most of the cotton spinning, weaving, and knitting companies in Nigeria have closed down due to lack of enabling environment and a robust and coherent textile revival policy. However, around 30 spinning, weaving and knitting companies, some integrated, have remained in operation to this day. But as of now, the total market share of locally produced textile materials is less than 20% (UNIDO, 2011). This means that smuggled textile products account for over 80% of the Nigerian textile market. Except for Sunflag, Woolen & Synthetics, Funtua Textiles and a few other operational textile companies visited by this author and whose profiles will be reviewed shortly, other textile firms consisting of over a hundred and including the large-scale UNTL, KTL, Arewa Tex., Nortex, Gaskiya, Afprint, Nichemtex, Specomills, and

NTM have all closed down, and their machines remain so obsolete that revitalizing them will cost more than double their total UNIDO (2011)-estimated value of \$2billion (anonymous, 2021e, Interview 29). Annually, Nigeria spends \$4billion to import textile products from China, Japan, Malaysia, India, United States and others (Vanguard, 2019). Most of the large-scale inactive textile companies especially those in Kaduna are owned by powerful politicians, traditional and religious leaders who, though lacking the technological and organizational capabilities to revitalize them, nevertheless use same as fronts to capture rents in form of soft loans occasionally given to owners of textile companies in the name of the CTG policy and other interventions aimed at reviving the industry (Anonymous, 2021e, Interview 29). These loans, my investigations confirm, were never repaid as those who owe them are too powerful to be penalized for defaulting payments much less forced to pay them back, and hence, they (the loans) often end up being bought up by the Assets Management Company of Nigeria (AMCON) as bad debt (Anonymous, 2020e, Interview 41; Muhammad, 2022, Interview 38). Thus, with the current output of the entire textile industry in Nigeria representing less than 20% of domestic textile market share, the country not only has massive cotton production output and productivity gaps to fill up in its upstream textile industrial sub-sector but also has a multibillion-dollar worth of investments to make or attract to its mid-stream (textile manufacturing) sub-sector. This also adds to the complexity of the textile industry to respond to policy positively as would the cement industry that already had willing entrepreneurs with the financial, investment, technological and organizational capabilities to invest in its manufacturing.





**PHOTOS 3: AUTHOR IN FRONT OF THE GATES OF SUPERTEX LIMITED AND UNITEX LIMITED, TWO OF THE BIGGEST KADUNA TEXTILE COMPANIES IN KADUNA, NOW MORIBUND AND UNDER LOCK AND KEY**



**PHOTO 4: R-L AUTHOR INTERVIEWING HAMZA ADAMU, FORMER AREWA TEXTILE WORKER IN KAKURI, ONE OF THE HITHERTO VIBRANT TEXTILE INDUSTRIAL ESTATES IN KADUNA.**

*(c) The Apparel/Garment Making Segment (Downstream sub-sector)*

At this sub-sector, finished or printed fabrics are sewn together to form readymade garments like shirts, trousers, and other wears for sale to end-users. China, Germany, Bangladesh, and Vietnam specialize in this sub-sector of the textile industry. Since 1993, China has become the biggest producer of garments

in the world accounting for 52.2% of the global garment products. Low production costs and the use of advanced technology account for the competitiveness of the Chinese garment products. With an annual garment export value of \$40 billion, Germany is second to China in global garment manufacture and exports having taken the position from Bangladesh in 2019 (Textalks, 2022). Thus, Bangladesh is now the third largest producer/exporter of garments.

*Nigeria's apparel/garment sub-sector:* The garment sector in Nigeria is largely unorganized and can be categorized into the formal and informal segments. Firms in the formal segment are currently around two dozen and they are organized, small-scale, privately-owned garment companies that are mostly located in and around Lagos. They include such companies as Femro3, Da Viva Fashion, Reddi2Wear, Lekki Garment Factory, Adhama Garments, and others that use modern sewing and embroidery machines to produce promotional T-shirts, singlets, jersey shirts, socks, shorts etc. Typically, formal garment companies employ between 50 to 200 workers. The informal segment consists of sole proprietor tailors who mainly cut and sew fabrics to make local garments for their customers. These type of garment makers are found in all parts of Nigeria, and they usually work in a workshop of between 3 to 10 tailors contributing equally to pay the rent for the space. Though some of these tailors are members of the National Union of Textile, Garment and Tailoring Workers of Nigeria (NUTGTWN), their actual number and size of production outputs are hard to come by as they mostly operate as sole proprietors, and are therefore difficult to track down. In any case, the Nigerian garment sub-sector is the biggest contributor to the 46.42% annual average growth in exports of textile, apparel and garment materials witnessed especially between 2010 and 2014 (Obikili, 2020).





PHOTO 5: INFORMAL GARMENT WORKERS SEWING TRADITIONAL WEARS



PHOTO 6: FORMAL GARMENT WORKERS IN ACTION AT LEKKI GARMENT FACTORY IN LAGOS

The import of second-hand clothing (SHC) is likely to have contributed to undermining the growth of local textile and garment producers in West Africa (Baden & Barber, 2005). In Nigeria, although SHC is so popular that there is a common saying used by Nigerians to underscore its importance which goes thus: “*Na mumu dey go boutique*”<sup>61</sup> [meaning only a fool goes to the boutique (to buy new clothes)], its impact on the textile industry may be limited. This is because the Nigerian textile industry has historically been dominated by the manufacture of traditional fabrics such as kaftan, brocade and atampa wax of various grades that require sewing and embroidery by local tailors/embroiders. Though low purchasing power has traditionally been associated with the propensity of low-income Nigerians to patronize SHC, in recent years the import of high-grade SHC from Europe and North America has attracted Nigerians of diverse classes to SHC.

(ii) *The financial, investment, managerial, technological, and organizational capabilities of textile entrepreneurs.*

The Nigerian textile industry has since its establishment in the late 1950s up until early 1970s been dominated by American and Western European capital. These foreign partners provided the industry’s technological, managerial and organizational capabilities. The participation of Nigerians in the industry was less than 30% in the 1960s and 1970s and concentrated mostly in the unskilled and semi-skilled production lines or segments (Onyeiwu, 1997; Andrae & Beckman,

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<sup>61</sup> See Olubajo, 2021

1999). This prompted the Nigerian government to enact the (in)famous Nigerian Enterprises Promotion (indigenization) Decree (NEPD) of 1972 (amended in 1977). The decree reserved 40% equity participation in the printing and dyeing segment of textile production for Nigerians. An amendment of the NEPD in 1977 went a step further to require 40% participation by Nigerian citizens in the spinning and weaving segments of the industry (Mohammed, 1985). These decrees had the effects of forcing American and Western European textile entrepreneurs/industrialists to divest their shares and leave Nigeria in the 1970s. Consequently, entrepreneurs from Hong Kong China (the Cha group owners of UNTL Kaduna and Lagos), India, Korea, and Lebanon, who were before now textile traders (not producers), came to invest heavily in and dominated the industry from the mid-1970s onwards. But, in addition to the provision of capital and transfer of the hard components of textile manufacturing technology, these foreigners also had, in their possession, a whole gamut of tacit capabilities of organising textile production efficiently and profitably.

As competent foreign investors continued their exodus, Nigerian capitalists (politicians, former army generals, traditional rulers and their cronies) who largely made their fortunes in the primitive accumulation associated with successive regimes since independence began to buy controlling shares of the now distressed/struggling textile firms. Unfortunately, these indigenous (pseudo)entrepreneurs possess only some low/modest capabilities in (textile) manufacturing. However, because of their political influence, these indigenous capitalists use these distressed or moribund companies as fronts to secure foreign exchange allocation, soft loans and other financial supports or subsidies given by successive governments in the name of reviving the industry. Adamu (2020, interview 1) narrated how a former first republic politician, late Chief Paul Achimugu, bought the Arewa Textiles, ‘sacked many of its experienced staff and replaced them with people from his ethnic group’. The motive, he added, ‘was not to revive the company but to benefit from the financial supports/incentives successive governments often provided to owners of textile companies which were never used for the purpose for which they were meant’. Similar stories were narrated to me by other respondents (Adhama, 2020, Interview 2; Muhammad, 2021, interview 9; Anonymous, 2020a, interview 3).

Since the establishment of the textile industry in Nigeria, there was no substantial learning among the indigenous people. This is not unconnected to the fact that there was no clear-cut learning arrangements between the various regional governments in Nigeria and foreign textile industrialists who possessed

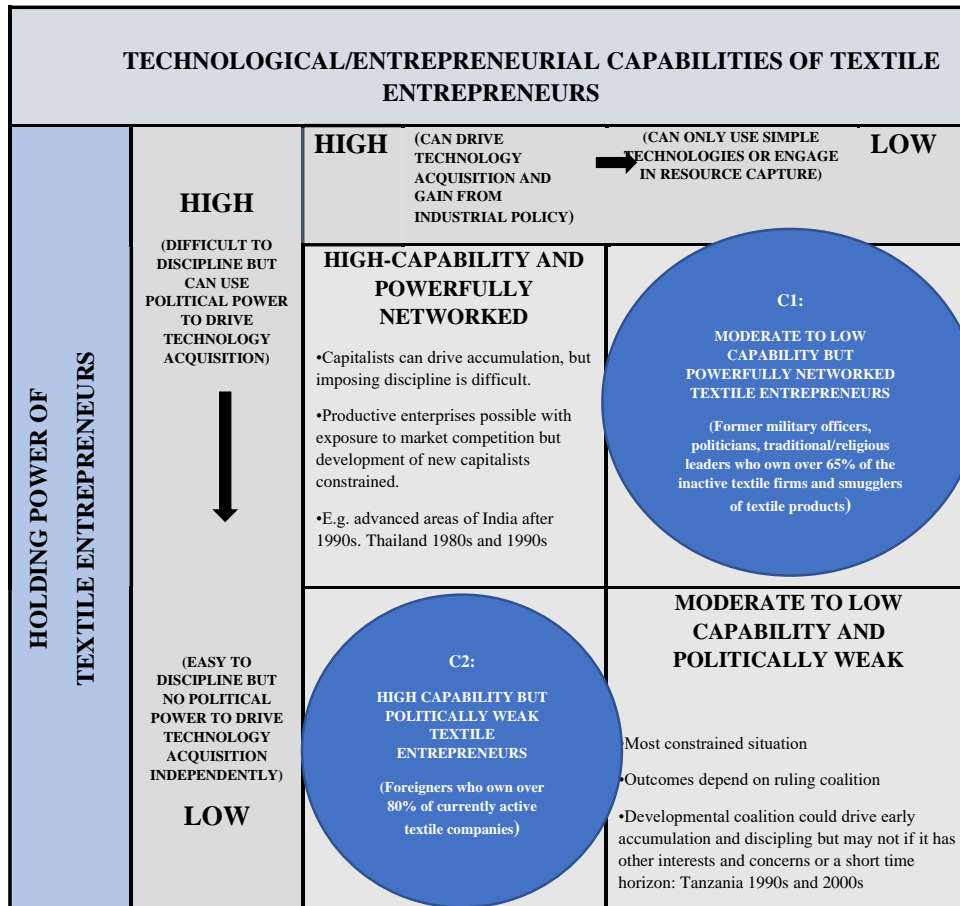
the capabilities for textile manufacturing. The Asian industrialists in particular were said to have formed the habit of asking Nigerians to excuse themselves whenever they wanted to embark on simple repairs of machines and equipment or perform some adaptive (not in the manuals) tasks in the textile production process (Adamu, 2020, interview 1). This for instance, contrasted sharply with what obtained in Bangladesh in the late 1970s when the South Korean garment maker, Daewoo, struck a business deal with a Bangladeshi company, Dosh leading to the transfer of tacit skills and other capabilities to Bangladeshis (Khan, 2019). The arrangement was such that Daewoo had the incentives to transfer the skills of garment making to the Bangladeshis who were equally incentivized to put in high effort to learn and master those skills and capabilities.

This problem of lack of critical skills and capabilities for textile (and indeed other manufacturing processes) has persisted to this day among the Nigerian owners of textile companies as almost all the few textile companies that remain in operation and appear to be doing relatively well are owned by foreign expatriates (mostly Indians and Lebanese). These foreigners still monopolize the critical stages of the production processes (Maiwada, 2020, Interview 8). For instance, in most of the big companies such as KTL (owned by the 19 northern states), Arewa Textiles (owned by late Chief Paul Achimugu), and Gaskiya (owned by a Kano business man) capabilities were lacking among the managers and floor operators leading to the eventual closures of the companies and the demise of the industry (Maiwada, 2020, Interview 8). The collapse of the industry and the consequent sacking or death of many experienced textile workers have also affected the textile industry negatively and very hardly (Adamu, 2020, Interview 1). This has made the success of textile revival policies such as the CTG policy extremely difficult to achieve as only a handful entrepreneurs, mostly of Asian origin, possess the critical skills and capabilities for profitable textile manufacture. However, the Nigerian state/political leadership have their bias against pursuing/enforcing policy institutions in industries without substantial representations of indigenous capital—except where such is inevitable.

Deducing from the foregoing, and other insights gained in the course of fieldwork, there are two categories of textile industrialists/entrepreneurs in Nigeria: (a) those who are well-connected and politically powerful to violate/influence and privately gain from textile revival policies but who possess low to moderate capabilities to drive structural transformation in the industry—I call these *pseudo-entrepreneurs*, and (b) those who possess high capabilities to successfully drive textile policies but lack the political connection and clout to

influence the design and enforcement of favourable policy in the fashion of the cement entrepreneurs—following Prichett, Sen & Werker (2018), I call these *workhorses*. Additionally, inspired by Khan (2010), I map the configuration of power and capabilities of these two categories of textile industrialists/entrepreneurs in figure 35 below before dwelling on their profiles.

FIGURE 35 STRUCTURE OF TEXTILE INDUSTRIALISTS/ENTREPRENEURS IN NIGERIA



Source: Author based on Khan (2010)

(a) Low capability but powerfully networked textile industrialists/entrepreneurs (smugglers)

This category of textile industrialists/entrepreneurs consists of: powerful Nigerians (former military officers, politicians, businesspersons, and influential traditional/religious leaders) who have controlling shares in textile companies that they purchased using proceeds of the rents they had amassed from the primitive accumulation supervised by successive governments, legitimate businesses, and or inherited wealth; states (former regional governments) who founded many textile firms in the post-independence decades; and influential textile entrepreneurs/merchants who smuggle textile products worth over \$4

billion<sup>62</sup> per annum into Nigeria. Industrialists in this category reportedly own over 65% of currently inactive or moribund textile companies across the country but especially in Kano and Kaduna. Being powerful Nigerians, the actions/inactions of these textile entrepreneurs which I refer to as pseudo-industrialists are critical for the performance of textile revival policies. However, although these pseudo-industrialists are well-connected and politically influential, they do not possess the capabilities to drive textile revival policies successfully. Hence, while these entrepreneurs own most moribund textile companies in this group they simply use such companies as ‘cash cows’ for capturing rents that come with textile revival policy interventions. Anonymous sources confirmed to this researcher the identity of these pseudo-entrepreneurs/industrialists. Suffice it here to state that the bulk of them are retired army officers, influential politicians, religious and traditional rulers whose profiles portray them as lacking in the requisite capabilities needed for organizing and managing efficient and profitable textile manufacturing.

Other players in this category are well-connected and very rich smugglers who are mainly into the business of smuggling textile products from Asia (China, Japan, Malaysia etc) to Nigeria and deploy a part of their rents to support politicians at both local and national levels in order to buy the needed influence to continue to distort policy institutions with impunity. Thus, while these entrepreneurs could use their connection to persuade and assist government in the effective enforcement of policy institutions, they prefer to deploy their influence into extracting private benefits at the expense of national textile industrial development. And because of their political connection, these pseudo-entrepreneurs are hardly disciplined for distorting or blocking textile industrial policy institutions. One of these (in)famous smugglers is Alhaji Dahiru Mangal who is said to have financed the gubernatorial election and re-election as well as the presidential campaigns of late president Umaru Musa Yar’Adua in 1999, 2003 and 2007 respectively (Burgis, 2016).

Mangal started his import/export trade in the 1980s when his father introduced him into the lucrative business practiced by many inhabitants of the north-western Katsina state, which borders Niger republic (Burgis, 2016). Soon Mangal grew to own a fleet of 600 trucks which he use to import contraband items especially food, fuel and textile products by ‘settling’ border officials (Burgis, *ibid*). In 1999, when Nigeria returned to competitive democracy, Mangal saw the need to

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<sup>62</sup> Kwajaffa (2020, Interview 7)

use part of his proceeds to generously finance the (re)elections of Alhaji Umaru Musa YarAdua as Katsina state governor in 1999 and 2003 (El-Rufai, 2013). With YarAdua in charge as governor, Mangal had free reigns to import textile products and other contrabands shipped from Benin republic across the hinterland through the Nigerian border outpost at Jibiya (Wikileaks, 2008; El-Rufai, 2013; Burgiss 2016). However, after Obasanjo won his second term and became concerned about the rampant closure of textile companies in the 2000s, he engaged experts to investigate the problems leading to the collapse of the textile industry. One of the problems identified was the smuggling of textile products into Nigeria with Mangal, a local financier of Obasanjo's ruling People's Democratic Party (PDP), identified as a 'kingpin' (El-Rufai, 2013). Bent on resolving the issue amicably, Obasanjo sent his powerful Minister of the Federal Capital Territory, Mr Nasir A. El Rufai to meet with both Mangal and Governor YarAdua, his political patron (El-Rufai, 2013). Both parties agreed that Mangal would henceforth cease the smuggle of contraband items (ibid). However, Mangal's relationship with the Obasanjo government remained strained till 2007 when Obasanjo handpicked YarAdua to contest for the Nigerian presidency under the platform of the PDP, and Mangal saw another opportunity to financially invest in the presidential project of then candidate YarAdua, his political benefactor (see El-Rufai, 2013; Burgiss, 2016). With YarAdua's victory, Mangal not only retraced his steps back to his old trade but also became then President YarAdua's 'Mr, Fix It', where he took care of " 'anything filthy' YarAdua needs done" (Wikileaks, 2008). Thus, when in 2015 custom officials sealed 75 warehouses with imported textiles worth N315 billion, the secretary of the Kano State Traders Union (KSTU), Mr Aminu L. Gwale whose members were affected by the seizure made the following insightful statement thus: "*we have been bringing the textile materials through the only and known person that the Customs are aware of*" (Daily Trust, 2015). Moreover, at the famous Kantin Kwari textile market in Kano, a source (anonymous, 2021g, Interview 31) confirms to me that all big textile dealers have good rapport with local politicians who serve as their 'political godfathers' that help them out 'if they enter into trouble'. In return for their help, local politicians often get the support of these wealthy textile merchants in both cash and kind especially during state/federal elections (ibid).

With the competitive clientelist settlement that Nigeria is currently in where ruling coalitions are fragmented and therefore '*dependent on the support of a large number of factions*' (Khan, 2010), it is extremely hard to discipline these pseudo-industrialists and entrepreneurs/smugglers who continue to distort



textile revival policies with impunity, and for their own private gains. Hence, the strong holding power of this category of textile entrepreneurs—which is not deployed in a positive way, and their low-levels of capabilities—which cannot successfully catalyse structural transformation in the textile industry, combine to militate against the success of successive textile industrial policies in Nigeria.

(b) High capability but politically weak textile industrialists/entrepreneurs

The second category of textile industrialists/entrepreneurs in Nigeria are foreigners (mostly Indians and a few Lebanese) who own over 80% of the currently active and successful small- and medium-scale textile firms mostly based in and around Lagos. Though they possess the technological and organizational capabilities required for the successful transformation of the Nigerian textile industry, these entrepreneurs lack the political connection to have any input or influence on the design of a robust textile policy that aligns well with the incentives of industry stakeholders or lobby for the effective enforcement of existing policy institutions such as the ban on imports of finished textile materials—like the cement industrialists were able to deploy their influence in that regard. In his analysis of the potential configuration of entrepreneurs/capitalists in terms of their techno-organizational capabilities and political influence or holding power, Khan (2010) contends that this category of industrialists/entrepreneurs are desirable for the implementation of successful industrial policy ‘*if the ruling coalition is developmental*’. This, Khan (ibid) argues, is because under this configuration the (developmental) ruling coalition is in a better position to discipline industrialists/entrepreneurs who violate policy institutions since their lack of political influence means that they do not have powerful patrons that they can identify with to intercede on their behalf. However, in Nigeria, apart from the fact that a developmental coalition is yet to emerge, there is the historical fear of foreign capital’s domination of the economy which still lingers on six decades after independence.

In my interviews in Lagos, Kano and Kaduna with these industrialists of foreign (Asian) origins all of whom opted for anonymity, I learnt that they are often neither consulted for their inputs during the textile revival policy formation process nor do they benefit significantly from the soft loans, foreign exchange subsidization, export expansion grants, and other incentives that come with policy interventions. Yet almost all the successful textile companies currently in operation in Nigeria are owned by these marginalized group of industrialists. The indigenous textile entrepreneurs, or better put, pseudo-industrialists, are often the

major beneficiaries of policy intervention supports due, in large part, to their extensive political networks which they often deploy to capture industrial policy rents. The remarks of one the foreign industrialists I interviewed (anonymous, 2020c, Interview 32) are worth quoting at some length here:

*“Look, Nigeria is not serious about reviving this industry. Otherwise, how do you explain the fact that with a population of almost 200 million people, Nigeria has the biggest textile market in Africa. And against all the harsh business climate in the country and the collapse of the textile industry, you have some textile companies that are still operating, some at 70% capacity. Now, isn't it logical that government sits down with us and asks us what the problem is and how it can help us?..... but they are busy giving money to people we know do not produce a piece of fabric! ”*

Another industrialist in this category (Anonymous, 2020d, Interview 33) also told me that instead of the government to reward their success against all odds by providing enabling environment through the supply of uninterrupted electricity, protection from illegal imports, reduction of high interest rate on loans (which is as high as 30%), it (the government) ‘*only knows how to collect taxes every now then*’. Asked why concrete, industry-wide strategies such as tax holidays, enforcement of bans on imported textiles and other similar measures used to transform the cement industry have not been replicated in the textile industry, an official of the Central Bank of Nigeria (CBN) who is part of the apex bank’s supervisors of the CTG policy maintained that the government is doing all it could to revive the industry. On the issue of marginalization of Asian industrialists in favour of indigenous entrepreneurs who are unproductive, the CBN official argued “*no, no we do not discriminate against anyone. However, it is true that our intervention supports do not go round all the players in the industry, but you can go to the Bank of Industry, and they will confirm to you that many textile companies have benefitted from the Textile Revival Funds and the CTG [policy] assistance.*”. On my visit to the Kano branch of the Bank of Industry (BOI), I was able to establish that Textile Revival Funds of over N50billion was disbursed to some textile industrialists, however, my request for access to the list of beneficiaries to analyse their backgrounds was turned down for ‘*protection of companies’ privacy*’. However, the data I gathered in the course of my interviews with textile company owners (both active and inactive) confirm that policy intervention supports have, over the years, been skewed in favour of indigenous entrepreneurs against industrialists of foreign (Asian) origins whose textile

companies remain the only islands of success in the sea of failure that is the Nigerian textile industry.

*(iii) The nature of profits/rents in the textile industry and the importance/influence of textile industrialists/entrepreneurs to the political leadership/policy design and implementation*

With the support of the highest political leadership, policy enforcement/implementation usually becomes relatively easier. However, ruling coalitions' decisions to support or credibly commit to a particular policy are motivated by some incentives (Whitfield *et al.* 2015). One of the most important of these incentives is the amounts of rents to be generated from an industry and the feasibility of these rents to be made relatively easily and quickly or in the short-term so that entrepreneurs and the incumbent political leadership driving the policy can benefit (financially, politically, or both) from policy outcomes in time. Political leaders may also be put under pressure by voters to deliver on their promises or provide the so-called dividends of democracy which usually come in form of jobs creation through the establishment/revival of manufacturing industries which facilitates overall economic growth and development. This can also serve as an incentive for leaders to credibly commit to supporting particular policies. In this vein, it is not difficult to see why ruling coalitions in developing countries pursue industrial policies in some sectors and not in others and why the performance of such policies may differ from one industry to another depending, among other factors, on the sources of profitability/rents in particular industries.

To demonstrate the importance of rents in incentivizing the enforcement of policy institutions, I adapt the concept of the 'rent space' developed by Pritchett, Sen and Werker (2018) to show how the structure of opportunities and incentives differs among our case-study industries. These differences pertain to the nature of rents or sources of profitability in the two industries which determine the propensity of a ruling coalition to actively support an industrial policy or not. In the rents space, the private sector is analysed along two dimensions: one, the type of market (export or domestic) that private entrepreneurs in a developing country target and, two, the sources of profitability (i.e., whether rents come from state regulation or market competition) in an industry (see the following table 27).

TABLE 26 THE RENTS SPACE: NIGERIAN TEXTILE COMPANIES AS WORKHORSES

	Regulatory rents	Market competition
Export-oriented	<i>Rentiers</i>	<i>Magicians</i>

<b>Domestic market</b>	<i>Powerbrokers</i>	<i>Workhorses</i>
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Source: Author's adaptation from Pritchett, Sen & Werker (2018)

Based on these insights, the textile industry appears to have fallen under *workhorses* highlighted in table 27 above. Firms under this category have to work hard to earn their profits through costs minimization (and hence reduced prices for their products), attainment of higher productivity and quality as well as other competitive advantages. Clearly, whereas the cement industry bears the fundamental features of the *powerbrokers*, the textile industry fit in well with the *workhorses*. Textile firms in Nigeria have had to compete directly among themselves and indirectly with foreign firms in terms of prices and quality in order to generate profits/rents. In contrast, cement companies do not compete in terms of quality which are already standardized. All things being equal, price competition also rarely happens in the cement industry as the price differentials of standardised products are usually insignificant. In essence, rents in the textile industry are secured through market competition.

In a typical developing country, there exist very few large private formal business organizations whose part of legitimate incomes can be deployed to build or maintain ruling coalitions in power in return for favourable policies (Khan, 2010). Hence, in developing countries' industries where discretionary rents exist, powerbrokers often emerge to lobby politicians and bureaucrats for the creation of policies that allow for the extraction and sharing of these rents among stakeholders. But, considering all of these insights, it can be argued that neither the Obasanjo-led dominant party coalition nor the competitive clientelist political settlement that followed it clearly had the incentives, rents-wise, to credibly commit to textile industrial policies because of the absence of discretionary rents in the textile industry. The current competitive clientelist coalition led by president Buhari supports the CTG policy more out of the need to fulfil electoral campaign promises to revitalize moribund industries than for any consideration/motivation of the existence of rents in the industry. This, however, may be a less strong motivation compared rents availability.

Compared to the cement industry, there are no *regulatory rents* to be created and harnessed easily and in the short-term in the textile industry in Nigeria. In fact, profits/rents in the textile industry largely comes from *market competition* with both domestic and foreign firms and at both price and quality levels. Also, Nigeria's textile industrial (revival) policies have been over-ambitiously set to target all the industry's value chains from the upstream (cotton

farming), to the mid-stream (textile manufacturing) and the downstream (garment making) segments. Attaining productivity and competitiveness in all of these segments of the industry in a limited democratic tenure of four years of two terms, is relatively more challenging. This would mean that for a profitable production in the textile industry that will yield substantial rents to take care of the interests of various patron-clientelist groups that contribute to policy success to occur, longer time, more capital, and more complex administrative supports would have been required but which a typical Nigerian ruling coalition will struggle to provide in a clientelist setting.

As *workhorses*, competing with domestic and foreign textile firms at both price and quality levels is the only mechanism through which profits/rents for the around three dozen textile companies in Nigeria are made. Consequently, by the time these successful companies use their gross earnings to account for production costs and taxes, they are left with very little surplus to lobby for or buy influence with ruling coalitions by way of electoral campaign financing. In fact, in a World Bank (2016) Enterprise Survey, it was found that between 2011 and 2014 sales by these active textile firms in Nigeria have declined by a whopping -19% which is a further drain on their incomes/rents. However, in the competitive clientelist settlements that Nigeria and indeed many other African countries are in where politics involves huge finances for not only the conventional campaign expenditures but also for the provision of what, in local Nigerian parlance, is now popularly referred to as the '*stomach infrastructure*' (see Stober, 2016; Omilusi, 2019; Busari, 2020), ruling coalitions rely on financing from productive capitalists to build or maintain their coalitions in power (Kjær, 2015; Whitfield, Therkildsen, Burr and Kjær 2015). In return for their financial contributions, productive entrepreneurs/capitalists are allowed to extract rents in the productive sectors of the economy through exerting their influence on the design of policy and its enforcement in their industry of operations.

For these active/successful industrialists operating in the Nigerian textile industry, in addition to the fact that they are mostly foreigners with limited political reach and influence compared to indigenous pseudo-industrialists and smugglers, the absence of regulatory rents in their industry which they can deploy to finance ruling coalitions also further constrains their influence on the design and enforcement of textile revival policies. Themes related to this lack of influence on textile policies and implementation frequently featured in the interviews I had with several active/successful textile industrialists of foreign descent during fieldwork interviews (e.g., anonymous 2020c; 2020d; 2020e;

2021e; 2001f; 2021g; 2022a). In my interactions with one of the interviewees (anonymous, 2020d, Interview 33), it could be concluded that instead of governments to actively work with these few successful textile firms by easing the difficulties they face, it appears to be complicating matters for them through the oft-raised issue of multiple taxation as succinctly articulated by the interviewee thus: *‘It seems like the more successful you are, the more federal and state government officials set their sight on you and pester you with collection of multiple taxes. So, honestly some of us are even very cautious about expanding our capacity or opening up new branches. Yes, there is market here [in Nigeria] and taxes are paid everywhere but no one is in a business just to pay taxes, we also want to have our returns on investments, and the government knows we are operating under difficult circumstances’*<sup>63</sup>

In fact, this researcher observes that the treatment of successful textile industrialists who are the real beacon of hope for the industry’s transformation contrasts sharply with how cement industrialists especially Dangote and Abdussamad of BUA were treated. These cement industrialists benefit from series of incentives which, *inter alia*, include import protection, foreign exchange subsidizations, custom duties rebates on imported cement manufacturing machines and tax holidays. In contrast, for the active/successful textile companies there were no enforcement of the official ban on the imports of finished textile products, no foreign exchange subsidy, no rebates on imported textile manufacturing machines, and no tax holidays. In fact, even the award of soft loans under the Cotton, Textile and Garment (CTG) policy of the Buhari administration was found to be discriminatory against textile companies owned by foreigners despite their adding more value by engaging in textile manufacture. The vast majority of active/successful textile firms owned by indigenous Nigerians operate in the garment segment of the industry where value addition is less than it is in the fabric/textile material manufacture segment. In my investigation of textile firms who received any type of support from government under the current CTG or any past policy I found the vast majority of firms owned by Nigerians (85%) to be beneficiaries even though most of them are small-scale garment makers who add little value compared to big firms such as Woolen & Synthetics, Sunflag, and the Lagos-based UNTL (see table 7P). However, despite being in the critical textile manufacturing segment, most (86%) active/successful textile firms owned by foreigners (Indians, Lebanese and a few Chinese) reported that they did not receive any kind of support from government (see Table 7P). In fact, discussing

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<sup>63</sup> Anonymous 2020d, Interview 33.

with an industry expert, Dr Murtala Muhammad, about how three active/successful textile firms owned by foreigners reported to have benefitted from the soft loans awarded under the CTG policy, he revealed that, though foreigners owned the majority shares of two of those companies, some influential Nigerians (whose names he said he would not reveal) have significant shares in the two firms (Muhammad, 2022, Interview 38). As for the third company, the industry expert said he is not well-acquainted with them having come on board relatively recently. However, when I probed the Human Resource Manager of the company about how they were able to secure the CBN-awarded soft loans under the CTG policy, he said they “just applied and got it” (Anonymous, 2022a, Interview 35).

TABLE 27 SUPPORT TO TEXTILE INDUSTRIALISTS ACCORDING TO THEIR NATIONALITIES

Industrialists by nationalities	Number of respondents	% of those who received support from government	% of those who received no support from government
Nigerians	13	85	15
Foreigners	22	14	86

Source: Fieldwork

The difference in the response or disposition of successive Nigerian ruling coalitions to successful entrepreneurs, according to the available evidence, can be explained by the difference in the relative importance of these entrepreneurs to ruling coalitions in terms of both political symbolism and political financing. Ruling coalitions in Nigeria appear keen to promote indigenous business/productive enterprise given the obvious political capital they make therefrom by demonstrating to the electorates the billionaires they have created (The InfoNG, 2018). This tendency often leads to the neglect of entrepreneurs or industrialists who are of foreign origins as supporting such category of industrialist does not come with any political capital. However, as it is the case in the textile and iron & steel industries, it is this category of entrepreneurs/industrialists that appear to hold the most promise for structural transformation especially industries where intermediate to advanced capabilities are required. Also, for ruling coalitions in Nigeria, entrepreneurs that operate in an industry that is rich in *regulatory rents* (e.g., cement industry) are very important to building/maintaining ruling coalitions through the campaign funding that they provided. This, as we pointed out in chapter 6, conferred on these cement entrepreneurs, especially the first mover, Dangote, and latter Abdussamad Rabiu,

the leverage to influence the design and effective enforcement of the cement industrial policy, the BIP. However, in striking contrast to this, Nigeria's active/successful textile industrialists operate in an industry whose main source of profits or rents comes from *market competition* (with both domestic and foreign firms and at both price and quality levels). This means that these textile entrepreneurs have very little, if any surplus rents to use to finance the building/maintaining of ruling coalitions. This, therefore, conferred no leverage on textile entrepreneurs to influence the design and effective enforcement of textile revival policies the way Mr Dangote was able to do in the cement industry. This is found to be an important factor accounting for the differences in policy outcomes in the industries under study. Incidentally, this finding finds support in Kjær (2015) who equally found that ruling coalitions under the Ugandan National Resistance Movement (NRM) credibly committed themselves to, and succeeded with, the policy for the development of the dairy sector compared to those for fisheries and agricultural services' development mainly because actors in the dairy sector were of great financial/political importance to ruling coalitions compared to actors in the other sectors. Similarly, Whitfield *et al.* (2015) also found that '*mutual interest*' between productive entrepreneurs and ruling coalitions underpinned by the financial/political support of the former to the latter played significant role in many cases of successful industrial policy performance in Africa.

### **7.7 Islands of success in a sea of failure: Profiles of some successful textile firms in Nigeria, their success catalysts, and operational challenges.**

Despite the dire state of the Nigerian textile industry due to challenges related *inter alia* to infrastructure (electricity, energy sources, water, roads etc.), lack of capabilities, illegal imports of textile materials from Asia (particularly from China), there are some small- and medium-scale textile firms in the country that are still operating at between 40-70% capacity. These islands of success in a sea of failure that the Nigerian textile industry has become number up to three dozens and most of them especially the most successful ones are owned by Asians (Indians and a few Lebanese). These firms are located mostly in the Lagos-Ibadan axis though a couple of them such as the Funtua Textiles Limited, Jaykay Carpets & Rugs, and Zaria Industries Limited, also operate in the north. My research on these firms revealed that most of them break even and do so almost entirely without any substantial support from government. In fact, I discovered that because the foreign owners of these firms are lacking in political connection, they often miss out on soft loans and other supports awarded by successive



governments towards the revival of the industry. Yet, these firms still thrive against all the odds tempting the reader to ask, ‘how do they do it given the acute challenges?’. Before addressing this question, let us briefly explore the profile of some of these successful companies which I visited during the period of my fieldwork in 2020/21.



R-L: AUTHOR AND THE DIRECTOR-GENERAL OF THE NIGERIAN TEXTILE MANUFACTURERS ASSOCIATION (NTMA), MR HAMMA KWAJAFFA, AFTER THE AUTHOR HAS FINISHED INTERVIEWING HIM ABOUT THE STATE OF THE NIGERIAN TEXTILE INDUSTRY AT HIS LAGOS OFFICE, DURING FIELDWORK IN AUGUST 2020.

### **7.7.1 Profiles of successful textile companies**

#### *Funtua Textiles Limited (FTL):*

This integrated textile mill was established in 1978 through partnership between Chinese expatriates and two Nigerian businessmen, Alhaji Mamman Daura and Alhaji Ismaila Isa Funtua. The company has a ginning, spinning, weaving and finishing facilities. Located in Funtua town of Katsina state, north-western Nigeria, the FTL has a total of 15,360 spindles and 382 weaving looms. Operating at 50% of installed capacity, the company’s main source of raw materials comes from locally produced cotton grown in the state of Kasina. The company produces cotton lint, grey cloth, mattress cover, pillow cases, dyed fibres, prints, towels, and bedsheets. On average, the company’s yearly sales’ value is N1.4 billion (Akilu, 2021; Interview 17). The following table 29 and figure 36 show the number of people directly employed in the FTL from 1980 to date:

Year	No. of Employees
1980	1009
1985	998
1990	998
1995	995
2000	909
2005	908
2010	905
2015	755
2020	606

FIGURE 36 EMPLOYMENT TRENDS IN FUNTUA TEX. LTD.

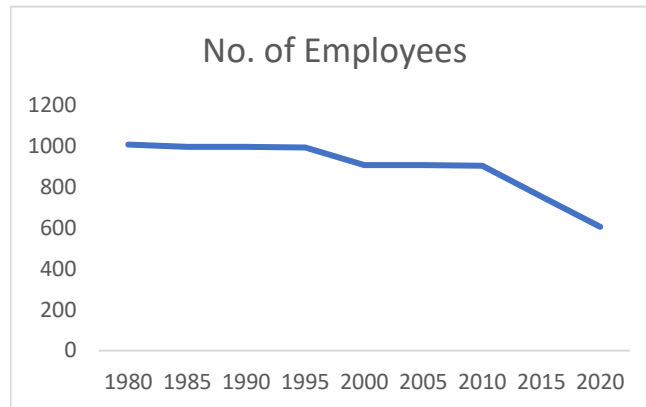


TABLE 28 EMPLOYMENT TRENDS IN FUNTUA TEX. LTD.

Source: Author's based on fieldwork data.

#### *Woolen & Synthetic Textile Manufacturing Limited (W&S):*

This company is located in Oba Akran Avenue, Lagos, southwestern Nigeria. Incorporated in 1968, this small-scale, non-integrated textile company was founded by late Chief H.B. Chanrai, an Indian businessman with interests in textile manufacturing, supermarkets, food processing, among others. The company operates at 70% capacity and relies largely on imported cotton lint (for 90% of its raw materials) from India (Ugwoeruchukwu, 2020, Interview 12). The company produces, school prints/check, towels, military/police uniforms, bedsheets, suiting, curtains, mattress cover, and pillow cases. The total number of workers employed by this company in 2010, 2015 and 2020 were, 413, 357 and 358, respectively. The company boasts of 'high end weaving and ultra-modern processing machines' deployed in producing world standard textile products<sup>64</sup>. W&S produces 5, 4.5, 4, and 3.6 million metres of fabric in 2005, 2010, 2015 and 2020 respectively (Ugwoeruchukwu, 2020, Interview 12). The company confirmed to me that they do make profits despite the challenges they are facing.

<sup>64</sup> For more details, visit: <https://wstm.ng/about/>



*Left Photo (above): L-R: Author and a staff of Woolen & Synthetic (W&S) in front of the W&S administrative office during fieldwork, 2020.*

*Right Photo (above): Author (in traditional cap) interviewing the Personnel Manager, Woolen & Synthetic, Chief Andrew Ugwoeruchukwu (Interview, 12), in Lagos during Fieldwork 2020.*



*Left Photo (above): Author guided around the spinning and weaving department of Woolen & Synthetics by a supervisor.*

*Right Photo (above): Author inspecting the printing department of Woolen & Synthetics while an operator looks on.*





*Left Photo: Author listening attentively to a point on a tour of the warehouse section of Woolen & Synthetic Textile Manufacturing Ltd, Lagos.*

*Right Photo: Author standing behind military camouflage made by Woolen & Synthetic Textile Manufacturing Ltd, Lagos.*

*Sunflag Textile Company Nig. Limited:*

Sunflag is currently the largest integrated textile mill in operation in Nigeria. Based in Lagos, the company started operations in Nigeria in 1961. Sunflag's Indian owner, Mr. Satyadev Bhardwaj, established his flagship textile company, the Sunflag Textile Kenya Limited in 1930s. Encouraged by Nigeria's huge market for textile and garments, Mr Bhardwaj came to Nigeria and established Sunflag Nigeria Limited in the 1961. To integrate backward into cotton ginning, the company established its ginnery in 2009 at Ikorodu, Lagos. The ginnery processes locally produced cotton grown in northern Nigeria into poly-cleaned cotton to be used for fabric manufacture at its state-of-the-art textile mill. Sunflag's spinning department is the most modern in Nigeria with 4,500 open end rotors (OER) and over 20, 000 ring spindles which make the department ranks among the top 5% in the world in terms of modern spinning technology<sup>65</sup>. The weaving department is equipped with over 200 looms, the latest Airjets, Rapiers and projectiles which the company bought from European manufacturers (Agbese, 2021, Interview 16). The dyeing, finishing and printing department has the latest computer-controlled facilities. The company produces circular knitted, and warp knitted fabrics in addition to suiting, shirting, garments, mosquito nets,

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<sup>65</sup> Visit: <http://sunflag-ng.com/textile/about-us.html>.

towels and industrial fabrics. The following are samples of the textile products made by Sunflag:



*African prints (Ankara)*



*Checks shirting*



*Terry towels*



*Shirting*



*School check/uniform*



*Threads*

*African Textile Manufacturers Limited (ATM):*

Owned by a Lebanese business man, the African Textile Manufacturers Limited was incorporated in January 1980 as a producer of African prints and other indigenous textile products. Located in Chalawa industrial estate in Kano state of northern Nigeria, the company started production in January 1998. The ATM operates at 50% capacity and produces various fabric brands mainly of African



super and wax prints such as Dunia, Wazobia, and Festac Wax for politicians and family functions such as weddings and naming ceremonies (DanAsabe, 2020). The ATM's Lebanese owner, Mr Suhail Akar, who has been residing in Nigeria for over six decades has been described on the company website as '*an astute industrialist...adequately equipped with skilled knowledge and expertise in the Nigerian textile industry*'<sup>66</sup>. With its spinning department equipped with an installed capacity of 25, 632 spindles and weaving department having 160 looms, the ATM produces 50, 000 metres of super and 70,000 meters of wax prints daily. The company uses locally grown cotton as a major source of its raw materials.

ATM's Spinning Department



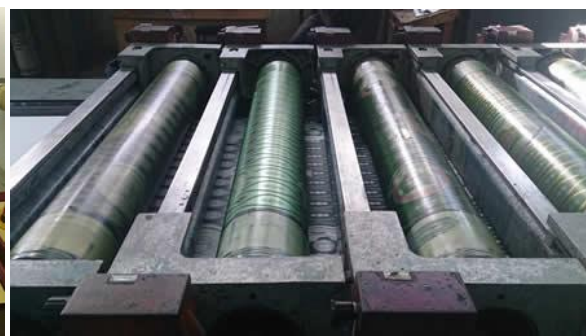
ATM's Weaving Department



ATM's Engraving Department



ATM's Printing Department



*Adhama Textiles and Garments Limited:*

This is a small-scale textile and garment company located in Sharada industrial estate, Kano and owned by Alhaji Saidu Dattijo Adhama. The company was incorporated in 1978 and started production in January 1979. Adhama Textile & Garments is still in operation, and it uses local cotton to knit singlets, football jersey, T-shirt, short-nickers, women blouses and other under wears. It employs around 100 workers during peak production period. The company is also one of

<sup>66</sup> For details about the ATM, visit: <http://www.atmng.com/index.php/about-us/about-atm>

the beneficiaries of the Textile Revival Fund which were soft loans granted by the FGN to assist cotton, textile and garment companies to upgrade technology, add more value and expand production.



*Left Photo: R-L: Author and a supervisor at Adhama Textile & Garments Limited*

*Right Photo: Author taking notes while interviewing a staff of the Adhama Textiles Limited.*



*R-L: Author interviewing the owner of Adhama Textiles & Garments Limited, Alhaji Saidu Dattijo Adhama (Interview 2)*

### *Jaykay Carpets & Rugs:*

This Kano-based carpets and rugs company was established by an Indian called Mr Lakhi Manglani in 1981. The company spins raw polymer into yarn before turfing same at its state-of-the-art finishing factory at Sharada industrial estate in Kano. The carpets, rugs, and artificial grass produced at Jaykay are sold in Nigeria



and also exported to other countries. According to a source, the company exported mosque runners to Bangladesh during the 2019 fasting month of Ramadan<sup>67</sup>. The following photo depicts carpets produced by the company.



Sample of the carpets made by Jaykay Carpets & Rugs.

### **7.7.2 Catalysts for the success of successful textile companies.**

In my research of the above successful textile companies (that is, Sunflag, Woolen & Synthetic, Funtua Textiles Limited, Jaykay Carpets & Rugs, Adhama Textiles and others), I made some interesting findings. First, all of these companies, with the exception of Adhama Textiles Limited and Zaria Industries Ltd (ZIL) have their majority shares owned by foreigners (Indians and Lebanese in particular). Secondly, all the owners of these companies have several decades of experience in textile manufacturing and hence have appreciable levels of investments, managerial, technological, and organizational capabilities to carry out profitable textile production. In fact, my research reveals that almost all owners (and many workers) have at least 40 years of experience in textile manufacturing. Thirdly, almost all successful textile companies (except Adhama Textiles and ZIL) have no major issues with access to capital for investments and upgrading of technologies. When asked if they think these qualities were part of the reasons for their success in the midst of hundreds of failed firms in the industry, all the owners of these successful companies answered in the affirmative (Agbese, 2021, Interview 16; Ugwoeruchukwu, 2020, Interview 12; Adhama, 202, Interview 2; Akilu, 2021, Interview 17). Other factors I found which have helped these companies to thrive against the odds are cheap labour and the existence of huge markets for textile products in Nigeria. Predictably, labour is cheaper in the north than in the southern city of Lagos, Nigeria's commercial hub.

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<sup>67</sup> See <https://www.nairaland.com/5993282/inside-kano-carpet-factory-exports>



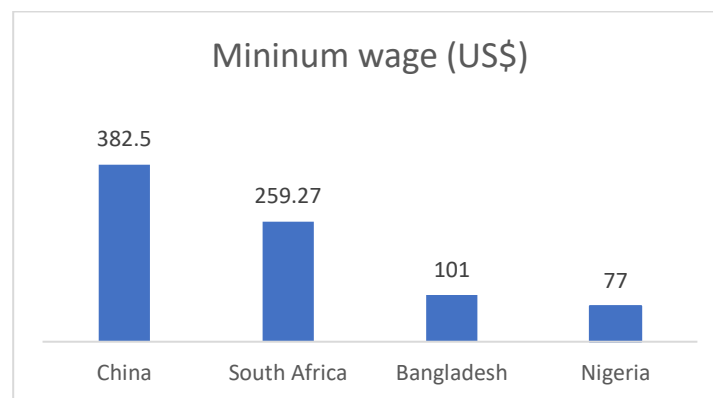
Comparing the minimum wage in Nigeria with those in China (the biggest textile materials exporter to Nigeria), South Africa and Bangladesh, Nigeria has the lowest figures with \$77 being the minimum wage paid to an entry level worker per month against \$382.5, US\$ 259.27, and US\$ 101 paid in China, S/Africa and Bangladesh respectively (see table 30 and figure 37 below).

TABLE 29: MINIMUM WAGE IN NIGERIA AND COMPARATOR COUNTRIES

Country	Monthly minimum wage (US\$)	Minimum wage in local currency
China	382.5	CNY 2480
South Africa	259.27	ZAR 3897
Bangladesh	101	Tk 8000
Nigeria	77	N 30000

Source: Compiled by Author

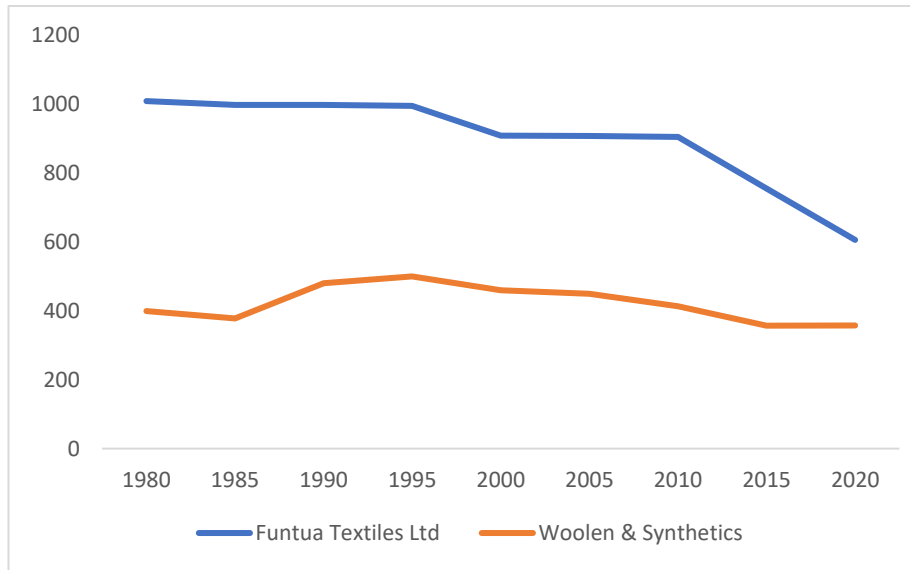
FIGURE 37: MINIMUM WAGE IN NIGERIA AND COMPARATOR COUNTRIES



Source: Author.

Though the few textile companies that remain afloat in the industry break even and remain the hope of policymakers in the search for solutions to revive the industry so that it returns to its golden decades (1970s and 1980s) where it was the biggest producer on the continent (after Egypt and South Africa), yet except for Sunflag and Jaykay Carpets & Rugs, the rest of existing companies do not appear to show credible prospects of growth as indicated by the dwindling number of employees in those companies for which data are available (see figure 38 below). This decline in the number of workers, I learnt, was due to companies cutting down outputs as a result of declining patronage and other challenges particularly to do with erratic electric power supply and high price of other energy sources such as gas, low pour fuel oil (LPFO). The recent recession that affected the Nigerian economy in 2014/2015 and challenges associated with the coronavirus pandemic have also been identified as the factors affecting employments, output and growth in the industry (Kwajaffa, 2020; Interview 7).

FIGURE 38 NUMBER OF EMPLOYEES IN FUNTUA TEX. LTD & WOOLEN & SYNTHETICS (1980-2020)



Source: Fieldwork, 2020.

### 7.6.3. Operational challenges faced by textile companies.

In the course of my firm surveys and interviews with textile industrialists and the officials of the Nigerian Textile Manufacturers Association (NTMA) and the National Union of Textile, Garment and Tailoring Workers of Nigeria (NUTGTWN), I gathered that there are several multifaceted challenges militating against the wholistic transformation of the Nigerian textile industry despite the existence of a huge textile market in a country with a population of around 200 million. These challenges are explained below.

In the absence of a coherent, comprehensive, and well-documented textile policy, what has often passed for textile industrial policy in Nigeria are series of intermittent fiscal policy pronouncements sometimes encapsulated under a signature program by successive governments such as the Textile Revival Fund and the Cotton, Textile and Garment (CTG) policy. Because these policies were designed without adequate consultation with key industry stakeholders, they are often contradictory and counterproductive. Since the ratification of custom union agreements on 25<sup>th</sup> October 2013 by members of the Economic Community of West Africa (ECOWAS), a common external tariff (CET) has been adopted by member countries. Nigeria adopted the CET in October 2008 and ever since its import and export policies have officially been guided by the CET. The CET tariff structure is shown in the following table 31:

TABLE 30 THE CET STRUCTURE

Category	Type of goods	Duty rate
0	Basic Social Goods	0%
1	Basic goods, raw goods, capital goods	5%
2	Inputs and semi-finished goods	10%
3	Finished Goods	20%
4	Specific Goods for Economic Development	35%

Source: ECOWAS, 2016

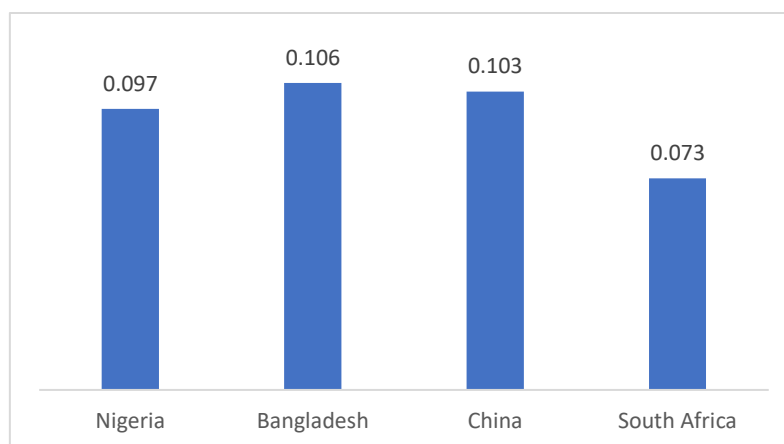
As per the application of the CET with respect to the textile industry, I was informed by Kwajaffa (2020; interview 7) that if the Federal Government of Nigeria (FGN) had fully kept to the provision of the CET, that would have been helpful to the textile industry. However, he pointed out that the imposition of unnecessary levies by the FGN have adversely affected the growth of the textile industry. For instance, unbleached baft (grey cloth) being a semi-finished product supposed to attract only 10% custom duty, but the FGN additionally imposes a 30% levy on imported grey cloth. Similarly, although the import of finished textile products such as African prints and dyed fabric were banned, yet the FGN's CET document wrongly states that these items attract a duty of 5%. Under the ECOWAS CET, a 20% custom duty is to be placed on all finished textile products imported into member countries (see Table 31 above). Moreover, textile firms pay a 10% duty rate on imported chemicals (e.g., resin, pigments, resin acid etc) instead of just 5% as indicated in the CET. Again, according to Adhama (2020, Interview 2) textile companies do not benefit from the five-year Pioneer Tax Holiday Scheme because the holiday is restricted only to two categories of textile firms, that is, yarn and man-made fibre producers and manufacturers of mosquito nets using local cotton. However, there are only but a few mills that fall under these categories as most, especially the active firms, are in the business of converting intermediate inputs (cotton lint, grey cloth etc) into finished products.

Moreover, most companies complain that the export expansion grant (EEG) administered by the Nigerian Export Promotion Council (NEPC) to increase the volume, value and global competitiveness of exports by domestic firms have been hard to access by textile companies due to its complexity, cumbersome bureaucratic red tape and corruption (e.g., Adhama, 2020, Interview

2; Ugwoeruchukwu, 2020, Interview 12; Agbese, 2021, Interview 16; Akilu, 2021, Interview17; Anonymous, 2020a, Interview 3). The EEG was introduced in 1992 to boost non-oil exports, however, due to the abuse of the system by both companies and bureaucrats, the scheme was suspended in 2014 (Premium Times, 2016). Before the suspension, incentives in the form of a negotiable duty credit certificate (NDCC) was granted to eligible exporters to be used in paying import and excise duties.

Apart from lack of favourable fiscal policy environment and incentives, textile firms in Nigeria suffer from acute problems associated with infrastructure such as electricity, water, and other energy sources. In particular, the problem of instability (rather than unaffordability) of electric power supply has affected the growth of industries in Nigeria (Ohajianya *et al.*, 2014). In the following figure 39, it can be seen that the price of electricity per kilowatt hour in Nigeria appears slightly lower than the prices in China and Bangladesh. However, the power problem in Nigeria lies in the acute shortage of power from the national grid rather than in its prices which the state subsidizes. All the companies visited in the course of this research cited poor supply of electricity as their number one major problem (see figure 40). At most, textile companies have access only to 7 hours of cumulative electrical power supply per day (Adhama, 2020, Interview 2; Ugwoeruchukwu, 2020, Interview 12; Agbese, 2021, Interview 16; Akilu, 2021, Interview17). This means that most textile companies have to rely, for over 70% of their power requirement, on generating sets to power their machines and this greatly add to companies’ production costs and hence affect their competitiveness (Kwajaffa, 2020, Interview 7).

FIGURE 39 PRICES OF ELECTRICITY (FOR COMPANIES) IN COMPARATOR COUNTRIES (US\$ PER KWH)



Source: Author based on data from [globalpetrolprices.com](http://globalpetrolprices.com)

For, the prices of fuels especially natural gas and black oil (LPFO) that are used to power generating sets and machineries are very expensive. The gas pipeline network has not reached the northern part of Nigeria hence most of the textile companies from the north have shut down leading to joblessness among the northern youth, a problem that has been associated with the spate of insecurity such as banditry and Boko Haram in the north (see Salihu, 2018). In the following table 32, the average costs of power and alternative sources of energy such as gas and LPFO is surpassed only by the costs of raw materials. Hence, the clamour has always been on from the few surviving textile companies for government to help improve power supply and subsidize the prices of gas and LPFO which companies have to resort to in order to power their machines and generating sets in the absence of sufficient power supply from the national grid.

TABLE 31 BREAKDOWN OF PRODUCTION COSTS IN FIVE ACTIVE TEXTILE COMPANIES (%)

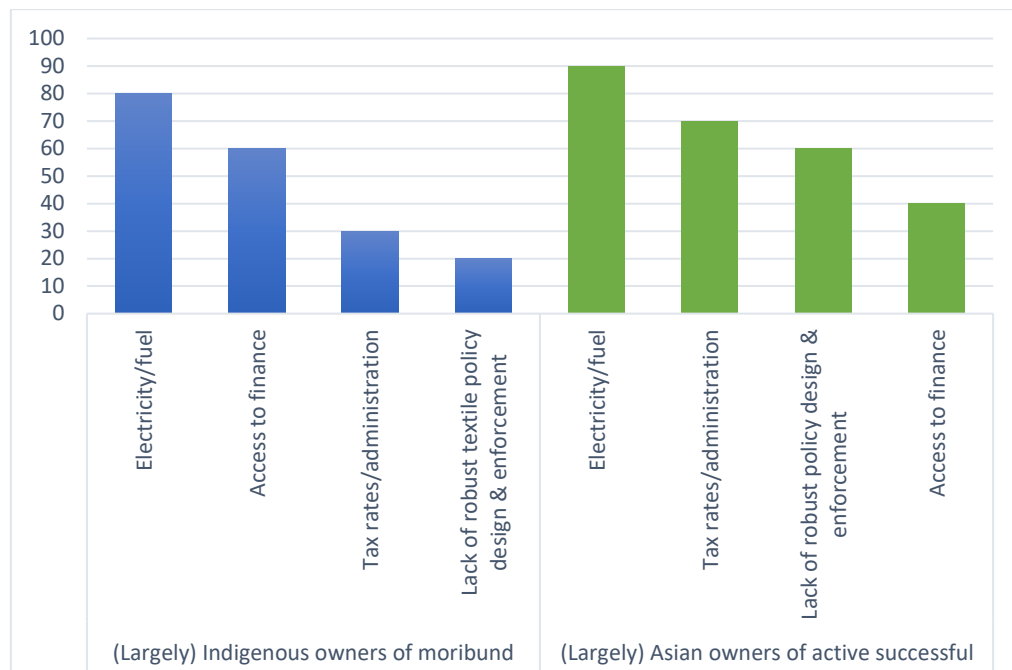
Cost of production (%)	Sunflag	Woolen & Synthetics	Jaykay Carpets & Rugs	Adhama Textiles	ATM
1. Raw materials	66	63	68	67	57
2. Power (and alternative energy sources)	18	20	22	19	25
3. Labour	16	17	10	14	18

Fieldwork, 2020/21

The above table 32 reveals that power and alternative energy sources are the second most important cost of production after raw materials, and the costs of power (and alternative energy sources) appear to be higher for textile firms that are based in the north (e.g., Jaykay, Adhama and ATM) compared to those based in the south (Sunflag and Woolen & Synthetics). This according to sources is because companies based in Southern Nigeria have access to the national gas pipeline which construction has not yet been extended to the north (Adhama 2020, Interview 2; Maiwada, 2020, Interview 8; Usman 2020, Interview 13).

Finally, categorizing textile companies into moribund (those that operate at between 0 and less than 40% of capacity) and active/successful (those that operate at 40% or above capacity level), this research found that moribund textile companies are largely owned by indigenous Nigerian entrepreneurs (both state and private) while active/successful textile firms are largely owned by entrepreneurs from India and Lebanon. The following figure 40 summarizes the responses of both of these textile entrepreneurs/industrialists on the major problems/challenges which they face in the course of their operation.

FIGURE 40 PERCENTAGE OF MORIBUND/ACTIVE TEXTILE FIRMS' OWNERS IDENTIFYING THEIR MAJOR OPERATIONAL CHALLENGES



Source: Fieldwork 2020/21.

From figure 40 above, it can be seen that a large number of both owners of moribund (80%) and active (90%) textile companies in Nigeria identify poor supply of electricity from the national grid and high costs of alternative fuels as their number one problem. Owners of moribund textile firms, most of whom are indigenous Nigerians, identified access to finance as their second most important problem. This is surprising given that it is this category of textile industrialists who, using their network/influence, capture most of the textile intervention funds administered for the industry's revival by successive ruling coalitions often to the exclusion of foreign (Asian) industrialists with limited political reach to secure them. However, it is paradoxical that access to finance emerged as the least of the problems that face active/successful (Asian) textile firm owners although they also believe that interest rates on loans in Nigeria are prohibitively high. This could, however, possibly be due to other alternative sources of finance open to these Asian industrialists from family sources or corporate entities in their countries of origins. For active textile firm owners, the second most important challenge affecting their operation pertains to serious concerns raised by a substantial number of them (70%) about tax rates/administration issues. For instance, anonymous (2020d, Interview 33) was quoted above explaining this problem vividly. However, only 30% of owners of moribund textile firms identified the problem of tax rates/administrations as an operational bottleneck. This could be due to many of them operating at very little to no production

capacity, which means that state and federal tax officials could hardly notice the existence of the few that are still managing some operations (see figure 39). Or given the dominance of their ownership by state governments (e.g. Kaduna's KTL) and powerful Nigerians, these firms can easily evade taxes. Finally, whereas 60% of active/successful entrepreneurs cited lack of coherent textile revival policy and lack of implementation of textile policies such as the ban on imports of finished textiles from abroad as the third major constraint obstructing their growth, for moribund firms, this is their least problem with only 20% citing this as a problem. This may not be unconnected to the fact that with moribund firms barely operational, policy design and implementation issues are unlikely to be a major concern in the circumstance.

## 7.8 Conclusion

The chapter traced the historical evolution of the Nigerian textile industry by analysing the factors and forces that have shaped the rise, decline and collapse of the industry. However, beyond the common refrain of existing literature which attribute the cause of the industry's collapse solely to the introduction of the IMF-sponsored structural adjustment programs (SAPs) of 1986, the chapter additionally identified and critically analysed important political economy factors as well as firm/industry-level productivity and competitiveness issues with a view to providing important analytical insights on the processes that culminated in the industry's collapse. These *inter alia* included initial contractual/structural issues to do with lack of clear-cut learning arrangements between foreign technical partners and regional governments. The industry's failure to develop and sustain capabilities, productivity and competitiveness, especially when Petro-dollars poured in and the Nigerian state displayed the zeal for industrialization and, hence towards that end, was very generous with all kinds of support and incentives for the industry and the manufacturing sector generally—though there were very little in terms of the design and implementation of robust policy and institutions to make access to those supports/incentives conditional on some performance index like it was the case during the industrialization drive of the Northeast Asian tiger economies in the 1960s and 70s (see Amsden, 1989; World Bank, 1993; Chang, 1994; Wade, 1990; Khan & Jomo, 2000). Moreover, the chapter analytically explored the three political economy factors that were found to have militated against the success of textile revival policies. These factors are: (i) the relative complexity of the requirement, adoption and implementation of learning/capabilities/routines in the textile industry (compared to the cement industry) (ii) the low level of capabilities possessed by the vast majority of indigenous Nigerian textile entrepreneurs. Notwithstanding their high political

influence, these indigenous entrepreneurs appear incapable of transforming the textile industry. However, as shown on the resource flow diagram (figure 9, chap. 5), by virtue of their connection, these indigenous entrepreneurs outcompete the few techno-organizationally capable textile industrialists of Indian and Lebanese origin by capturing rents/intervention supports, and (iii) the accrual of profits/rents in the textile industry mainly through *market competition*, rather than through the *discretionary/regulatory* actions/inactions of governments, means that the few active/successful textile industrialists that still remain in operation would have little surplus rents to spare for political financing. This shortcoming appears to have constrained their ability to influence the design and effective enforcement of textile policies in the industry. Recommendations on how the structural bottlenecks and political-economic issues stalling the transformation of the textile industry can be resolved are outlined in appendix 2. Meanwhile, the next chapter 8 analyses the political economy of the iron & steel industry.



## 8 The Iron & Steel Industry

### Chapter summary

*Despite four decades of gestation and over \$10 billion spent in investment, Nigeria's state-owned, integrated iron & steel (I&S) plants, the Ajaokuta Steel Company Limited (ASCL), has remained inactive. So also have Delta Steel Company (DSC) and the three steel rolling mills in Katsina, Jos and Osogbo. Endowed with over 2.5 billion tonnes of iron ore deposits, Nigeria currently processes only around 1.5 million tonnes of steel per annum through the activity of small-scale private steel companies using scrap (recycled) metal. Annually, Nigeria's imports of I&S products are said to be worth \$4.5 billion. The main purpose of this chapter is to address the question of why Nigeria's I&S industrial policies—designed and implemented under the same clientelist political settlement as were similar policies such as the BIP (for cement) and the CTG policy (for textiles)—have ended up in failure? How can the problems obstructing the transformation of the I&S industry in Nigeria be overcome? Setting out to address these questions, the research discovered that efforts by the Nigerian state to establish state-owned I&S companies have resulted in tangible fixed capital investments, and primitive rent capture and accumulation activities by successive ruling coalitions. Moreover, the requirement and implementation of learning/capabilities/routines in the I&S industry were relatively more complex, which inevitably compelled Nigeria to rely solely on the techno-organizational capabilities of foreigners. Yet, the commitments of foreign partners to Nigeria's I&S projects have often been called into serious question. However, against the backdrop of the failures of state-owned I&S companies (ASCL, DSC and the three rolling mills), there are some islands of success represented by around 40 small scale private steel companies. Mostly Indians, the owners of these active/successful small scale private steel companies appear to possess the capabilities to efficiently organize profitable steel manufacture using scrap metal. However, like their counterparts in the textile industry, these active/successful I&S industrialists appear to lack the political connection to influence the design and enforcement of I&S policies in the industry—unlike the case was with cement industrialists. Also, these active/successful I&S industrialists appear to be workhorses who generate their profits/rents through market competition, rather than through the discretionary/regulatory (in)actions of governments. Consequently, these successful local steel industrialists have very little surplus rents to spare for political financing, and hence, very little influence to exert on the design and enforcement of I&S policies.*

## 8.1 Introduction

The iron and steel industry is recognized to be the foundation on which the industrialization and technological progress of nations depend (Okafor, 2007; Olayebi, 2014). This is because steel has multi-dimensional uses and the iron and steel industry links with various sectors thereby serving as the springboard for industrialization and development (Afeikhena, 1993). Steel production is found to be positively associated with industrialization (Bamidele et al. 2013). Indeed, Africa's failure to industrialize and develop has been attributed to the failure of countries on the continent to build and sustain efficient iron and steel industries (Agbu, 2007).

The industrialization and economic development witnessed in Britain (from the 18<sup>th</sup> century), America (from the 19<sup>th</sup> century) and South Korea (from the second half of the 20<sup>th</sup> century) all had their roots in the discovery, development and or efficient utilization of iron and steel (see Deane, 1965; Crafts, 1977; Chang, 1994; Bensel, 2000; Proshare, 2019). In these industrialized countries, steel was used to produce modern farming equipment which permitted the mechanization of agriculture in addition to the modernization of means of transportation, housing, and health care system.

Aware of the importance of this industry therefore, Nigerian leaders have, at least since independence in 1960, considered the possibility of establishing a vibrant iron and steel industry. This consideration however did not immediately materialize due to both the exigencies of feasibility studies and politics of location. Hence, before independence, and indeed afterwards, Nigeria largely depended on imported iron and steel materials from Britain, Germany, Canada, Japan, United States of America and recently China and Korea. But, in 1962, the Eastern regional government in partnership with some private investors established a 12,000-tonnes-per-annum steel company at Emene. This was followed by the establishment, in 1970, of two small steel-making plants, Continental iron & steel company and Universal steel company both in Lagos. These three small-scale mills were to use iron scraps to produce structural steel for domestic use (Afeikhena, 1993; Omoweh, 2005).

Though several feasibility studies were carried out at Nigeria's behest by foreign firms from Europe, North America, and the former Soviet Union between 1958 and 1966 on the feasibility of iron and steel manufacturing in Nigeria, all these studies did not find the establishment of iron and steel industry to be economically feasible. Some of the reasons identified in these studies were huge

capital requirements, small domestic market size for steel and assorted products, inadequate infrastructure and other support services, poor-quality iron ore and coal raw materials, and lack of technical know-how (Oyeyinka and Adeloye, 1988; Afeikhena, 1993).

But, undaunted by the negative results of previous feasibility studies, Nigerian leaders in 1967 again commissioned a Soviet firm, *Tecknoexports*, to conduct another feasibility study and this time around the result turned positive (Dolgov, 1983). Iron ore of good quality was found in abundance at Itakpe, coking coal at Lafia, limestones at Mfamosong, dolomite at Osara and Burumu and refractory clay at Onibode and Oshiele (ibid). This culminated in the prompt establishment of the Nigerian Steel Development Authority (NSDA) in 1971 which worked with a Soviet company, *Tiajpromexport*, to sign a contract in June 1979 for the establishment of Nigeria's largest integrated iron and steel company, the Ajaokuta Steel Company (ASCL). The ASCL has been viewed as 'the engine of industrial emancipation of Nigeria' (Obikelu and Nebo, 2012). Moreover, under the third development plan (1975-1980), Nigeria signed agreements with technical partners from Germany and Japan for the establishment of three steel rolling mills at Katsina, Jos, and Osogbo in 1979 (Dolgov, 1983). These rolling mills were planned to use billets from the Delta Steel Company (DSC), which was the first integrated steel plant in the country commissioned in 1982, to produce structural steel such as beams, wire, rods and bars for construction purposes (Oyeyinka & Adeloye, 1988).

However, despite the massive investments of billions of dollars in the ASCL, DSC and the three steel rolling mills in Katsina, Jos and Osogbo, the Nigerian I&S industry has failed to live up to the dreams of its founding fathers. The ASCL, which is the largest integrated plant in Sub-Saharan Africa and the twelfth largest in the world, was reportedly 95% completed when it was commissioned in 1983 (Umar, 2021, Interview 20). Initially, the ASCL's rolling mill section rolled some imported steel billets for three years, that is, 43,843 tonnes in 1985, 50,000 tonnes in 1986 and 42,013 tonnes in 1987 before it ground to a halt (Afeikhena, 1993). Although the DSC operated for some 25 years since it was commissioned in 1982, it did so overall at less than 20% of its installed capacity before it eventually shut down (Olayebi, 2014). Since the three inland rolling mills in Katsina, Osogbo and Jos were designed to rely on billets produced by the DSC the three became starved of raw materials as soon as they were commissioned in the early 1980s (ibid). The Liberian and Guinean ore mines briefly served as the sources of raw materials for the DSC before they got depleted

three years after the DSC started operation in 1982. This therefore led to the starvation of the three inland rolling mills of billets which the DSC was to provide (Olayebi, 2014)

Currently, Nigeria is said to have iron ore reserves of over 2.5 billion tonnes with 36% average iron quality (Ministry of Mines & Steel Devt., 2019)<sup>68</sup>. Yet, the country processes only around 1,500, 000 tons of steel products per annum (using recycled metal), which represents just 0.11% of global steel production (Proshare Intelligence Investing, 2019). Annually, Nigeria spends \$4.5 billion to import steel products (Akinwale, 2018). This is at a time when the ASCL remains inactive despite total investments on it alone amounting to a whopping US \$7 billion according to the World Bank estimates (Abbah, 2019). However, in the midst of the failure of state-owned iron & steel companies, there are some 40 active/successful privately owned small-scale steel companies that collectively account for the 1.5m tonnes of steel currently processed in the country using scrap metal. Largely owned by Indians, these active/successful private steel companies, like their counterparts in the textile industry, appear to possess the capabilities to organize profitable steel production. Similarly, like their textile counterparts, being largely of foreign origins, these private steel industrialists also appear to lack the political connection to influence the design and enforcement of iron & steel industrial policies in Nigeria. Operating effectively as workhorses in an industry whose main sources of profits/rents come from market competition, these private steel entrepreneurs do not accrue excessive rents to spare for political financing, hence, lack the holding power to influence the design or enforcement of iron & steel policy institutions. Consequently, despite being the iron & steel industry's only islands of success and beacons of hope, these private steel firms are left to struggle under the weight

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<sup>68</sup> Nigeria's actual iron ore reserves have not been proven however, regardless of its quality, experts' estimates run in billions of tonnes scattered across the country-

of wanton importation of cheaper steel products, uncompetitive production costs, lack of local patronage, adverse government policy among other challenges (Ohimain, 2013; Adekoya, 2019).

Using the political settlement framework (Khan, 2010, 2018) and insights from rents analyses (Pritchett, Sen & Werker, 2018; Khan & Jomo, 2000) and the TC theory, this chapter has three broad objectives to accomplish, viz: (i) to explore and explain the nature of the iron & steel industry and its evolution in Nigeria (ii) to trace the political-economic dynamics that have militated against the transformation of the industry, and (iii) to recommend feasible and pragmatic measures and strategies for transforming the industry. The chapter proceeds by explaining, in **section 8.2**, the nature of the iron and steel industry and its evolution in Nigeria. This is to demonstrate the complex requirement and adoption of learning/capabilities/routines in the I&S industry compared to the cement, and the textile, industries. **Section 8.3** locates the causes of the failure of state-owned iron & steel companies in Nigeria. **Section 8.4** explores the profiles of some active/successful private steel companies whose owners possess considerable capabilities to drive structural transformation in the industry, though lacking in the political connection to influence the design and enforcement of the right policy to do so. Policy measures on how the iron and steel industry in Nigeria can be successfully developed have also been recommended in **appendix 2**.

## **8.2 The nature of iron and steel industry and its evolution in Nigeria**

### **8.2.1 The Process of steel production**

Steel is a generic term used to describe metals which consist of iron and other controlled amounts of chemical substances such as silicon, carbon, and manganese that add important features to iron (Maxwell, 1982).

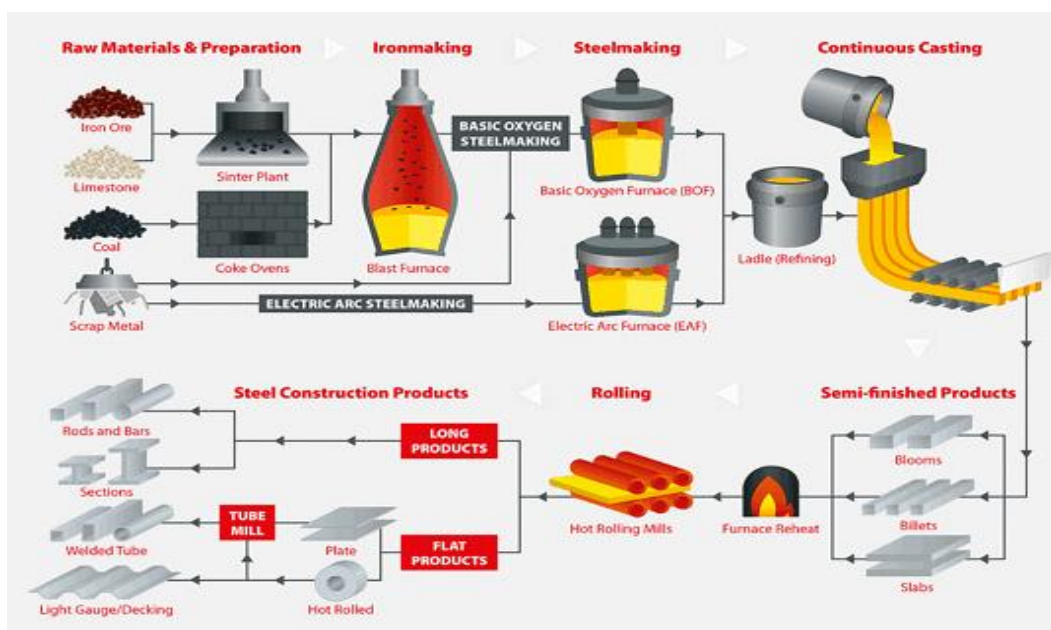
The main raw materials for making steel are iron ore or scrap metal. Coking coal, limestone and other alloying minerals are usually added to iron ore in the process of steel production. These raw materials are processed through many successive stages of production into semi-finished products (such as metal blooms, billets, and slabs) or end-user items (such as iron bars, sheets, wire, beams, and tubing (Ghosh & Chatterjee, 2008).

According to the World Steel Association (2019), there are two main steel production processes, viz: (i) blast furnace-basic oxygen furnace (BF-BOF) production process and (ii) direct reduced iron-electric arc furnace (DRI-EAF) process. The BF-BOF process is the most popular I&S production route in the world accounting for 75% of steel globally produced against 25% production via the EAF route (World Steel Association, 2019). Steel companies are either integrated, that is involved with processing iron ore into steel and final products

or non-integrated rolling mills, which use scrap metal or semi-finished steel products to produce end-user materials such as iron rods, wire, beams, sheets and tubes.

The stages of steel production, which are explained in details by Ghosh & Chatterjee (2008) and Johansson (2014), can be broadly classified into three, that is, iron making, steel making and finishing. For the BF-BOF route, the first step in the steel production processes (see figure 41) is preparing the raw materials which is iron ore that is in the form of pellets. These ores are then combined with limestone and dolomite, agglomerated in the sinter plant before being fed into the blast furnace. Coal which is transformed into coke in the coke oven is also fed into the blast furnace. Limestone and coke are additives with former serving as reducing agent while the latter as fluxing agent (Johansson, 2014). Both elements alter the chemical composition of iron oxides in the blast furnace when the ores are heated at high temperature (ranging between 200°C and 2100°C). Through the control of the heating system and the addition of alloying elements (such as chromium, nickel, manganese, vanadium, and carbon) to regulate the grade of the steel and remove impurities (such as silicon, nitrogen, sulphur, excess carbon, and phosphorus), a slag or gangue form and float on molten iron. The molten iron is fed into the basic oxygen furnace (BOF). Scrap or recycled metal could be fed directly into the BOF in the Basic Oxygen steel production process or fed into the electric arc furnace (EAF) in the Electric Arc route. Oxygen is then blown into the vessel of the BOF where the molten iron is being conveyed. This is with a view to reducing the carbon content of the liquid iron (Johansson, 2014)

FIGURE 41 STAGES OF STEEL PRODUCTION



*Source:* Nieto (2019)

When the molten iron in the BOF is oxidized, the carbon content in the molten iron is reduced to less than 2% and the iron is transformed into liquid steel while the remaining impurities in form of phosphorus, silicon, vanadium, and excess carbon form a slag. The pure steel in the BOF is then conveyed into ladle metallurgy where the steel's temperature and chemical composition are regulated or fitted for purpose. The regulated steel is then cast before being processed into such semi-finished products as blooms, billets, and slabs. These semi-finished products are heated in a furnace before being rolled in the rolling mill section for further processing into end-user materials. These finished products could be long (rods, bars, and sections) or flat (plate, hot rolled and light gauge) steel materials (Ghosh & Chatterjee, 2008; Johansen, 2014; Nieto, 2019).

### **8.2.2 The nature and characteristics of the iron and steel industry.**

The I&S industry is relatively more complex in terms of its requirement and adoption of learning/capabilities/routines than the cement and textile industry. Though, like the cement industry, the iron & steel industry is also largely mechanized, the latter requires more complex learning and tacit capability development than the former (Yonekura, 1994). Also, productions activities/processes (routines) and labour need efficient human/organizational coordination in the iron & steel industries way more than in the cement. During my visit to the Ajaokuta Steel Company Ltd (ASCL), I observed dozens of different departments/sections scattered across the vast 24,000-hectare company. These departments which are designed to work with one another in harmony include *inter alia* the iron forging & fabrication department, the sintering department, the light section, iron and steel works department, power plant/generation department, water treatment plant, foundry and pattern section, repairs department, oxygen plant section, Metallurgical Training Centre (MTC), and others (see table). Clearly, the coordination of these departments/sections/production lines will require complex, tacit, and on-the-job skills and capabilities to prevent potential risks/loss from slowdowns/stoppage. Some steel workers in some departments not executing their tasks efficiently and timely can slow down other relevant departments/sections. Although largely mechanized, quality control in the steel manufacturing process requires not only specialized codified knowledge but also tacit skills and capabilities among the steel engineers/workers.

Unlike cement with standardized products, the steel industry has highly differentiated products with many varieties and grades leading to several bodies

devising their own identification processes (Singh, 2020). Manufacturing products with such varieties and constantly changing specifications requires the development of dynamic capabilities for companies to produce at the globally competitive quality and price levels. Hence, competitiveness and productivity development are very difficult to attain in the industry, a reason why the industry has long gestation period. Moreover, whereas the most important raw materials for cement manufacture are limestone and gypsum, for steel there are crucially four raw materials apart from iron ore i.e., coke, ferrous scrap, and limestone.

Also, the industry is capital- and energy-intensive industry (Maxwell, 1982). Energy accounts for 20-40% of the cost of steel production across the globe and its efficiency is determined by the type and quality of raw materials, production route, product mix, technology, and operation control (World Steel Association, 2019). These complexities and other unique characteristics of the iron & steel industry that are discussed below have the potentials to affect the performance of iron & steel development policies. In 2018 the amount of crude steel produced in the world measured up to 1.8 billion tonnes (Mt) (ibid). Also, setting up an iron and steel plant requires so large a capital that only governments usually afford to finance such projects.

Steel companies are integrated when they link backward with the primary sector of iron ore mining and processing into steel products or non-integrated when they merely convert recycled metal or semi-finished metal blooms, slabs and billets into final products. In developing countries like Nigeria, greenfield iron and steel company projects are initiated with the objective of developing an efficient iron and steel industry. The challenges involved in setting up I&S plants and the series of complex processes from pre-investment to start-up stages are explained in the following paragraphs to highlight the complexity of the iron & steel industry in terms of the requirements of financial, technological and organizational capabilities.

The gestation period involved in the construction or expansion of iron and steel companies is divided into three (see Maxwell, 1982). These are, *pre-investment period*, *construction period* and *start-up period*. I summarize the main features and challenges involved in each stage in the gestation period and attempt to explain these dynamics within the context of the development of Nigeria's iron and steel industry.

- (i) *Pre-investment period*: This is the period when the plan for the construction or expansion of the industry is conceived, and feasibility



studies are done. For greenfield/new plants this period starts when the contract for the construction of the steel company is signed whereas for expansion of existing plants the period begins when the planning or feasibility study for expansion have been worked out. It is at this stage also that issues to do with financing, equipment supply, learning, and bureaucratic procedures are sorted out.

*Challenges:* The pre-investment period presents with certain challenges which often result in a prolonged and protracted gestation period that never comes to pass. In most cases, these challenges pertain to shortage of funds and political factors. The iron and steel industry, being a heavy capital-intensive venture, requires huge capital to construct, and this, in most countries, necessitates the interventions of governments in the industry. However, many governments too have had to abandon steel projects halfway due to excessive financial demands or resort to borrowing money from domestic and international financial organizations to finance steel construction projects. Also, many decisions regarding the size, location, capacity, production routes, product mix, and expansion plans ultimately have to be approved by political leaders or some state representatives. However, these political leaders and state agents may lack the technical know-how or be bound by political consideration when making decisions on these issues. This could result in un-informed decisions that can affect or even obliterate the chance of the establishment of the iron and steel project. In Nigeria, the end of the second oil boom in 1981 caused both a sharp decline in foreign exchange and a fall in the value of the Naira. This initially slowed down works at the ASC before the Buhari junta completely halted it alleging mismanagement of funds by politicians and the government officials they ousted (see Habib, 2016).

- (ii) *Construction period:* With the end of the pre-investment period, the next stage is the construction period. Here with funds ready, the construction work for steel projects commences. The government or political leadership gives its seal of approval and all other administrative supports and directives for structures or buildings to be put in place and machines and equipment to be supplied and installed.

*Challenges:* Several factors can cause delay in the construction of steel plants as demonstrated in our case of the ASCL and some other case studies reviewed in Maxwell (1982). The ASC was said to be 95% completed when its light section was commissioned in 1983. However, forty years down the line, the plant has still

remained unfinished, un-commissioned and inactive. Several factors account for the delay in construction, and one of them is policy discontinuity occasioned by frequent changes in governments mostly through coups and countercoups. Successive governments have had different levels and credibility of commitments to the ASCL. Further, Nigeria being dependent on oil for over 70% of its foreign exchange, the country's revenues and value of currency have risen or fallen in accord with international oil prices. This has also led to cost inflation and upward reviews in costs of already signed and sealed contracts especially for civil works at the ASCL (Oyeyinka and Adeloje, 1988). Moreover, political and economic crises leading to the fall of the former USSR whose company, Tiajpromexport, was the chief contractor for the ASCL, has been cited as another cause for the delay in the completion of ASCL (see Matusevich, 2003).

- (iii) *Start-up period*: This period begins from the start of production up to the year when annual output data that represents the nominal production capacity becomes available. For integrated plants, different sections could start production at different times hence it is when steel is first produced that the start-up period is said to have commenced. The start-up period successfully ends when the plant's annual output measures up to the level of the new plant's rated annual output capacity. Maxwell (1982), unlike Matusevich (2003), considers the time from the construction to the start-up periods to be the 'implementation period' and the time from pre-investment through construction to start-up as the 'overall gestation period'.

*Challenges*: Several problems that delay or prolong the start-up period in the gestation of steel plants across the world have been identified (see Maxwell, 1982; Matusevich, 2003). These include errors in the design and construction of plants and equipment as well as shortages of raw materials, essential services and infrastructural facilities such as electricity and efficient transport system. This is beside the inadequacy of competent technical staff to ensure a successful start-up in good time. Many of these issues appear to have hampered the progression of the ASC from the construction stage to start-up. For instance, Nigeria's lack of development of the Itakpe iron ore reserves to provide raw materials for the ASC delayed the company's start-up. Also, when the Liberian and Guinean iron ores on which the Delta Steel Company (DSC) relied were not forthcoming, the start-up period of the steel company was cut short after 25 years of operation at less than 20% capacity.

Additionally, there are certain unique characteristics of the iron & steel industry outlined in Maxwell (1982) and Matusevich (2003) which not only affect the overall gestation period of iron and steel plants across the world, but also highlight the complexity of the industry. These characteristics, whose appreciation allows for sound judgements and policies in establishing efficient iron and steel industry, are summarized below.

- (i) *Large capital requirements:* The iron and steel industry is a heavy capital-intensive investment mainly because complex and expensive equipment are involved in steel manufacturing. Billions of dollars are required to build integrated steel plants. This fact makes the intervention of developing countries' governments in the steel sector necessary as private entrepreneurs in these countries cannot afford to foot such heavy investment bills. Hence, most of the large integrated steel plants across the world are state-owned enterprises. However, state (and private) investors themselves are often compelled to borrow to finance the establishment of steel companies. Long-term borrowing of huge capital takes some time to process due to the time needed to draft and agree on credit terms and conditions among transacting parties. This can prolong overall gestation period of both greenfield projects and expansion works in existing plants. Hence, the huge capital requirements of steel projects underscore the importance of making sound decisions on planning, choice of technology, technical partners, and market dynamics.
  
- (ii) *Indivisibilities in equipment units:* Steel making equipment such as the blast furnace, basic oxygen converter and rolling mills are indivisible by their nature and they have their factory specifications. The capacity to be installed and future demand dynamics are hard to predict, yet steel making equipment have huge price tag on them necessitating the need for sound initial decisions. In most new plants, the practice is to install over-sized furnaces, converters, and other indivisible equipment (Matusevich, 2003). This is so that when demand grows only the divisible and auxiliary equipment can be added to meet up. This saves the resources that would have been expended on buying additional primary and more expensive

equipment whose installations might require major disruptions to existing plant's electrical, mechanical, and civil architecture. Thus, it is clear that initial choices of quantity, scale and size of equipment in a steel plant present with genuine difficulties and challenges for consultants, contractors and government agents. But these choices are affected by lack of information on future demand trends, the limit on the capabilities of staff to operate some sophisticated equipment and financial capability of investors. In essence, the indivisibilities of steel making equipment underscore the importance of sound decisions on the quantity, quality, size and scale of equipment to be installed in greenfield steel plants so that the economic and technological future of these plants are not jeopardized in advance.

- (iii) *Long gestation period:* Because of its technical complexity, uncertain nature of processes, the requirements of huge capital, technological and organizational capabilities, the iron and steel industry usually have long gestation period. The overall gestation usually ranges from 2 to 10 years. Nigeria's ASC has been in overall gestation for over 40 years, Peru's Siderurgica de Chimbote for 18 years, Argentina's SOMISA for 17 years, and Columbia's Acerias Paz del Rio for 13 years. The period it takes for learning to occur and the steel plant to successfully progress out of its start-up period also elongate plants' gestation period as the cases in Maxwell (1982) demonstrate. Other factors delaying or prolonging pre-investment and construction combine to elongate the gestation period for steel plants across the world.
- (iv) *Irreversibility of initial decisions and their future effects:* The iron and steel technology/industry also have the unique feature of irreversibility by which is meant that initial decisions in the construction of plants are not easy to alter in the future. This is more so that most steel making equipment are not only heavy, complex, and expensive but also difficult to move to another location. Thus, steel companies are location-bound. This underscores the importance of informed and well-thought-out initial decisions regarding the consultants to hire, the location to site, the production routes to use, the quantity, quality, size and scale of equipment to be installed as well as the products to make. All of these initial choices

and decisions have long-term effects on the sustainability or otherwise of steel plants, hence the need for sound judgements.

- (v) *Individual steel plant's idiosyncrasies*: Every new plant has its own peculiar features or idiosyncrasies whether in its geographical and social architecture and adaptation or even in the nature and design of its equipment. Mostly, steel plant equipment are customized and hence could have some unique features incorporated only in them. Plant designs may also not be the same across board. Different plants may process same raw materials differently or produce different quality of products using same raw materials as a result of their individual idiosyncratic features. Hence, this means that certain unique features or variables set different steel plants apart and these can have consequences on efficiency, productivity and output.
- (vi) *Complexity and incomplete information on steel technology/operation*: The iron and steel making technology and its operationalization are a complex and dynamic process that has not yet been absolutely understood. The chemical and metallurgical processes that occur inside steel plants equipment such as blast furnaces and oxygen converter are still being explored and understood with the theory or codified information still incomplete thereon. The steel making technology is continuously evolving in sophistication and efficiency. Steel producers are also constantly innovating, diversifying into more complex areas and competing at the top of the market frontier.

All of these unique features of the iron & steel industry make the industry more complex than the cement and textile industries, and hence can affect the performance of industrial policies targeted at the industry.

### **8.2.3 The historical evolution of Nigeria's iron and steel industry**

Iron and steel making is an ancient art as man is known to have, for several centuries BC, used iron to make tools for farming and hunting (Childs & Killick, 1993). One of the three methods of making steel from iron was developed by the peoples of Africa (Van der Merwe & Avery, 1982). Indigenous foundry and fabrication practices thrived in Nigeria in the ancient Nok, Nsukka, Ile-Ife and Benin Kingdoms before the advent of colonialism (Obayemi, 1980; Okafor, 1992; Ogundiran, 2005). To this day, vestiges of traditional iron and steel making activities remain (Adebayo & Oke, 2017).

However, as per the modern-day iron and steel manufacture, the idea for establishing iron and steel industry in Nigeria was said to have been mooted in 1958 with the discovery of reserves of iron ore at the confluence of rivers Niger and Benue, near Lokoja (Afeikhen, 1993; Matusevich, 2003). The initial plan was to establish a small-scale steel company that would convert imported ingots and metal scrap into structural steel products. However, the British and American firms leading the feasibility studies did not display much optimism about the prospects for steel manufacturing in Nigeria. Their main contentions then were that given Nigeria's lack of supporting infrastructure and finance, the time was not ripe for such a capital-intensive project. Lack of technically competent manpower with the requisite skills to be engaged in such a sophisticated industry was also another reason cited for Nigeria to steer clear of establishing iron and steel industry (Matusevich, 2013)

However, with the attainment of independence from Britain in 1960, Nigerian nationalist leaders continued to insist on the need for Nigeria to have its own iron and steel industry, having recognized the fact that Nigeria's industrialization and economic development were closely intertwined. Thus, with the discovery of iron ore at Agbaja and Udi, coal at Enugu and the near completion of a hydro-electric power generation project at Kainji, the possibility for the establishment of iron and steel industry to serve as 'the bedrock for Nigeria's industrialization' was seriously considered (Alli-Balogun, 1988). Firms from America (Ferrostal-Wellman McKee), Britain (David Ashmore) and West Germany (Demaz) were commissioned to conduct feasibility studies for the establishment of an integrated iron and steel industry in Nigeria. The studies revealed that although Nigeria was endowed with iron ore reserves running into millions (later billions) of tonnes, yet those ores were not of sufficiently good iron quality to be profitably processed using existing steel making technology (Oyeyinka and Adeloje, 1988).

Thus, apparently dissatisfied by the pessimistic assessment of the feasibility studies conducted by Western firms, the Russians were, in 1967, invited to conduct further geological surveys in Nigeria. And within a year's time they discovered that 'richer iron ore and coal deposits exist in Nigeria' to support the blast furnace process of iron and steel production (Dolgov, 1983). However, the outbreak of Nigeria's civil war (1967-1970) halted further progress until 1970 when the war ended. With Russia being on the sides of Nigeria (against the Biafran separatists) during the war, the room for cordial relations between Nigeria and USSR was therefore created. Hence, in 1970 Nigeria commissioned Russia's

*Tiajpromexport* to conduct further feasibility studies. And to enhance the participation of Nigerian engineers, the Nigerian Steel Development Authority (NSDA) was created in April 1971 to work with the Russians. The NSDA engaged the services of French consultants from SOFRESID to be able to interact with the Russians more authoritatively and productively.

*Tiajpromexport* submitted its detailed report to the Nigerian government in 1974 which was reviewed and accepted in 1975 with slight modifications. Three possible locations (that is, Warri, Onitsha and Ajaokuta) were proposed for siting an integrated iron and steel plant in terms of their estimated capital and operating costs (in millions of Nigerian naira) (see table 33 below):

TABLE 32 ESTIMATED CAPITAL & OPERATING COSTS (IN 000,000 NIGERIAN NAIRA) FOR THE PROPOSED NIGERIAN IRON AND STEEL PLANT

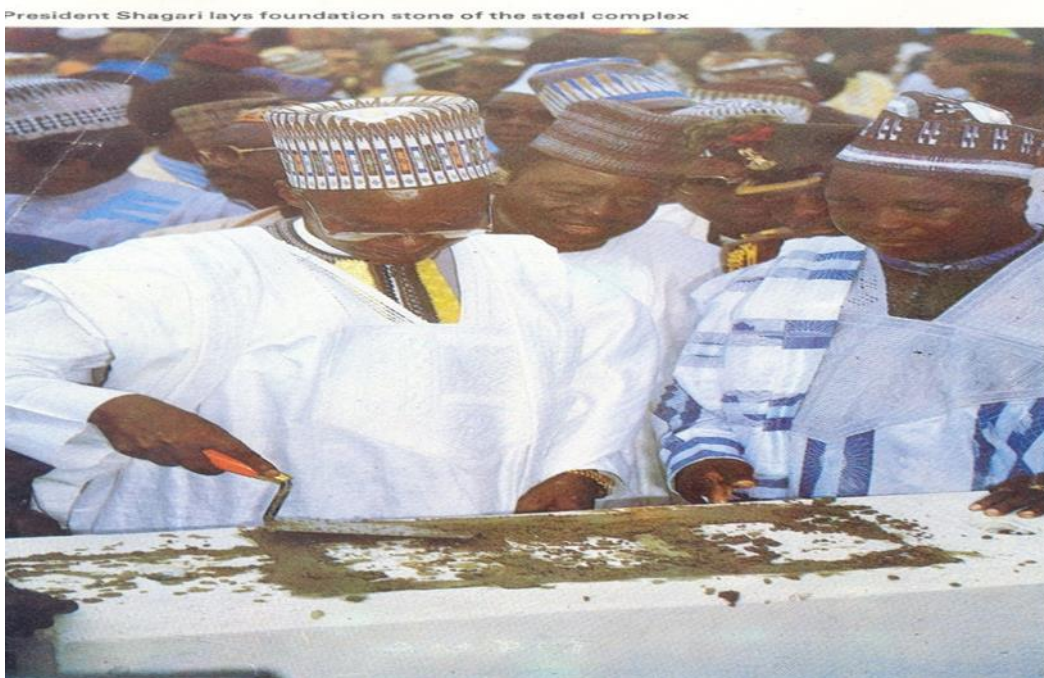
Ore supply				
	Imported and Local		Local	
	Warri	Onitsha	Ajaokuta	Onitsha
<b>Capital costs</b>	<b>729</b>	<b>609</b>	<b>748</b>	<b>599</b>
<b>Transport, water, electricity gas supply</b>	405	341	359	331
<b>Substructure</b>				
<b>Work and site levelling</b>	182	142	231	142
<b>Steel plant township</b>	142	126	158	126
<b>Operating costs</b>	<b>187</b>	<b>143</b>	<b>201</b>	<b>163</b>

Source: NSDA, (1974) and Oyeyinka and Adeloje (1988)

Clearly, from the above table 33 Onitsha has, comparatively, the least costs advantages and *Tiajpromexport* actually recommended it as the best site for locating the proposed steel complex. However, with the memories of the civil war still fresh in the minds of Nigerians, and with the recommended location being Onitsha, the former capital city of the Biafran separatists, the Nigerian government did not find it strategically feasible to locate the proposed steel company at Onitsha. Issues raised included principally centered on the safety of such a capital-intensive investment as well as the security of its staff who were to be drawn from all parts of Nigeria and abroad (Oyeyinka and Adeloje, 1988). Thus, to this extent, it can be argued that some politics (albeit justifiably so), rather than economics, was involved in the decision to locate the proposed steel plant at Ajaokuta (rather than Onitsha), near Lokoja, north-central Nigeria. The

presence of huge iron ore deposits in Itakpe, just some 87 kilometres away from Ajaokuta, also informed the decision for the choice of Ajaokuta.

Continuous follow-up studies and interactions between *Tiajpromexport* and the NDSA led to the writing of a Detailed Projects report (DPR) which was submitted to Nigeria in September 1977. This report was slightly modified and ratified by the Nigerian government in 1978. With negotiations over, a contract was signed in July 1979 between Nigeria and *Tiajpromexport* for the construction of the Ajaokuta Steel company (ASC). In that same year, the National Steel Council which consisted of the Mining and Exploration Division (Kaduna) and the Metallurgical Development Centre (Jos) replaced the NSDA (Obikwelu and Nebo, 2012).



*President Shehu Shagari laying the foundation for the construction of the ASCL*

The plan was for the ASC to, in the first phase, be able to produce 1.3 million tonnes of steel per year before production is doubled to 2.6 million tonnes per year in the second phase and 5.2 million tonnes/pa in the third phase. Three major actors involved in the construction of the ASCL, and the founding of the Nigeria's iron & steel industry could be identified as follows<sup>69</sup>:

- (i) Government as the owner of ASC
- (ii) *Tiajpromexport*, the soviet firm responsible for working drawings and the supply and installation of iron and steel making equipment.

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<sup>69</sup> See Oyeyinka and Adeloje (1988)



- (iii) Civil engineering contractors (Fougerolle, George Wimpey, Boskalis, Dumez, Bilfinger and Julius Berger) responsible for civil works and related infrastructural facilities.

Negotiations and re-negotiations of contractual prices, plans, equipment specifications and designs among these actors mainly due to fluctuating exchange rates had affected the pace of the construction of ASC with works occasionally halted to sort important issues out. Shortage of funds in the aftermath of the second oil boom in 1981 also affected the continuation of works at ASC leading to the postponements of the dates for commissioning the steel company from 1983 to 1985, 1988, 1989 and 1990. By 1994, the main contractor, Tiajpromexport, vacated site mainly due to the non-availability of connecting (external) infrastructure the Nigerian government could not provide. By that time, the construction of the first phase in terms of the weight of equipment and steel structures as per original design was said to be 98% completed (Umar, 2012, Interview 20). By 1996, the contract between Nigeria and TPE was terminated based on ‘as is where is’ principle which means whatever items that were left with the TPE at termination cannot be retrieved and vice versa (ibid). Prior to that, the Light Section Unit was commissioned by President Shagari in 1983, the Wire Rod Unit in 1984. Thus, from 1983 onward, the completed units (i.e., Rolling Mills and Auxiliary Plants) of the ASCL have been in operation on and off at various times in the past.

In June 2003, the Federal Government of Nigeria signed 10-year concession agreements with an American energy company, SOLGAS, through its Nigerian subsidiary, SOLGAS Energy Nigeria Limited. The concession agreements which allowed SOLGAS to complete and operate the ASCL, start the process of supplying electricity from ASCL’s power plants to the national grid and to run a proposed gas-fired power plant to be funded by the FGN was terminated in August 2004 due to SOLGAS’s non-performance. In 2005, the FGN granted another 10-year concession to an Indian firm through its Nigerian subsidiary, the Global Infrastructure Nigeria Limited (GINL). The GINL was to manage the ASCL and the National Iron Ore Mining Company (NIOMCO) for 10 years. In 2007, the FGN also granted another concession to the GINL to operate Itakpe-Ajaokuta-Warri central rail line. But again, due to non-performance on the part of the GINL, the FGN during the administration of late President YarAdua, cancelled the agreements and constituted an Interim Management Committee (IMC) to manage ASCL and NIOMCO. With the IMC in charge, the FGN in 2010 engaged a local subsidiary of a Ukrainian-

headquartered firm, Reprom Nigeria Limited, to conduct a holistic technical audit/assessment of the ASCL<sup>70</sup>. In 2012, the IMC was dissolved, and a sole administrator was appointed for the ASCL.

In its audit, Reprom concluded that overall “the situation of the steel plants equipment and facilities are satisfactory. Mechanically, the steel plant equipment and facilities are generally in good condition” although some facilities such as the electrics, instrumentation and insulations were confirmed to be deteriorating and hence needed to be replaced, upgraded or modernised (Umar, 2021, Interview 20). The following Table 34 depicts the ASCL’s plant units and facilities:

**TABLE 33 PLANTS UNITS AND FACILITIES OF THE AJAOKUTA STEEL COMPANY LIMITED (ASCL).**

S/ N	PLANT/UNIT	CAPACITY	INPUT MATERIAL	END- PRODUCTS	END-USERS	MODE OF TRANS	STATUS
1	Billet Mill	795, 000t/y of Billets	Blooms from SMS Continuous casting process	Billets 100x10mm; L=9-12m 150x150mm; L=6. 10m	Rolling Mills Engineering Workshops	Road, Rail, River	Completed
2	<b>Medium Section &amp; Structural Mill</b>	560,000 t/y of Medium Sections & Structural OR 600,000 Tons of Rail Tracks when MSSM is modified	Bloom from SMS Concast Machine	Parallel-Flange Channel 80-250mm. High Equal Angles 70x70-130x130mm. Unequal Angles 50x50-100x160mm. Standard Channels 100x240mm. High	Construction Companies production of electric transmission towers, Motor & Ship building industries as well as Railway Companies. Engineering Workshops.	Road, Rail, River	Completed
3	<b>Light Section Mill</b>	400,000 t/y of Light Sections	Billet from Billet Mill	Round 10-30mm; Squares 10-30mm; Strip 6-12x12-70mm; Angles 25x25-50x50mm; T-Beams 25-60mm.	Construction Companies, Furniture Co, Forge & Machine Tools Shops, involved in production of bus body, ornamental ironworks, roofing, etc.	Road, Rail, River	Completed

<sup>70</sup> See: Vanguard Newspaper of 1<sup>st</sup> March 2010 available at: <https://www.vanguardngr.com/2010/03/fg-audits-ajaokuta-steel-company/>

4	<b>Wire Rod Mill</b>	130,000 t/y of Wire Rod in Coils	Billet from Billet Mill	Wire Rods 5.5-12.5mm; Rebars 6-12mm	Construction Companies and Companies involved in the production of nails, fencing wire, rope mesh, bolts & nuts, netting, etc.	Road, Rail, River	Completed
5	<b>Roll Parts Design and Roll Turning Shops (RPD/RTS)</b>	To meet the design requirements of the four RMs	Steel products	Prepares Rolls for rolling operations and other rolls parts	Rolling Mills		
6	<b>Sintering Plant</b>	2.6 million Tonnes of Sinter per Annum	Primary Raw materials: Iron Ore concentrate, Lime Stone, Dolomite, Bauxite etc	Sinter	Blast Furnace		
7	<b>Coke Oven and By-Product Plant</b>	880,000 t/y of Dry Run Oven Coke	Coking Coal	Coke, Crude Benzo, Tar, Ammonium Sulphate, Coke Oven Gas, Coke	Blast Furnace, Sintering Plant, Chemical & Pharmaceutical Industries, Agricultural Industries.		
8	<b>Blast Furnace</b>	1,350,000 t/y of converted Iron	Sinter from Sintering Plant and Coke	Liquid Iron Pig Iron BF-Gas Granulated Slag (by-products)	Steel Making Shops, Foundry Shops, Cement Manufacturers; Fertilizer Co.; etc.		
9	<b>Steel Making Shop</b>	1,300,00 t/y of Cast Blooms	Converted Iron from Blast Furnace	Blooms 260x260mm. Blooms 260x335mm.	Medium Section & Structural Mill; Billet Mill; Forge & Fabrication Shops		
10	<b>Alumino-Silicate Refractory Shop</b>	37, 000 t/y of Fire Clay Products	Clay	Refractory Bricks and Granular Masses	Steel Making Shops		
11	<b>Lime Plant</b>	91,000 t/y of converter lime	Lime Stone	Burnt Lime	ASP (Steel Making Shop), paint producers, pulp & paper producers, sugar refining, water Purification, pharmaceuticals, Tanneries, water treatment plants etc.		

12	<b>Tar Bonded Dolomite Shop</b>	58,000 t/y of Tar Bonded Dolomite Refractory Products	Dolomite	Tar Bonded Dolomite Bricks	Steel Making Shops	Rail/Road	Completed
13	<b>Thermal Power Plant</b>	110MW of Electrical Power	Demineralised Water and natural gas for heating the Boilers	Electricity	Users of Electrical Energy	National Grid/Internal Network.	Completed
14	<b>Chemical Water Treatment Plant</b>	130/hr. of Demineralised Water	Raw Water and Resins	De-mineralized Water	Manufacturer; Power plants; Textile Industries; Pulp & Paper Mills; Hospitals; Electrolyte Producers; Schls & Univ.	Via Transfer pipes of by road	Completed
15	<b>Air Separation/Oxygen Plant -</b>	36,000m3/hr Gaseous Oxygen 30,000m3/hr of Gaseous Nitrogen 830kg/hr of Liquid Argon 120m2/hr of Hydrogen	Atmospheric Air	Technical Oxygen Pure Gaseous Nitrogen Pure Liquid Argon Hydrogen Gas	Construction companies, Steel Making Shops, Manufacturers, Hospitals, Fabrication Industries, Divers, Laboratories, Power Generating Stations.	Road	Completed
16	<b>Carbonic Acid Plant</b>	35kg/hr of Liquid Carbonic Acid		Carbonic Dioxide	Foundry Shops & other Manufacturers	Road	Completed
17	<b>Foundry Shop</b>	7000 t/y of castings	Converted Metal	Ferrous & Non-Ferrous Castings of Machine parts	Automotive Industry, Maintenance Workshops	Road	Completed
18	<b>Pattern Making Shop</b>		Wood	Wooden Patterns	Foundry and other industries	Road	Completed
19	<b>Machine &amp; Tools</b>	19,000 t/y of	Steel or other	Machine components	Automotive Industry	Road	Completed
20	<b>Forge &amp; Fabrication Shop</b>	4,200 t/y of forging 4,200t/y of fabricated Structures	Steel products	Forged Machine parts & fabricated structures	Automotive Industry & Maintenance Workshops	Road	Completed
21	<b>Power Equipment Repair shop</b>	Repairs of electric Motors and generators Up to 800kw, power Transformers up to 1600kVA	Faulty Electrical Equipment	Repair of Electrical Equipment	Electrical Workshops Industries, Repair outlets for industries, and power companies.	Road	Completed

22	<b>Rubberizing Shop</b>	Repair of 25000m/y of conveyor belts and simple rubber products	Conveyor Belts and other rubber material	Repair of conveyor belts, Manufacture of Seals & Adhesives.	ASP, Industries & automotive industries	Road	
22	<b>Erection Base</b>	Has 8 bays of 72m by 18m each for workshops and 144m by 18m for storage of Assembled and Sub - Assembled Structures.	Completely Knocked Down (CKD) parts	Assembled and Sub - assembled structure; Spare Parts Product etc	Steel Plant, Cement factories, refineries and production plant	Rail/road	Completed
24	<b>Water Facilities</b>	Capacity to supply water to shop in the plant and meet water requirements.	Supply from River Niger	Raw Water	Production Plants and water treatment Plants	Road/Transfer pipes	Completed
25	<b>Metallurgical Training Centre (MTC)</b>	Can train 3,540 Trainees per yr. at the Craftsman and technician Schools with 44 courses in Mett., Mech., Elect., Civ. Engineering.	Candidates with SSCE or Equivalent can be admitted for training.	Craftsman and Technicians with necessary Skills and Knowledge in their chosen areas.	They are employable by: Steel Industries, Cement Factories, oil & gas, automobile etc.		Completed has capacity to handle management trainings as well.

Source: Fieldwork 2020/21.

Moreover, below are the pictorial views of these plants units and facilities many of which only the author was given exclusive access to.

*1: Overground overview of Ajaokuta Steel Company Limited*



*2: Captive River Port (completed and commissioned since 1983)*



*3: Wagon Tippler off-loading facility (100% completed)*





*4: Ore and fluxes stockyard with stackers and reclaimers (100% completed)*



*5: One of the reclaimer machines (capacity: 1,500 T/HR)*



*6: Sinter Plant (100% completed with a capacity of 2, 610,000 tons/year)*



*7: Coal storage and handling facilities with rail wagon bottom discharge facilities for receiving coking coal (100% completed)*





*8: Coke ovens and by-product plants (89% completed)*



*9: Blast furnace (99% completed)*



*10: Blast furnace cast house*



*11: Blast furnace burden bins building (100% completed)*





*12: Blast furnace's pig iron casting machines no. 1&2 (99% completed)*



*13: Steel making shop (90% completed, capacity (steel) 1,900,000 tons/year )*



*14: Billet (Rolling) mill (100% completed with a capacity of 1,290,000 tons/year)*



*15: Light section (Rolling) mill (100% completed)*





16: The Light section mill (100% completed, capacity 400,000 tons/year)



17: Wire rod mill (100% completed with a capacity of 130,000tons/year)





*18: Medium section and structural mill (100% completed)*



*19: Power plant (110MW)*



*20:Chemical water treatment plant*



*21:Oxygen plant*





*22: Lime calcining plant (98% completed)*





*23: Alumino-Silicate refractory plant (to be used in industrial furnaces of still plant, oil refineries, cement factories etc; capacity, 43, 400 tons/year (Alumino-silicate refractory bricks))*



*24: Forge shop (Capacity, 4000 tons/year. Maximum weight of single forging is 500kg)*



25: Foundry and pattern shop (melting capacity of 36,000 tons of ferrous and 3000 tons of non-ferrous per year)



26: Power equipment repair shop (transformer repair section)





27: Machines & Tools Shop (capacity, >22,000 tons/year)



28: Gears, shaft and bearing



29: Metallurgical Training Centre (MTC)-housed technician school, craftsmen school, library, auditorium, block of classroom, workshops and administrative block.



30: One of the workshops at the Metallurgical Training Centre (MTC).



Apart from the ASCL, Nigerian leaders had also decided to establish the Delta Steel Company (DSC), Aladja which was based on the Direct Reduced Iron and Electric Arc Furnace (DRI-EAF) route. The DSC, with a production capacity of 1 million tonnes of steel per year, was constructed following an agreement signed in October 1977 between Nigeria and a consortium of German and Austrian firms (Oyeyinka and Adeloje, 1988). Commissioned on 29<sup>th</sup> January 1982, the DSC operated for some 25 years though at less than 20% of installed capacity mainly due to the shortage of raw materials (ore from Guinea and imported billets). Moreover, the contracts for the establishment of three rolling mills (at Katsina, Jos and Osogbo) which were to be planned to use billets produced by the ASCL and the DSC for processing into finished steel products were signed in 1979. The Katsina rolling mill was constructed by a Japanese firm, Kobe, while the Jos and Osogbo mills were constructed by firms from West Germany<sup>71</sup>.

At present, neither the ASCL that is said to be 98% completed nor the DSC that was sold to an Indian firm (Premium Steels & Mines Limited) or the three rolling mills in Jos, Osogbo and Katsina is operational. Thus, the big questions begging for answers are: why is it that despite over four decades of gestation and over \$10 billion spent in investments, Nigeria's integrated iron & steel companies (the ASCL and the DSC) as well as the three rolling mills in Katsina, Osogbo and Jos have remained inactive? Why has Nigeria's policy efforts at creating a vibrant iron & steel industry ended up in failure despite the availability of the raw materials required for iron & steel manufacturing and a large pool of educated young men and women? What are the obstacles impeding the development of Nigeria's iron & steel industry and how can those be overcome? These questions are addressed in the ensuing sections and the chapter on recommendations.

### **8.3 Locating the causes of the failure of state-owned iron & steel companies in Nigeria.**

Successive regimes in Nigeria pursued iron and steel policies with the objectives to set the country on 'the path to true industrialization', save foreign exchange spent on the importation of steel products, diversify the economy away from over-reliance on primary products (especially oil), create opportunities for employment and possible exports and to facilitate even distribution of economic activities (NIRP, 2014). Inevitably, these noble economic goals and objectives, encapsulated in Nigeria's National Development Plans I-V, were to be pursued

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<sup>71</sup> See Oyeyinka and Adeloje (1988).



and realized in a context of a pluralistic, multi-cultural, multi-ethnic and multi-religious setting.

The policies for iron and steel development in Nigeria were pursued by successive civilian/military ruling coalitions. However, these ruling coalitions, whether military or civilian, also required resources to provide not only basic public goods and services but also to maintain their coalition in power by securing the support of a broad spectrum of critical stakeholders. Thus, apart from providing basic infrastructure, successive Nigerian governments (both civilian and military) had had to deploy enormous resources to co-opt powerful military and civilian patrons and their clients as well as traditional rulers, clerics, leaders of professional organizations and others to maintain their coalition in power. The advent of electoral democracy and the existence of but few formal economic organizations in Nigeria with the financial clout to bankroll political parties in order to influence public policy meant that even democratically enthroned ruling coalitions in Nigeria have to seek alternative sources of funding to maintain their coalition in power. The introduction of modern Weberian governance and bureaucratic institutions means that ruling coalitions can only use fictitious/over-inflated contracts and white elephant projects to secure the funds needed for winning (re)elections. These dynamics, it is argued herein, shape the development of Nigeria's iron and steel industry.

Specifically, during the course of this research, it emerged that rent seeking and capture activities by successive ruling coalitions since the inception of the ASCL has been the major problem affecting the growth and development of Nigeria's state-owned iron and steel companies. Apart from incidences of awarding contracts and concessions to unqualified companies linked to political leaders, their cronies or family members, interviewees confirmed to the researcher that huge amounts of money supposedly budgeted for and disbursed in the name of the ASCL and other state-owned iron & steel companies, have often ended up in the private pockets of bureaucrats, politicians and their cronies without any consequences. As we have seen in section 8.2.2 where I discuss the nature and characteristics of the iron and steel industry, the industry's requirements of huge capital and long gestation period means that in almost all large-scale iron & steel companies the world over, governments are the major financiers. In a context where natural resource rents are used to finance industrial projects, administrative capacity for enforcement and discipline are often weak and hence state entrepreneurship/investment in big industrial projects ultimately ended up in rent seeking and capture activities (Fischer, 2006; Collier & Laroche,

2015; Collier, 2017). Apart from rent seeking and capture activities, international politics has also been linked to the failure of Nigeria's iron & steel industry. The evidence on how politics and rents seeking and capture activities have stunted the growth of the ASCL and, by extension, the Nigerian iron & steel industry are teased out in the following paragraphs.

The foundation stone for the construction of the Ajaokuta Steel Company Limited (ASCL) was laid by the former (late) President Shehu Shagari (1979-1983). In addition to the construction and commissioning of the Delta Steel Company (DSC), the Shagari administration established the Nigerian Steel Development Authority (NSDA) in 1971 to oversee the planning, construction and operations of steel plants in Nigeria. According to Umar (2021, Interview 20) some of Shagari's great achievements were that 84% of the ASCL plants and equipment erection had been completed during his administration and the DSC was also started, finished and commissioned by him in 1982. However, although the Shagari administration showed great determination and commitment towards creating a vibrant iron and steel industry in Nigeria, there were issues related to rent-seeking and capture activities as well as distributive politics that some believed affected the pace and progress of the development of the ASCL and the Nigerian iron and steel industry generally. For instance, according to Okafor (2007, 2013), in Nigeria's quest to establish a vibrant iron & steel industry, the issue of where to locate steel plants became overshadowed by politics rather than economics. This assertion drew from the supremacy battle between the NSDA and the Ministry of Industries (MoI) over where steel companies could be located as the two agencies were headed/dominated by Nigerians from the north and south respectively (Okafor, 2007, 2013). The NSDA influenced the location of the largest integrated steel plant, the ASCL at Ajaokuta (some 75 kilometres away from Itakpe iron ore reserves) in the northcentral state of Kogi—a decision that was seen as politically motivated to favour the north (ibid). The Ministry of Industries headed by a southerner, Mr. I.J Igbani, came up with the proposal for the establishment of the Delta Steel Company (DSC) at Aladja, in the deep southern state of Delta. The establishment of three rolling mills in Jos, Katsina and Osogbo was also said to be informed by the exigencies of distributional politics rather than feasible economic consideration (Gana, 1987). The extent to which decisions over where to locate steel companies had affected the growth of Nigeria's iron & steel development is hard to establish as we have seen in the case of the ASCL. While the feasibility study favours Onitsha, the aftereffects of the civil war made sticking to that recommendation strategically unwise.

However, there were decisions taken by politicians and bureaucrats seemingly informed by the exigencies of distributive politics that may be difficult to justify. For instance, while the DSC, an integrated mill with four electric furnaces, was to feed the three rolling mills in Jos, Osogbo and Katsina with billets for processing into structural steels, there was no plan on how such heavy raw materials (billets) could be transported from Aladja to these rolling mills. Also, there was no concrete and sustainable or long-term plan on where to source the billets for the DSC, hence, soon after the company was commissioned in 1982, it suffered from the acute problem of shortage of raw materials (Joseph, 2021, Interview 22). Moreover, apparently compelled by the need to distribute rents to political patrons and their clients, indiscriminate offers of employments were awarded by successive administrations (ibid). For instance, even though it operated at 15% capacity for the one and a half decade it was in operation, the DSC had 5000 staff, the maximum number it would have hired if the company was operating at full capacity. (Emeh, 2002 and Afonja, 2003). Patronage politics through which political patrons secures monetary rents and jobs for their clients in exchange for their support to maintain ruling coalitions in power remains a landmark feature of Nigerian politics (Busari, 2020).

Though the commitment of the Shagari administration was never in doubt, there were strong allegations coming from several sources revealing that despite the undeniable achievements of that government in the construction of the ASCL, the government or some of its officials used the company as a conduit for siphoning money to finance the National Party of Nigeria (NPN), a party Forrest (1986) metaphorically described as the Party of National Patronage (PNP) because of its deep and pervasive distributive politics. Concerning these claims of rent capture activity, Shagari's own Minister of Steel Development, Mr Paul Unongo, remarked in an interview (Abbah, 2019) that:

*“Ajaokuta was a drainpipe for the NPN government. Through Ajaokuta, money was being funnelled from the system into the party. I was forty. I wanted the project to work. We produced steel for six months. But I was made to resign (through political pressure) because I stood in the way of those who wanted to move money from Ajaokuta for selfish purposes.”*

Similarly, according to the US Embassy in Nigeria (2003), Government of Nigeria (GON) officials and other credible local contacts confirmed that:



*“..since 1979 Ajaokuta Steel complex has been used as a mechanism to grant contracts to contractors performing substandard work at overinflated prices while providing senior GON officials with large kickbacks”*

In fact, the use of ASCL for rent capture activities was so grave that it was linked to the collapse of a bank in the UK. A 1985 investigation into the collapse of the Johnson Mathey Bank of London (JMBL) in 1983 discovered that massive illicit deals involving Nigeria’s (Shagari’s) government officials and politicians who executed the ASCL capital-intensive contracts happened with the help of the bank which laundered huge sums of money for the Nigerian officials. This was contained in a Wikileaks cable report quoted in Abbah (2019) which states that the JMBL had served as: ‘*a conduit to transfer hard currency for some party members in Nigeria*’ and that ‘*..a few leading officials and politicians had amassed large amounts of money.....by issuing import licenses (for fictitious items)*’ in collaboration with some foreign businessmen<sup>72</sup>. This illicit wealth is confirmed to have been the proceeds from kickbacks, real and fake contracts awarded for ASC’s construction in the early 1980s (US Embassy, 2003). Apart from this, this researcher discovered that although ASC has not been operational, yet successive Nigerian governments have employed and paid billions in salary and allowances to workers of all relevant skills and specializations hired for ASC since the 80s. These workers some of whom may be redundant have cost Nigeria at least USD 10.4 million per annum since the early 1980s (Abbah, 2019). According to Page (2018), the Nigerian government has paid out \$83.3 million (in 2018-dollar value) in ASCL’s workers’ salary since 2010. While this, for good reason, is seen as a drain on public funds, when I toured the ASCL and interviewed its staff, the reality appear to be much more complex. The underground plants at ASCL I can confirm required clinical maintenance including draining of huge volumes of water which may submerge the entire underground plants if left un-drained. The pattern making shop, machine & tool section and foundry unit also carry out some skeletal forge and fabrication works.

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<sup>72</sup> See also: Los Angeles Times (22<sup>nd</sup> September 1985) available at: <https://www.latimes.com/archives/la-xpm-1985-09-22-fi-18317-story.html>



*Left photo: Author at Administrative Block (reception) Section of the ASCL*

*Right photo: Author standing behind the Blast Furnace Section of the ASCL.*



*Left photo: Author (middle) inspecting some of the work being performed at the Light Section of the ASCL*

*Right photo: Some of the products made at the Light Section of ASCL.*



*Author interviewing the acting Head of the ASCL, Mr Umar Suleiman Muhammad, General Manager, Engineering Works & Services.*

It was no surprise that when the Shagari government was ousted by the Muhammadu Buhari military junta, an investigation into how funds were spent on the ASCL was commenced immediately. In fact, since the junta was of the opinion that the ASCL was used as a conduit for corruption by the Shagari regime officials, it swiftly dissolved the ASC's management team leading to the incarceration of the ASCL's Chief Executive Director, Mr Fidelis Chukwuemeka Ezemenari, in 1984 (Okafor, 2007, 2013). Alhaji Inuwa Magaji was appointed as Ezemenari's replacement. However, the Buhari junta came to power in 1983 at a time when the Nigerian economy had plunged into severe recession occasioned by the sharp fall in oil revenues from the early 1980s. Hence, funding for the ASCL became a serious challenge and, consequently, works were halted at the ASCL as the junta embarked upon austerity measures to correct Nigeria's balance of payment crisis and restore the country's creditworthiness (Okafor, 2007, 2013). However, the new ASCL's CEO, Alhaji Magaji, was able to secure a bank loan of 25 million naira to put the light section of the ASC, which consisted of two rolling mills and a wire rod mill (WRM), back in operation after it had stopped working due to shortage of funds for the purchase of billets (Habib, 2016). The ASC's light section rolled some 135,856 steel between 1985 and 1987 before it would grind to a halt again. This was due to the shortage of billets as Nigeria's oil revenues further dwindled which plunged the economy deeper in to recession in the early 1980s (Afeikhena, 1993; Okafor, 2007). Though the Buhari



junta stemmed the tide of the wanton rent capture associated with officials of the Shagari regime, the regime did not invest much towards the completion of Ajaokuta largely because of the shortage of funds Nigeria experienced at the time (Afeikhena, 1993).

With the advent of the Ibrahim Badamasi Babangida (IBB) regime in August 1985 following the ouster of the Buhari junta, the Nigerian economy was still neck-deep in crisis as global oil prices did not significantly pick up and Nigeria was effectively cash strapped to inject more funds for the completion of the ASCL. Negotiations with the IMF and the World Bank for loans which were deadlocked due to Buhari's refusal to accept the entire conditionalities of the IMF's structural adjustment programs (SAPs) were resumed in earnest with the advent of the IBB junta. The regime accepted and started to implement the IMF/World Bank SAP package in June 1986. Though a wave of privatization and commercialization of public enterprises started during this regime, the ASCL was not privatized. However, the IBB regime embarked on indiscriminate awards of contracts to cronies and important personalities for the importation of billets, coking coal, dolomites and other materials purportedly for the kick-start of operation at the ASCL. However, credible sources at the ASCL and contacts associated with the project confirm to me that at that time there was neither any need for those imported raw materials nor were there the required transport infrastructure (usually rail lines) in place to convey such heavy raw materials from the ports to the ASCL (Habib, 2016; Umar, 2021, Interview 20). In fact, those imported steel production raw materials worth millions of naira were dumped at the Nigerian ports and allowed to go to waste (Habib, 2016). In Nigeria, the award of import licenses has traditionally been used by successive governments as a potent instrument of rents distribution to reward loyalists, political patrons and influential community leaders (Lewis, 1994; Hope Sr., 2017; Jacob & Umoh, 2017). However, adopting a report by a Canadian firm, the Hatch Associates, which concluded that the ASCL was unviable and hence should be scrapped, the IBB-led junta announced the abandonment of further works at the ASCL in 1989. But in an apparent volt face, the regime resumed construction work at the ASCL in 1990 by awarding a contract for a rail line construction from Warri to Ajaokuta (US Embassy, 2003; Habib, 2016). This rail line, designed for transporting metal billets and steel products to and from Warri to Ajaokuta was said to have been 75% completed by the IBB regime (Habib, 2016). The Goodluck Ebele Jonathan (GEJ) regime in 2009 awarded a contract worth 33 billion naira (\$ 91 million) for the redesign and completion of the 22 km of the

rail line that remained (AutoJosh, 2020). Yet, in another display of how the ASCL has been used as a conduit for rent capture, the Itakpe-Ajaokuta-Warri rail line was still not completed by GEJ until the second coming of president Buhari administration which again awarded another contract worth 72 billion (that is, around USD 200 million at N360/\$) to complete this hugely costly rail line, which was ultimately finished and commissioned by president Buhari in September 2020 (AutoJosh, 2020). In October 2019, the Buhari administration signed a contractual agreement worth 1.4 trillion naira (that is, \$3.9 billion at N360/\$) with the Chinese Railway Construction Corporation Limited (CRCCL) to extend the Itakpe-Ajaokuta-Warri rail line to Abuja, the Nigerian capital city. The economic rationale for this rail line extension to Abuja to be financed by loans from China (with terms and conditions not yet made public) remains unclear.

Rents capture activities in the name of the ASCL continued under the government of late General Sani Abacha (1993-1998). This authoritarian regime ended the contracts between the Nigerian government and the Russian firm Tiajpromexport (TPE) in 1996 reportedly after ‘Abacha had made all the money he could from Ajaokuta’ (US Embassy, 2003). An infamous ‘debt buy back’ scandal that happened during the Abacha regime is worth recalling here. After the Abacha junta ended the TPE’s contracts with Nigeria for the construction of the ASCL, a British Virgin Island company, Mecosta, allegedly owned by Abacha’s son, Muhammed Abacha and his friend, Atiku Bagudu, approached the TPE to buy their USD 2 billion debt at an incredible 25% of its actual value (i.e., at USD 500 million). No sooner had this debt buy back by these politically influential personalities through Mecosta the Abacha government immediately paid Mecosta the full debt owed by Nigeria (that is the whole USD 2 billion instead of the \$500m the debt was bought for). Mecosta allegedly paid TPE its \$500m and pocketed the remaining balance.

The return to competitive democracy in 1999 following the election of President Olusegun Obasanjo (OBJ) of the People’s Democratic Party (PDP) did not stop the use of the ASCL as a ‘cash cow’ for rent extraction by successive regimes. While the Obasanjo administration succeeded with its cement industrial policy, it failed to transform the textile industry and appeared to have continued where Abacha stopped with regard to the ASCL. The OBJ regime privatized the Delta Steel Company and the three steel rolling mills in Katsina, Osogbo and Jos. However, even after the privatization exercise, these privatised mills still remained inactive. As for the ASCL, the OBJ administration simply continued with the business-as-usual tradition as available evidence confirm that the OBJ

government's policy towards the ASCL was also predatory and exploitative rather than developmental. In January 2000, the OBJ regime recalled the Russian firm, Tiajpromexport (TPE), and gave it USD 1.2 million to undertake a technical audit of the ASCL. The audit report which was ready by December 2000 found the ASCL to be in 'commendable state of preservation' and estimated that USD 460 million was needed for the refurbishing and re-start of the first phase of the ASC (Habib. 2016; Ogwu, 2021, Interview 23). However, instead of the regime to provide the estimated amounts required for the restart of the ASCL's first phase at least given that a whopping \$1.2m was spent for the audit to know that much, it suddenly opted for a concession.

Hence, in June 2003, the OBJ administration entered into a deal with a US energy company, SOLGAS through its Nigerian subsidiary, SOLGAS Energy Nigeria Limited. Interestingly, the vice chairman of SOLGAS Nigeria Ltd., Mr. Oluwaseun Oyefeso, was a close friend of Obasanjo's favourite son, Mr Gbenga Obasanjo. Hence, with such high-level connection, SOLGAS was favoured to have secured the concession of the ASC in 2003 even though it did not participate in the initial bidding process involving better qualified candidates such as the Australian Voestalpine Industrial Services, the Italian Darueli Offline and the Japanese Osaka Steels Nigeria Limited and Kobe Steels (Abbah, 2019). The 10-year deal SOLGAS stroke with the Nigerian government allowed the company to retain all profits from the operations of ASC through the grant of the following three major sole rights (see US Embassy Report, 2003):

- (i) To complete and operate the ASCL.
- (ii) To kickstart the process of supplying electricity from ASC's electric power generating plants to the national grid and
- (iii) To run a proposed Liquefied Natural Gas (LNG)-fired electric power plant that would be established and funded by Nigeria.

However, if Gbenga Obasanjo's links with SOLGAS through Oyefeso and the unfair and unfree bidding processes through which SOLGAS 'won' the concessions to operate ASC were not definitive proofs of the predatory tendency of the OBJ administration, the damning assessment by the US Embassy in Nigeria on the capability of SOLGAS to successfully handle the contract should confirm that the Obasanjo administration had all along planned to pick up where Abacha had left off. In a US Embassy (2003) report leaked by the Wikileaks, the following assessment was passed on SOLGAS vis-à-vis its capability to handle the ASCL concession:

*‘SOLGAS, a small U.S energy provider, has never managed or operated a steel factory’*

In fact, in a private conversation with a US embassy contact (codenamed ‘Econoff’) quoted in the US Embassy leaked report, SOLGAS Nigeria vice chairman and Gbenga Obasanjo’s friend, Mr Oluwaseun Oyefeso, remarked that although the presence of SOLGAS in Nigeria was to participate in the Nigerian electricity and gas markets, it was in any case there to make ‘money, money, money’. Oyefeso also admitted that the claims they made of 9000 staff to be employed in ASC and their purported investment of USD 3.6 billion in the moribund steel company were overstated by SOLGAS and the OBJ government just ‘for the press’ (US Embassy, 2003). In fact, Ogwu (2021, Interview 23) told me that the OBJ government brushed aside the recommendation of the House of Representative Committee, which having confirmed that SOLGAS possessed neither the technical know-how nor the financial capability to complete the ASCL, strongly recommended that no concession agreements should be signed with the company.

With the failure of SOLGAS to secure either domestic or foreign loans and to engage any capable international technical partner with some experience in iron and steel manufacturing to rehabilitate the ASCL, the Obasanjo administration, following public outcry and protests from some members of the parliament in 2004 moved to cancel that contract with SOLGAS. However, soon thereafter, the regime signed another 10-year contract with an Indian company through its Nigerian subsidiary called the Global Infrastructure Nigeria Limited (GINL). Interestingly, this company was also said to have been promoted by Gbenga Obasanjo and his close associate, Mr. Oluwaseun Oyefeso (Abbah, 2019). In fact, a presidential panel would later in 2007 find out that the OBJ government unilaterally engaged the GINL without establishing their technical and financial capabilities just as it was the case with SOLGAS. Thus, the GINL ended up leveraging on this contact to recklessly borrow money from local banks which it did not invest in the ASC (Anonymous, 2021b, Interview 26). The 2007 presidential panel attested to this fact in its assessment to wit:

*‘..the panel is at a loss as to where this volume of money has been invested as GINL has not been able to produce convincing records of injection of such funds’<sup>73</sup>*

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<sup>73</sup> See Abbah (2019)



Not only that, the panel found evidence of cannibalization, vandalization and movement of valuable items out of ASCL. This is beside the damning discovery that the USD 1 million given to ASCL as insurance payment following a fire incident at a facility was pocketed by the GINL instead of the federal government that finances the project (Anonymous, 2021b, Interview 26).

Thus, when Obasanjo handed over power to the winner of the 2007 presidential elections in Nigeria, Alhaji Umaru Musa ‘YarAdua, in May of that year, Mr ‘YarAdua immediately set up a committee to investigate the terms of the federal government agreements with the GINL. The committee reported that concessions granted the GINL on the ASCL were against the interest of Nigeria and resulted only in asset theft, mismanagement and vandalization. This compelled then President ‘YarAdua to revoke the contract with GINL in April 2008. Unhappy with this development, the GINL filed a case against the Nigerian government at the International Court of Arbitration, London seeking USD 525 million from Nigeria in damages for what they called ‘breach of contract’.

With the death of president ‘YarAdua in May 2010 and the ascendancy of his vice, Mr Goodluck Ebele Jonathan, the ASCL was again to return to its traditional role of serving as a conduit for rent capture. A lawyer, Mr Mohammed Bello Adoke, who had previously held brief for GINL’s parent firm, the Global Infrastructure Holdings, was appointed by President Jonathan as the Minister of Justice and Attorney General of Nigeria. Upon assuming office, Mr Adoke sought for and secured an approval from President Jonathan for an out-of-court settlement with the GINL. This was according to Akpoti (2017) at a point in the legal battle when it was clear that GINL would lose the case to Nigeria and had even reached out to a consulting firm, Price Waterhouse Coopers (PwC), to assist them ‘work’ victory out through Nigerian government officials. Following the case withdrawal, a panel was constituted by President Jonathan to mediate renegotiation with the GINL. In a dramatic turn of events, the committee indicted the government of Nigeria under the late President ‘YarAdua for terminating the contracts with GINL for the concessions of ASCL and the Itakpe iron ore reserves. In fact, the panel even went a notch higher by estimating that Nigeria owed GINL USD 525 million in damages. However, because the government didn’t have the money to pay for this huge compensation, the panel recommended that Nigeria regains the control of ASCL and then concession Itakpe iron ore reserve to GINL for seven years (Akpoti, 2017)<sup>74</sup>. Mr. Adoke succeeded in

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<sup>74</sup> According to Natasha Akpoti (Akpoti, 2017), this re-concession was renewable for 10 years although the Nigerian public was kept in the dark about this.

securing the approval of President Jonathan to implement this out-of-court settlement which brushed aside all damning evidence especially as detailed in a report by a committee headed by ASCL's former Chief Executive Officer, Inuwa Magaji, which found no shred of evidence of GINL's investment in ASCL, Itakpe or the Delta Steel Company it bought from Nigeria at a giveaway price (Abbah, 2019). In fact, notwithstanding evidence of valuable asset stripping at the ASCL (which were allegedly moved to India) when the company was under GINL's control, the panel still went ahead to acquit GINL and granted it a re-concession of Itakpe iron ore (Akpoti, 2017). The execution of this re-negotiated concession could however not hold during the President Jonathan regime because of opposition from the Director of Nigeria's privatization agency, the Bureau of Public Enterprise (BPE), Mr Sanusi Mohammed and the minister of mines and steel, Alhaji Musa Mohammed Sada (Akpoti, 2017; Abbah, 2019; Umar, 2021, Interview 20). And in 2015 the Jonathan-led government lost the presidential elections to the All-Progressive Congress (APC) of President Muhammadu Buhari.

The Buhari administration made the resuscitation of the ASCL one of its top agendas. But in another twist of events indicative of the determination of some powerful vested interest to continue to extract rents from ASCL, Buhari's minister of mines and steel development, Dr Kayode Fayemi, suddenly started to push for the implementation of the renegotiated concessions of Itakpe iron ore to GINL as was initiated by the previous regime. Despite packaging the re-concession as a 'new deal', Dr Fayemi was caught to have merely re-presented the exact terms and conditions of the renegotiated settlement. In fact, the documents Dr Fayemi re-presented had the same typographical errors as Mr Adoke presented (see Akpoti, 2017). In a petition to President Buhari and the Nigerian National Assembly, an activist for ASCL, Miss Natasha Akpoti, alleged that some influential personalities involving the former Attorney General of the Federation, Mr Mohammed Adoke, Minister of Steel Devt., Dr. Fayemi, the Governor of the Kogi state where ASCL is based, Mr Yahaya Bello, and other vested interests working behind the scenes, pushed for the implementation of the discredited renegotiated settlement because of their own private, rather than, any public interests (see Akpoti, 2017)<sup>75</sup>. Akpoti further alleged that the GINL was quickly registered in Nigeria by powerful political patrons even when it did not have established technical working relationship with its purported parent company, that is Global Infrastructure Holdings owned by an Indian, Mr Pramod

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<sup>75</sup> See also Akinrefon, Ovuakporie & Nwabughogu, (2018)

Mittal (Akpoti, 2017). She added that Mr Mittal was only brought in for a show and a ‘deal’ by the politically connected Nigerian owners of the GINL (Akpoti, 2017). In August 2016, Dr Fayemi was able to, on behalf of the Nigerian government, signed the renegotiated agreement with the Global Infrastructure Holdings represented by Mr Pramod Mittal (Inside Business, 2020). However, what was also curious to many observers was how Dr. Fayemi immediately after signing the re-negotiated settlement engaged the services of PwC consulting firm ‘to supervise GINL concession’; the PwC was the same company that GINL had called in to ‘work out a victory’ for them through the Nigerian government officials when it became apparent that they would lose their case at the London arbitration court<sup>76</sup>. Thus, with the signing of this agreement, the ASCL is now back in the hands of Nigeria while the GINL has a 7-year concession to operate the Itakpe Iron Ore reserves. Specific elements of the GINL agreements with Nigeria are still subjects of controversy.

Apart from rent capture activities associated with the failure of the ASCL and Nigeria’s iron & steel industry, issues of international politics have also been linked to the failure of the ASCL and the industry generally. With regard to this, a source (Anonymous, 2021b, Interview 26) narrated to me that there was a time when a World Bank assessment team came to the ASCL and after the team had finished their assessment, an ASCL staff asked one of the team members about his opinion on the ASCL. According to the source, the World Bank staffer responded that he had two opinions, one personal and the other official. The staffer’s personal opinion was that Nigeria should do all it could to source for money to complete the ASCL, however, he admitted that while this was his personal opinion, he was sure that the official position would be for Nigeria to scrap the ASCL. Similarly, Hon. Aminu Shagari (son of the late former President Shagari who laid the foundation stone of the ASCL in 1979) made a revelation at one of the sessions of the 7th House of Representatives deliberating on the ASCL thus:

*“A highly placed European told my dad that we cannot allow Nigeria to be another Japan of Africa”<sup>77</sup>*

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<sup>76</sup> An online news media (Secret Reporters, 2020) has accused Fayemi of ‘squandering billions’ as minister citing the ASCL-GINL deals

<sup>77</sup> See the Vanguard Newspaper reports by Akinrefon, D., Ovuakporie, E. & Nwabughio, L. (2018) available at: <https://www.vanguardngr.com/2018/03/ajaokuta-witnesses-throw-can-worms-reps-sectoral-hearing/>

Be that as it may, the commitments of Britain and America, whose firms had been involved with feasibility studies on iron & steel projects in Nigeria since the pre-colonial times, have often been called into questions by Nigerians. However, the main contentions of these Western countries/firms have remained that Nigeria's lack of high-grade iron ore, adequate finance, capable manpower, and recently the glut in the global market for steel combine to make an integrated, state-funded iron & steel projects such as the ASCL and DSC economically unviable (Oyeyinka & Adeloje, 1988; Matusevich, 2003; Umar, 2021, Interview 20). However, Alli-Balogun (1988) argued that in their "*attempts to produce their own steel, a number of developing nations have run up against what appears to be a solid brick wall: namely, the ideological, strategic, and power interests of those who have a monopoly of the latest [iron & steel] technology*". For instance, South Korea's efforts in the 1960s to develop a steel industry was dismissed as unviable by Western countries and agencies, however, Korea rose to become one of the top producers of steel in the world (see Amsden, 1989; Chang, 1994). In any case, it is difficult to definitively establish whether the position consistently maintained by Western countries on Nigeria's iron & steel projects such as the ASCL is entirely informed by economics or politics. In any case, domestic issues related to rents capture, deficit of infrastructure, lack of tangible support to private steel entrepreneurs and incoherent steel development policy are real problems that impede the growth of Nigeria's iron & steel industry. And if other countries such as Japan and Korea, could do it against the odds, then Nigeria can only blame itself its failure.

Recently, president Buhari met with Russia's president Vladimir Putin in October 2019 at the Russia-Africa Summit in Sochi where the two leaders agreed that Russia would complete the ASCL. However, according to the latest announcement by Nigeria's minister of Mines and Steel Development, Mr Olamilekan Adegbite, although President Muhammadu Buhari's administration had set \$2b for the revival of the ASCL following the October agreements with Russia, the outbreak of Covid-19 and the recent Russian-Ukraine war had vitiated that agreement because of what he referred to as "force majeure" (Daily Trust, 2022). Consequently, the minister announced that a nameless British company had offered "to do it for us [for] free now". Effectively, this ended the promise by the Buhari administration to revive the ASCL and have it operational by 2022. And cycle continues.

However, against the backdrop of the failure of state-owned iron & steel companies in Nigeria, there are some forty active/successful small- to medium-

scale private steel companies that process the 1.5m tonnes of structural steel that Nigeria currently produces. Around 80% of these active/successful private steel companies are owned by foreigners, mostly Indians with very little participation by indigenous Nigerians (see table 8C). The number of people directly employed by these private steel companies is debatable with Chigbo (2015) putting the number at around one million, which according to an Indian private steel company owner (anonymous, 2021h, Interview 34) is quite overestimated. According to the Indian industrialist, the number of people employed by private steel companies could range between 300-600. In any case, it is indisputable that amidst the failure of such state-owned steel companies as the ASCL, DSC and the three rolling mills in Katsina, Jos and Osogbo, these private steel companies appear to be the only islands of success and beacons of hope for the transformation of the Nigerian iron & steel industry. However, this research discovered that these private steel mills have failed to successfully drive the transformation of the Nigerian iron & steel industry because of certain political-economic problems. Being largely of foreign origins, active/successful private steel entrepreneurs appear to lack the political connection to influence the formulation of iron & steel policy institutions and their implementation. In addition, because these private steel industrialists are effectively *workhorses* who operate in an industry whose main sources of profitability/rents come from market competition with both domestic steel firms and established foreign steel makers, they are, after accounting for all production costs, often left with very little rental surplus to spare for political financing to build or maintain ruling coalitions in power in exchange for favourable policies. The evidence for this is provided in some details in the following *section 8.4* after brief reviews of the profiles of some of these active/successful private steel companies.

#### **8.4 Private steel companies in Nigeria: Islands of success with moderate to high capabilities but low political influence to drive successful I&S industrial policy.**

Since the establishment of the first private steel company at Emene, Enugu state, in 1962, small- and medium-scale private steel companies have continued to play important roles in Nigeria's iron and steel industry. These companies, which include both small- and medium-scale mills that largely use recycled metal (with some also using imported billets) to produce iron rods or reinforcing bars (rebars), iron wire, beams, roofing sheets, and other structural steel products, number up to 73 out of which only around 40 are active/successfully operating as

at the time of my fieldwork in 2020/21 (see table 35 below for the list of all active/inactive private steel companies in Nigeria).

Before I examine the political economic dynamics of these active/successful private steel companies, it is important to review the profiles of a few of them.

#### 8.4.1 Profiles of some active/successful private steel companies

**Top Steel Nigeria Limited (TSNL):** This steel company is also owned and managed by three industrialists of Indian origin, namely, Mr Bijay Kumar Garodia, Mr Vimal Kumar Agarwala, and Mr. Mahendra Kumar Agarwal. With its factory located in the coastal city of Lagos, TSNL was incorporated in December 2009 and has a rolling capacity of 600 tons per day. The company has the following facilities: steel melting shop, high speed rolling mill, continuous casting machine, Argon Oxygen Decarburiser (AOD) plant, oxygen/nitrogen plant, 132/33 KV Substation. TSNL’s chairman is a versatile industrialist with ‘rich experience in establishing and running industries efficiently’ in diverse sectors<sup>78</sup>. Described as an ‘industrialist of repute’, the company’s managing director, Mr Vimal Kumar Agarwala, comes from a family in Northeast India which owns the Bhagwati Steel<sup>79</sup>. The following are samples of the products made by TSNL under its brand name, ‘TOP’:



TMT bars

Square bars

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<sup>78</sup> See: <https://topsteel.net/boardofdirectors.html>

<sup>79</sup> Same as above.





TSNL's worker operating a machine

TSNL's worker welding rods.

***African Foundries Limited (AFL):*** This is one of the largest private steel companies in Nigeria. The company, which is the subsidiary of the African Industries Group was founded in 1971 by the Gupta family originally from India. The company is run by Raj Gupta, P.K Gupta and Alok Gupta. AFL prides itself as the only steel company in Nigeria with the UK's CARES and Austria's ISO certifications. The company mainly uses scrap (recycled) metal to manufacture reinforcing bars (rebar) for building purposes. AFL also boasts of cutting-edge equipment made by European and Far-Eastern manufacturers. AFL has around 200 employees.

***Sunflag Steel Nigeria Limited (SSNL):*** The SSNL was founded by an Indian industrialist, Mr Satyadev Bhardwaj, in 2004. The company has two factories in Ikorodo and Sagamu, Lagos. SSNL produces iron bars, coils, wires and billets through the EAF (electric arc furnace) route of iron manufacture. The founder of the Sunflag Group of Companies, Mr Bhardwaj, was an experienced businessman who established the first textile manufacturing company in Kenya, the Sunflag Textiles Company, Kenya, in 1930s<sup>80</sup>. Mr. Mr Bhardwaj has since the 1970s handed over the running of the Sunflag businesses to his sons, Ravi Bushan Bhardwaj and Suhrit Ravi Bhushan Bhardwaj in 1970s. Run by a 'strong management team', the group has steel factories in Africa, Europe and South America. Below are samples of wire rods and billed made by the Sunflag Steel Nigeria Limited company:

<sup>80</sup> <http://www.sunflag.com/about-us/group-history.php>





Wire rods



Billets

***Aarti Steel Nigeria Limited (ASNL):*** One of the subsidiaries of the Aarti Group, this company manufactures various steel products such as steel coils, rods, and corrugated roofing sheets. Also owned by Indians, the company has factories in Lagos and Ogun, south-west Nigeria. Since 2007, the company has increased its capacity to 100, 000 tons per annum, up from the modest 50,000tpa it started off with in 2003. This was in response to the growing demand for steel in Nigeria and neighbouring countries. In 2014, the company invested in colour coating technology thereby adding more diversity to its products especially the corrugated (roofing) sheets. ASNL has around 100 employees.

***Nigerian Foundries Limited (NFL):*** This company was founded in 1969 by two Greek brothers, Romeo and John Barberopoulos popularly known as the Barberopoulos brothers in Ogun state, south-west Nigeria where the foundry is located. With the knowledge he acquired from his engineering studies and experience garnered by working in a foundry in Czechoslovakia, Mr John teamed up with Romeo to build the first cupola oven which they used to start off the then small grey iron foundry they named the Nigerian Foundries Limited. With the death of Romeo and John in 2012 and 2016 respectively, the company has seamlessly continued to be run by their children, Vassilly Onye Barberopoulos and Nicolas Barberopoulos, who have had 40- and 17-years' experience working at the foundry, respectively. NFL is a major machine parts fabricator in Nigeria.



NFL's pattern makers at work

NFL's worker at the iron smelting shop

***KAM Industries Nigeria Limited (KINL):*** This is the largest and the only successful steel company wholly owned by a Nigerian, Mr Kamoruddeen Yusuf. With five factories all located in Ilorin, Kwara State, the company was founded in 1997 and uses scrap metal to produce nails, wire mesh, stone-coated roofing tile, binding wire and iron roofing sheet. The owner of the company, Mr Yusuf, used to be a roadside welder who rose to build the now over \$300 million worth company by fabricating many of the machines by himself. Narrating how he does it, Mr Yusuf remarks: *“Anytime I attend steel wire exhibitions, I go there to spy technology, check each country’s design, how they design it, and get the catalogue. I investigate how to redesign them to work for Nigeria. I go to so many factories to study their operations.”*<sup>81</sup>.

TABLE 34 LIST OF ACTIVE AND INACTIVE PRIVATE STEEL COMPANIES IN NIGERIA

c	Name of Company	Ownership	Activity Status	Technology	Address
1	African Steel Mill	Indians	Active	Electric arc furnace/Rolling	337, Ikorodu Industrial Estate, Odogunyan, Lagos
2	Landcraft Steel	Indians/Nig.	Active	Electric arc furnace/Rolling	

<sup>81</sup> See Oyeniya (2014)

3	African Foundries Ltd	Indians	Active	Electric arc furnace/Rolling	Km 45, Shagamu-Ikorodu Expressway, Ogijo, Ogun State
4	Ikorodu Steel Mill	Indians/Nig.	Active	Electric arc furnace/Rolling	Km 45, Shagamu-Ikorodu Expressway, Ogijo, Ogun State
5	Sunflag Steel Nigeria Ltd	Indians	Active	Electric arc furnace/Rolling	No 4, Lisa Street, Odogunyan, Ikorodu, Lagos
6	Standard Metallurgical Co	Nigerian	Active	Electric arc furnace/Rolling	C51 Obiking Street, Amuwo-Odofin, Lagos
7	Mayor Engineering Co. Ltd	Brit.(Hong Kong)/Nig.	Active	Rolling	Plot 68, Ikorodu Industrial Estate, Lagos
8	Top Steel Nigeria Ltd	Indians	Active	Electric arc furnace/Rolling	Plot 478-479, Ikorodu Industrial Scheme, Odogunyan, Lagos
9	Abuja Steel Mills	Indians/Nigerians	Active	Electric arc furnace/Rolling	Km 12, Abuja-Kaduna Expressway, Tafa LGA, Niger State
10	Aarti Steel Nigeria Ltd	Indians	Active	Electric arc furnace/Rolling	15A, Sowemimo Street, Ikeja, Lagos
11	Federated Steel Company Limited	Nig./British(HK)	Active	Electric arc furnace/Rolling	Block XI, Plot 3-10, Otta Industrial Estate, Off Idi-Iroko Road, Ogun
12	WEMPCO Group	Chinese	Active	Rolling	18, Wempco Road, Ogba Industrial
13	Prism Steel Mills Ltd	Indians	Active	Rolling	Km 12, Oshogbo Ikirun Road, Osun State
14	Midland Rolling Mill Ltd	Indians	Active	Rolling	Km 10, Abeokuta-Lagos Road Abeokuta, Expressway Road Ogun State Nigeria
15	Kam Wire and Steel Industries Ltd (a)	Nigerian	Active	Electric arc furnace/Rolling	5, New Yidi Road, Ilorin, Kwara State

16	Kam Integrated Company Ltd (b)	Nigerian	Active	Electric arc furnace/Rolling	Asa Dam Road
17	Total Steel Company Ltd	Nigerian	Inactive	Rolling	Kakuri Industrial Estate, Kaduna State
18	Trident Steel Works	Nigerian	Active	Rolling	55, Trans-Amadi Industrial Layout ,PH ,Rivers
19	Bao Yao Futurelex Ltd	Chinese/Nigerian	Inactive	Electric arc furnace/Rolling	Kiyi Village, Kuje, Abuja
20	Bao Yao Huan Jian Iron and Steel Co.	Chinese/Nigerian	Inactive	Electric arc furnace/Rolling	Free Trade Zone, Calabar
21	Eastern Wrought Iron Limited	Nigerian	Inactive	Electric arc furnace/Rolling	Plot 47, Trans Amadi Industrial Layout, PH, Rivers
22	Eurobridge Industries Ltd	Unknown	Inactive	Electric arc furnace/Rolling	3, Billingsway, Balogun Street, Oregun Industrial Estate, Ikeja, Lagos
23	Iron Products Industries Ltd	Lebanese	Active	Rolling	No 1, Ijedora Street, Igede, Ado-Ekiti, Ekiti State
24	African Wire and Allied Ind. Ltd	Indians	Inactive	Electric arc furnace/Rolling	Agbara Industrial Area, Ogun State
25	AKS Steel Nigeria Ltd	Indians	Inactive	Electric arc furnace/Rolling	27, Industrial Scheme, Odogunyan, Ikorodu, Lagos
26	Alliance Steel Company	Canadian	Inactive	Electric arc furnace/Rolling	
27	Asiatic Industries Ltd(Federated)	Indians	Inactive	Electric arc furnace/Rolling	Plot B, Block2, Alhaji Adejumo Crescent, Ilupeju, Lagos
28	Youngxing Steel Co. Ltd	Chinese	Active	Electric arc furnace/Rolling	Ogua Community, By-pass Road, Benin City, Edo State
29	Eastern Metal Limited	Indians	Active	Electric arc furnace/Rolling	N/A
30	General Steel Mill	Hong Kong/Nigerian	Active	Electric arc furnace/Rolling	Asaba-Benin Expressway,Asaba,Delta State
31	Brollo Pipe&Profile Ind Ltd	Nigerian	Active	Rolling	Plot 1N/62 Harbour Industrial Layout,

					Outbrid, Anambra, Onitsha Nigeria
32	Nigerian Foundries Ltd	Greece	Active	Electric arc furnace/Rolling	Adeyemi Crescent, Off Anthony-Oshodi, Lagos.
33	Sumo Steel Ltd	Indian	Active	Electric arc furnace/Rolling	21-23,Abimbola Street,Isolo Industrial Estate, Lagos
34	Sun Metals Industries (Formerly Sund & Sand Steel Company	Nigerian	Active	Rolling	Ogun Industrial Estate, Off Idi-Iroko Road, Otta, Ogun State
35	Neo Steel Company Limited	Nigerian	Active	Rolling	km 1, Lagos-Badagry Expressway, Orile, Lagos
36	Universal Steel Ltd	British (Hong Kong)/Nig.	Inactive	Electric arc furnace/Rolling	No 3, Awosika Avenue, Ogba Industrial Estate, Ikeja
37	Phoenix Steel Mills Ltd	Indian	Active	Electric arc furnace/Rolling	km 17, Ikorodu-Shagamu Road, Ita Yakubu, Ogijo-Remo, Ogun State
38	Nigeria Gas and Steel Ltd	Lebanese	Inactive	Rolling	Plot 24, Ize Iyamu Street, Off Billingsways, Oregun Industrial Area, Ikeja, Lagos
39	Industrial Metal Processing Co, Ltd	Nigerian	Inactive	Rolling	Ogua Community, By-pass Road, Benin City, Edo State
40	Steel and Wire Manufacturing	Unknown	Inactive	Electric arc furnace/Rolling	380, Ikorodu Road, Maryland Ikeja, Lagos Nigeria
41	Continental Iron and Steel Company Nig. Ltd	British (Hong Kong)/Nig.	Inactive	Electric arc furnace/rolling	Plot 1-3, WEMPCO Road, Ogba Industrial Scheme, Ikeja
42	Pioneer Metal Products Company Plc	Japanese	Inactive	Rolling	Oba-Akran Avenue, Ikeja Industrial Estate, Lagos



43	Abiatio Steel Mills Limited	Unknown	Inactive	Electric arc furnace/Rolling	Plot 4, Acme Industrial Layout, Ikeja, Lagos
44	Concraft Group of Companies	Unknown	Inactive	Electric arc furnace/Rolling	Henry Carr Street, Industrial Estate, Ikeja Lagos
45	General Metal Products Limited	Indian	Active	Electric arc furnace/Rolling	Textile Road, Kakuri Industrial Estate, Kaduna
46	Success Metals Limited	Nigerian	Inactive	Rolling	Ita Village, Sagamu, Ikorodu Road, Ogijo, Ogun State
47	Hwa Chong Household Utilities Ltd	Hong Kong	Active	Electric arc furnace/Rolling	Plot 29, Dantata Road, Bampai Industrial Estate, Kano
48	Niger Steel Company	Anambra state/Germany	Inactive	Electric arc furnace/Rolling	Anambra State
49	Universal Roof Nigeria Limited		Active	Electric arc furnace/Rolling	Asa Dam Road
50	Oshogbo Rolling Mill Ltd (Now Integrated Steel Company Plc)	Nigerian	Inactive	Rolling	Km 8, Ikirun Road, Oshogbo, Osun State
51	Mrs Steel Mills	Unknown	Inactive	Electric arc furnace/Rolling	N/A
52	Qualitec Alluminium Industries Limited	Nigerian	Inactive	Electric arc furnace/Rolling	679, Lagos- Abeokuta Road, Ojokoro, Agege
53	Sun Steel Industries Limited	Nigerian	Inactive	Electric arc furnace/Rolling	N/A
54	Premium Steel & Mines Ltd (Formal Delta Co. Ltd)	Indians/Nigerians	Active	Electric arc furnace/Rolling	Aladja Ovwian Delta State
55	Quantum Steel Nigeria Limited (Formerly Real Infrastructure Nig. Ltd)	Unknown	Active	Electric arc furnace/Rolling	Ikorudu-Sagamu Road, Ogijo, Ogun State
56	Monarch Steel Mills Limited	Indian	Inactive	Electric arc furnace/Rolling	Km 16, Ikorodu-Shagamu Road, Ewujagu, Kamalo Village,

					Ogijo-Remo, Ogun State
57	Primlaks Industries Ltd		Inactive	Electric arc furnace/Rolling	Plot 4, Block E, Amuwo Odofin Industrial Layout, Badagry Expressway, Orile, Lagos
58	MINL Ltd	Indian	Active	Rolling	21-23, Abimbola Street. Isolo Industrial Estate
59	Pulkit Alloy and Steel Ltd	Indian	Active	Electric arc furnace/Rolling	N/A
60	Katsina Steel Rolling (Now Dana Steel Ltd)	Indian	Inactive	Electric arc furnace/Rolling	Mill, Shehu Yar'adua way, Katsina
61	Jos Steel Rolling Mill,	Nigerian	Inactive	Electric arc furnace/Rolling	Old Airport Rd, Industrial Area, Jos
62	Tower Galvanized Products	Unknown	Active	Electric arc furnace/Rolling	N/A
63	Sagamu Steel Nigeria Limited(Now Sunflag Steel)	Indians	Inactive	Electric arc furnace/Rolling	Plot 330-331 LSDPC Industrial Estate, Odogunyan, Ikorodu, Lagos
64	Sparkwest Steel Industries Ltd	Nigerian/India n	N/A	Rolling	Plot 3A, Ibadan Street Osborne Foreshore Estate, Ikoyi, Lagos
65	HongXing Steel Company Ltd	Chinese	Active	Electric arc furnace/Rolling	Plot 60C, Amuwo Odofin Industrial Scheme, Lagos
66	Inner Galaxy Group	Chinese	Active	Electric arc furnace/Rolling	Plot 52C, NOSAK Rd, Amuwo-Odofin Industrial Scheme, Lagos
67	Nigeria Spanish Engineering Company Ltd	Nig./Spanish	Active	Electric arc furnace/Rolling	Plot 62-73, Sharada Industrial Estate, Phase 2, Kano
68	Tower Aluminium Nigeria Limited	Unknown	Active	Electric arc furnace/Rolling	No 6, Oba Akran Avenue, Ikeja



69	Qua Steel Ltd	Cross River/Akwa Ibom state govt.s/Private	Inactive	Rolling	N/A
70	Homans Industries	Australian	Inactive	Rolling	N/A
71	Zuma Steel West Africa Ltd	Nigerian	Inactive	Electric arc furnace/Rolling	N/A
72	Sankyo Steel Co. Ltd of the Lee Group	Japanese	Inactive	Electric arc furnace/Rolling	Ladipo Oluwale Avenue Ikeja, Lagos
73	TI & Geraldisco Industries Limited	Unknown	Active	Electric arc furnace/Rolling	Isheri Oke, Ogun, Nigeria

Source: Fieldwork, 2020/21.

#### 8.4.2 The Political economy of private steel companies

Operating under the auspices of the Basic Metal, Iron & Steel and Fabricated Metal Products (BMISFMP) sectoral group of the Manufacturers Association of Nigeria (MAN), domestic private steel manufacturing companies have been largely owned by foreigners mostly Indians. The wholly Nigerian ownership of these companies is less than 20%. These companies produce iron rod, wire, rebars, galvanized iron, roofing sheet, pipes, beams and other structural steel for construction purposes. Together these companies account for the 1.5 million tonnes of steel processed annually in Nigeria. This represents just 0.11% of global steel production (Proshare, 2019), with Nigeria's import of steel products amounting to a whopping \$4.5 billion annually (Akinwale, 2018).

However, despite the relative success of these active private steel firms compared to the state-owned steel companies, successive Nigerian governments have not been as committed to their plight as they have been to state-owned steel companies that have gobbled up over \$10b in investment in the past four decades but still remain inactive and inoperational. In fact, in my interviews with managers of these active/successful private steel firms, it was found that the Nigerian government has not been giving any kind of support to them. This is mainly due to the fact that Nigeria's iron & steel policies (pursued under the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> development plans) have, over the years, entirely focussed on state-owned steel firms to the exclusion of private steel companies. Asked why he thought successive governments have, in their attempts to develop the iron & steel industry, marginalized private steel companies, an Indian manager of one of the

largest private steel companies requested anonymity (anonymous, 2021h, Interview 34) remarked thus:

*“Well, I think government believes that since it has money pouring in from oil it can do anything, but we can see that it has not been able to finish Ajaokuta [steel company] which it started forty-three years ago! You know about the saying that ‘whatever belongs to government belongs to nobody’, so the issue of poor management and sabotage in government companies is also there. And again, government is the sum of individual politicians and bureaucrats, and politicians all over the world misplace their countries’ priorities for their own interest. If government embarks on projects such as Ajaokuta [steel company], politicians and their cronies get contracts and employment slots but when it supports [a] private investor like me they think they don’t gain anything from that. They forget that we provide jobs, pay taxes, and contribute to the development of the economy. If the government really wants to help us then all we want is for them to stop the massive imports of steel [materials] from abroad, this is killing our companies”.* When further asked if he thought the marginalization of private steel companies could be because majority of them are foreigners, anonymous (2021h, Interview 34) responded with *“No, I don’t think so because to my knowledge none of us has received any kind of support [from government]”.*

A respondent (Anonymous, 2021j, Interview 40) from one of the few active private steel companies owned by Nigerians corroborated the position that private steel industrialists across board do not receive supports from government. They reveal that *“..our companies do not at all enjoy any support from government. In fact, quite the contrary, for those of us that use imported billets, we are charged 30% VAT which is outrageous. Also, the FIRS [Federal Inland Revenue Services] and state government revenue officials are always on our neck demanding for prompt payment of taxes even when we are struggling to remain in business”.*

Another manager of a steel firm confirmed that although the government has recently been saying that it would ban the import of steel products to boost the demand for locally made steel products in Nigeria, such intention has not yet been “translated into action” (Anonymous, 2021i, Interview 39). He added that while he is not being unnecessarily pessimistic, but even if such ban is announced he doubted that the smugglers can be stopped given the porosity of the Nigerian

borders and the tendency of “the border officials.. [to be].. settled<sup>82</sup>” (anonymous, 2021i, Interview 39).

Also decrying the lack of any kind of support from governments by way of subsidy, tax holiday and other incentives—themes which frequently recurred in our interviews—other private steel mills operators presented a litany of complaints. These include: the government charging them up to 30% on imported materials (such as cold steel and chemicals) and equipment, banks charging them up to 19% of interest on loans, multiple taxation by the state and federal tax/revenue officials, lack of stable power supply and local patronage, massive smuggling and adverse government policies (Adekoya, 2019; Otayokhe, 2021, Interview 19; Junaid, 2021, Interview 18; Anonymous, 2021h, Interview 34).

However, a General Manager at the ASCL, Umar (2021, Interview 20) argued that the products manufactured by these domestic private steel companies are sub-standard as internal and external quality control and monitoring by regulatory agencies such as the Standard Organization of Nigeria (SON) are weak. But when confronted with this allegation of churning out poor-quality products, all our respondents in these private steel mills denied that they are deliberately producing sub-standard products arguing instead that most Nigerians care more about buying steel products at cheaper rates than the quality the products are made up of (Junaid, 2021, Interview 18; Otayokhe, 2021, Interview 19).

Countering the charge by Umar (2021, Interview 20), Junaid (2021, Interview 18) argued that “*Initially, before the rampant smuggling of Chinese steel products into the Nigerian markets since the late 1990s, the quality of our products measured up to the global standards. However, we realized that Nigerians prefer to buy the poor quality but relatively cheaper Chinese products to our high-quality but relatively more expensive products. This therefore made some of us to alter their quality so that they can sell at prices similar to the imported products in order to survive*”.

However, despite their shortcomings which may pertain to the production of poor-quality products and failure to meet a substantial part of domestic demand accounting only for less than 30% thereof, these private steel companies appear to be the only beacon of hope in Nigeria’s age-old and expensive national drive to develop a vibrant iron & steel industry. In fact, going by a point raised in an

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<sup>82</sup> To ‘settle’ someone (e.g., an official) is a euphemism used in Nigeria to mean to bribe the official into compromising standards/rules.

interview with Umar (2021, Interview 20) that even when the ASCL is completed and became operational, its sustainability can only be guaranteed through a public-private partnership and not a wholly Nigerian state ownership, there potentially appears to be important roles to be played by these private steel firms in the transformation of the Nigerian iron & steel industry. This is more so given that current capabilities in the industry are possessed by these private firms as there is not a single state-owned steel company that is functional now in Nigeria (ibid). Hence, existing private steel companies may have fallen short on many counts, but they still appear to hold better promise in the development of Nigeria's iron and steel industry both in the short and long run. In fact, with the necessary supports and incentives, these private steel mills appear to possess the technological and organizational capabilities to drive a successful industrial policy in Nigeria's iron & steel industry.

Private investment in the industry is growing as confirmed by the Chairman of the African Industries Limited, Mr. Raj Gupta thus, *"We have invested \$500 million in Nigeria. We believe that the steel sector is the backbone of any major economy in the world"*<sup>83</sup>. Similarly, the vice chairman of Aarti Steel Nig. Ltd, Mr Aniket Singal, also confirmed that their company invested N300 billion to construct a cold-rolled mill in Ogun state and that Aarti Steel exports steel products to neighbouring West African countries of Mali, Togo, Benin and Ivory Coast (Business Day, 2017). However, all managers whom we interviewed expressed the need for government to enact policy that will at least compel its ministries and contractors to patronize locally made steel materials as that would greatly help boost domestic demand and production. In fact, in an interview, the chairman of the private steel mills association, Dr. Kamoruddeen Yusuf, made the following appeal to the government:

*"I urge Nigerian government to redirect its policy on the industry because haven (sic) expended close to 40 years experimenting a particular model without result, it should be clear and in fact obvious that the commercial interest of the offshore investors does not match the developmental interest of the Government of Nigeria as well as the industrial aspiration of her citizens."*<sup>84</sup>

Thus, it is clear that while private steel companies are keen on cooperating with the government and possess the capabilities to help in the transformation of the industry, they appear to lack the crucial state support to do so. This, it can be

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<sup>83</sup> See *Business Day*, 2017

<sup>84</sup> See Vanguard Newspaper (24 January 2021)

argued could be due to their lack of political connection which, in turn, could be due to two major factors: one, the nationalities of the dominant players in the industry, and two, the nature of rents/profitability in the industry.

On the first factor, this research found that over 80% of the owners of active/successful private steel companies in Nigeria are foreigners (mostly Indians), and even though some of them have since become Nigerian citizens by naturalization, yet they are still seen and treated as foreigners. Here it is important to state that since the promulgation of the Nigeria Enterprises Promotion (indigenization) Decrees of the 1970s, the Nigerian political/military leadership as well as the citizenry have been distrustful of foreign participation in the productive sectors of the Nigerian economy. In particular, Nigeria has always considered its iron & steel industry as a strategic industry where the state has the leading role to play (Omoweh, 2005). Thus, the neglect of the private steel firms could have been informed by this dynamic. In fact, since the return to democracy in 1999, successive ruling coalitions have made a point of supporting indigenous entrepreneurs/industrialists because of the symbolic political capital they gain therefrom. Also, being of foreign origins means that the political reach of most of these active/successful private steel company owners is very limited. Consequently, these private steel industrialists are unable to successfully lobby for and access industrial policy incentives such as soft loans, tax holidays, and custom duty rebates and other incentives granted to influential industrialists in the cement sector such as Dangote and Abdussamad.

Secondly, the nature/sources of rents in the steel industry is different from the nature/sources of rents in the cement industry. Unlike in the cement industry, in the iron & steel industry *market competition* is the main source of profitability/rents. This market competition is both among domestic steel firms and between domestic firms and established foreign steel companies, and at both product quality and price levels. Thus, like textile products, steel materials have internationally established input and product prices and quality thresholds which are not attained by new firms upon the purchase of technology and the start of production (Lall, 1987, 1992). Rather, these thresholds are often attained through the gradual accumulation/attainment of factor productivity, economies of scales, and the cultivation of a gamut of capabilities (Khan, 2013a)<sup>85</sup>. This not only result in few surplus rents especially in the short term but also makes the harnessing of

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<sup>85</sup> Khan (2013a) develops a model that explains in some details the catch-up problem for firms in developing countries which essentially have more to do with differences in the productivities of production factors than with the purchase and installation of industrial machines and equipment.

profits/rents in the steel industry both difficult and protracted. Consequently, these active/successful steel producers, unlike cement industrialists such as Dangote and Abdussamad, do not have surplus rents to contribute to political financing in exchange for favourable iron & steel policies that align with their incentives, and hence, have the potential to engender the industry's transformation. This may not be unconnected to their foreign origins as well as as well as the nature/sources of rents/profitability in their industry of operation which severely limit their political reach and influence on policy design and enforcement. Moreover, because the Nigerian state has historically considered the iron and steel industry to be of strategic national/security importance, it is little wonder that foreigners who are the dominant industry players that possess the capabilities to drive the industry to success are not given the requisite political, policy, and material supports to do so.

However, as observed by the chairman of the private steel companies, Dr Kamoruddeen Yusuf, Nigeria seriously needs “*to redirect its policy on the industry*”<sup>86</sup>. Detailed exposition of the policy approach for this re-direction and other recommendations on how Nigeria's iron & steel industry can be transformed is provided in the next chapter 9 (Conclusion and Recommendations)

## **8.5 Conclusion**

The chapter explored the nature of the iron & steel industry and reviewed the historical evolution of the industry in Nigeria from the late colonial period to date. Particular emphasis has been placed not only on the development of state-owned iron & steel companies like the Ajaokuta Steel Company Limited (ASCL) but also on private steel mills. Using the political settlement framework and the concept of rents space, the main objective was to identify the political economy factors and forces that led to the failure of iron & steel policies in Nigeria. The factors found to have led to the persistent failures of steel development policies in Nigeria are rent-seeking and capture activities, poor/insufficient supply of critical infrastructural facilities (especially electricity and transport network), and complete dependence on foreign capabilities. Consequently, multi-billion-dollar investments in state-owned iron & steel companies only led to the installation of some physical machines and equipment as shown in the pictures above. Rent capture activities manifest itself in the award of fictitious/inflated contracts and fraudulent concessions to incapable firms by successive ruling coalitions.

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<sup>86</sup> Vanguard (24/01/2021)

Overall, compared to the cement industry where the outcome of industrial policy (the BIP) was positive, the outcome of iron & steel policies for state owned companies has been disappointing mainly due to the following factors: One, the iron & steel (I&S) industry's requirement and adoption of learning, capabilities and routines are relatively more complex. The industry also has its own other peculiarities/idiosyncrasies as outlined in section 8.2.2. and table 36s. These include long gestation period; requirements of heavy capital, skilled labour and very stringent administrative/bureaucratic capabilities from the state; difficulties in attaining competitiveness and productivity, among others. Thus, lacking in the complex capabilities required for iron & steel manufacturing, Nigeria has been compelled to rely on foreign skills and capabilities from Russian, American and Western European partners for feasibility studies, construction, technical/consultancy services etc. However, the commitments of these foreign countries to the development of Nigeria's iron & steel industry have often been questioned, with geopolitics also playing its role as seen recently in the decision of the UK to agree to revamp the ASCL for Nigeria for free following the doctrine of force majeure Nigeria recently invoked on the 2019 agreement it signed with Russia for the revitalization of Ajaokuta.

However, amid the abysmal failure of state-owned, large-scale, and integrated iron & steel companies in Nigeria, there are around 40 small to medium-scale private steel companies that are active/successful and collectively process around 1.5m tonnes of scrap metal into structural steel for construction purposes. These private steel companies are mostly owned by foreigners (predominantly Indians). While these private steel companies are the industry's beacon of hope, they face many challenges including erratic electric power supply, prohibitively high costs of energies, multiple taxation, and lack of any tangible material and fiscal supports from government. The neglect of these islands of success, it is argued has to do with the dominance of foreign nationals in the industry. Mostly Indians, the owners of these active/successful private steel companies appear to possess the crucial skills and capabilities required for profitable steel manufacture and the transformation of the industry. However, being largely of foreign origins, the owners of these firms lack the political reach/connection to influence the design of incentive-compatible iron & steel industrial policies and their enforcement. Additionally, active/successful private steel industrialists are, like their counterparts in the textile industry, effectively *workhorses* whose main sources of profits/rents come from *market competition* rather than from regulatory rents that are created and harnessed in the cement



industry through the discretionary actions/inactions of successive ruling coalitions. As a result, private steel companies are again constrained in that, after accounting for production costs and taxes, they are left with very little, if any surplus rents to spare for financing ruling coalitions/elites in exchange for favourable iron & steel policies. As indicated in the analysis of resource flow in chapter 5 (see figure 9), entrepreneurs of foreign descent have limited connection with patron-clientelist networks. Hence, because it is those who pay the piper that call the tune, these private steel company owners lack the leverage to influence the design of iron & steel policies that are compatible with their interests, and hence, have the potential of transforming the industry like the case was with the BIP in the cement industry.

## 9 Conclusion

The research uses data gathered from structured/semi-structured interviews, archives, and other documentary sources to explore the comparative performance of industrial policies in three historically important Nigerian industries—cement, textiles, and iron & steel (Chapter 3 details the research methods/design). Since 1950s, Nigeria has pursued the goal of industrialization (see Williams, 1965; Kilby, 1969). However, despite the adoption of diverse policy regimes, the attainment of such a national objective has remained elusive. This prompts the question of why has Nigeria failed in its industrialization drive? Existing research attribute the failure of industrial progress in Nigeria to a number of issues such as inadequate infrastructure (especially unstable supply of electricity and lack of access to affordable sources of capital and energies), lacked of skilled labour, the lingering effects of SAPs, the Dutch disease, corruption, and the problem of collective action (see Williams, 1965; Kalu, 1987; Onyeiwu, 1997; Egwaikhide, 1997; Lewis, 2007; Andrae & Beckman, 1999; Olusi & Olagunu, 2005; Maiwada & Renne, 2013; Muhammad *et al.* 2018). In many respects, these conclusions stand to reason. However, this research sets out to explore the performance of industrialization policies in Nigeria through the application of the political economy approach. Specifically, the research applied the political settlement (PS) framework and the concept of rents space and the technological capability (TC) theory.

The failure of neo-liberal economic policies, introduced in developing countries since 1980s, to catalyse the industrialization of these countries led to the development of several theories trying to identify the key determinants of economic/industrial development. The NIEs emerged within the neoclassical paradigm and argue that the rules of economic transactions and political interactions (institutions) are what matter for economic/industrial development (see North, 1981,1993, 1995; North & Weingast (1989); Acemoglu & Johnson (2004); Acemoglu & Robinson, 2012). In some countries, rules/institutions are inclusive and hence grant the citizenry open access to economic and political opportunities to realize their potentials and result in overall economic/industrial development (North, Wallis & Weingast, 2009; Acemoglu & Robinson, 2012). In others, these rules/institutions are extractive and hence limit people's access to economic and political opportunities thereby stifling their potentials and stunting overall economic/industrial development (*ibid*). Evidence of economic/industrial development do not, however, support the agency of a common set of

economic/political institutions in the growth processes (Khan, 2007). For instance the evidence from successful industrializers in East Asia indicate that different institutions and policies can be used to successfully address similar problems (Khan, 2010). Hence, against this backdrop, Khan (1995, 2010, 2018) suggests that the performance of institutions and industrial policies is subject to, the distribution of power and responses of organizations affected by these policies—or the political settlement (PS).

Since the introduction of the PS concept in to development scholarship by Khan (*ibid*), there has been an explosion of research work applying the framework to study the performance of policy institutions within and across countries (see *inter alia* Hickey *et al.*, 2015; Whitfield *et al.*, 2015; Abdulai & Hickey, 2016; Aremu *et al.* 2016; Kelsall, Hart & Laws, 2016; Hickey & Izama, 2017; Cameron & Naidoo, 2016; Khan, 2017; Roy, 2017; Andreoni, 2017; Bebbington *et al.*, 2018; Frederiksen, 2019; Behuria, 2019; Ampratwum, Awal & Oduro; 2019; Kelsall, 2020; Mondliwa & Roberts, 2021; Klopp, Wekesa & Ziraba, 2022; Teye & Nikoi, 2022). However, different authors conceptualized and applied the PS approach differently (see Chapter 2 for a critical review of the different conceptualizations and applications of PS). Moreover, scrutinizing the literature more closely shows that existing application of the PS approach mainly focus on the political organization of ruling coalitions' dimension of Khan's PS theory to the neglect of the second dimension that emphasizes on the distribution of capabilities and holding power of productive capitalists and their impact on policy performance. Hence, methodologically, this research contributes to the literature by emphasizing on this second PS dimension. Also, as observed by Kjær (2015), variability in industrial policy performance among different sectors of the same economy, or the question of why some productive sectors are promoted (or succeed) while others are not (or fail), have received less attention in the literature. Hence, this research further contributes to the literature in this direction.

To ensure rigours in the explorations and analyses of my case-study industries, the PS framework has been triangulated with the concept of rents space (Pritchett, Sen & Werker, 2018) and the technological capability (TC) theory (see Penrose, 1959; Nelson & Winter, 1982; Lall, 1987, 1992, 1993, 2000b, 2004; Lall & Pietrobelli, 2002). The rent space examines the private sector in developing countries from two dimensions, that is, by looking at the types of markets (domestic or foreign) targeted by entrepreneurs and the major sources of profitability/rents (regulatory or competitive) in those markets/sectors. Based on

these dimensions, entrepreneurs are classified into *rentiers*, *magicians*, *powerbrokers*, and *workhorses*. The TC theory locates firms' performance within the internal dynamics of their capabilities, routines and learning processes (see Penrose, 1959; Nelson & Winter, 1982; Lall, 1987, 2004). The preliminary chapters 2 (Literature review) and 4 (Theoretical framework) provides the details of these approaches, and using the insights from these chapters and the literature on Nigeria's political economy, chapter 5 maps out the evolution of Nigeria's political settlement.

Therefore, using the PS framework and insights from the concept of rents space and the TC theory, this research set out to find answers to three crucial questions as outlined in the introductory chapter thus: (i) what are the factors/policies that have shaped the evolution and development of the cement, textiles, and iron & steel industries? (ii) what are the factors/forces that might have accounted for the divergences in the outcomes of industrial policies in these three industries? and (iii) what feasible and pragmatic policy measures can be recommended to improve policy performances in the case-study industries and Nigeria generally to facilitate industrialization and economic development?

Regarding the research's first question, it has been found that a number of factors have shaped the evolution/development of the case-study industries. These include: the cement Armada of 1974, the oil booms of the 1970s, the Nigerian Enterprises Promotion (indigenization) Decree of 1972/77, the Structural Adjustment Program (SAP) of 1986, and the series of shady concessions on the Ajaokuta Steel Company Limited (ASCL). For instance, buoyed by the inflows of huge oil revenues from the first oil boom of 1972/3, Nigerian military leaders, instead of expanding local cement production capacity went ahead to indiscriminately award contracts for the importation of cement totalling up to \$900 million<sup>87</sup>. Curiously, not even the Nigeria ports had the capacity to handle the 16.23 million tonnes of cement to be imported as evidenced by the huge congestion caused by cement cargos at the time. This, we found out, adversely affected local capacity expansion, technology upgrade and learning. Also, we found out that while the oil booms of the 1970s had permitted investments in industry, it also had the unintended adverse effect of altering relative prices between tradable goods (agricultural products and manufactures) and non-tradables (services and construction). This made manufacturing uncompetitive, although this was initially masked by the impact of oil-fuelled

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<sup>87</sup> See Marwah (2018)

subsidies and inflation during the boom. However, with the end of the boom in the early 1980s and the adoption of structural adjustment measures, it soon emerged that the Nigerian industries had not developed the necessary productivity to compete with their foreign counterparts in a liberalized market. It has also been found out that the indigenization decree of 1972/77 was counterproductive, as it only led to the departure of foreign investors at a time when there was no evidence of any meaningful and diffuse transfer of technologies and learning to Nigerians. In fact, at that time, neither the emerging Nigerian capitalists/industrialists (both state and private) nor floor operatives appeared to have acquired the necessary technological and organizational capabilities required for sustainable growth of industries. Finally, the introduction of SAP in June 1986, at a time when the cement, textile, iron & steel and other Nigerian industries had not developed productivity and competitiveness, appeared to have sounded the death knell for industries in Nigeria. However, while efforts at policies for the revival of the cement, textile and iron & steel industries have since been on, it is only recently that Nigeria appears to have succeeded with the transformation of the cement industry. But, the puzzle is, in contrast to the transformation of Nigeria from being cement-import dependent to self-sufficient cement producer, Nigeria still depends on imported textiles and steel products. This is despite the adoption of similar policies for these industries' transformation; hence, the second research question I explored is: what could possibly have accounted for the success in the cement industrial policy and the failures of the textile and iron & steel policies?

On this second research question, this research recognizes the importance and instrumentality of the factors identified in existing research as bottlenecks to the success of industrial policies in the textile and iron & steel industries (see the factors highlighted above). However, this research nuances the existing explanation by looking at how political settlement dynamics and firm/industry-specific characteristics might have accounted for divergences in policy performance among the case-study industries. Thus, applying the PS framework and the concept of rents space to the analyses of data from documentary sources, structured and semi-structured interviews, the research found divergences in the outcomes of industrial policies among case-study industries could be attributed to the following three factors:

- (i) Differences in the requirement, adoption and implementation of learning, capabilities, and routines among industries.

- (ii) Differences in the capabilities (financial, investment, managerial, technological, and organizational) of entrepreneurs among the industries.
- (iii) Differences in the importance of entrepreneurs to ruling elites/coalitions in terms of political/campaign financing, which is based on the nature of rents (regulatory/discretionary or market-competition based) in particular industries.

On (i) above, it was found that the cement, textile and iron & steel industries differ in terms of their requirements, adoptions and implementation of learning, capabilities and routine, gestation periods, nature of products, types/duration of rents delivery, capital/labour intensity and other parameters as summarised in the following table:

TABLE 35 DIFFERENCES AMONG THE CEMENT, TEXTILES AND IRON & STEEL INDUSTRIES.

Cement	Textile	Iron & Steel
•Resource-based (RB) industry	•Low technology (LT) industry	•Medium technology (MT) industry
•Standardized products (only 3 cement grade types: 32.5, 42.5 and 52.5)	•Constantly differentiated products with changing specifications	• Constantly differentiated products with changing specifications
•Requires/adopt simple/basic capabilities, learning/routines.	•Requires/adopts relatively complex learning, capabilities and routines.	•Requires/adopts relatively more complex learning, capabilities and routines
•Capital-intensive	•Labour- and capital-intensive	•Highly capital- and skilled labour-intensive
•Short gestation period	•Short gestation period for individual segment but could be long if the whole segments (upstream, mid-stream and downstream) are considered	•very long gestation period
•Limited externalities, linkages, skills, and technology transfer	•Some externalities, linkages, skills and technology	•Very diffuse and dense externalities, skills and linkages with other sectors leading to industrialization.
•Productivity and Competitiveness may be <i>easier</i> to attain and take relatively <i>shorter period</i> to achieve	• Productivity and competitiveness are relatively <i>difficult</i> to attain and take relatively <i>longer period</i> compared to cement to achieve international standards.	•Productivity and competitiveness are <i>more difficult</i> to attain and take <i>very long period</i> to reach the global frontier.
•Demands <i>less stringent</i> administrative and bureaucratic capabilities from the state	•Demands <i>more stringent</i> administrative and bureaucratic capabilities from the state	•Demands <i>very stringent</i> administrative and bureaucratic capabilities from the state
•The main source of profitability is through <i>discretionary/regulatory rents</i> .	•The main source of profitability is through <i>market competition</i> .	•The main source of profitability is through <i>market competition</i> at the technology, products, price and production costs-effectiveness levels
•Delivers rents in the <i>short term</i>	•Delivers profits/rents in the <i>medium/long term</i>	•Delivers rents in the long term
•Simple value chains (integrating backward to a natural resource—limestone) that are easier to coordinate.	•Relatively more complex value chains (integrating backward into cotton farming, spinning and weaving before final fabric production) that are difficult to coordinate and hence few countries specialize in all the chains.	• Very complex value chains (integrating backward into iron ore mining and beneficiation and forward into steel making, vehicles, electrical, electronics, and chips production)
•Few players make collective action and rents arrangement easier	•Diverse and discrete players make collective action and rents sharing arrangements difficult to strike with bureaucrats and ruling coalitions.	•Usually started and owned by governments due to huge capital outlay which makes it prone to rent-seeking/capture activities, government failure, and long-gestation.

Source: Author's

These differences among our case-study industries, it was found, have significantly impacted on the performance of policies targeted at the industries. Specifically, in contrast to the textile and iron & steel industries, the cement industry was found to be the simplest in terms of its technology and requirement of capabilities; hence, the success of the Backward Integration Policy (BIP) can be explained in part by these differences.

On (ii), the research found that the financial, investment, technological, organizational, and other critical capabilities of entrepreneurs/industrialists in particular industries differ and could have accounted for the success or failure of industrial policies in the respective industries examined. For the cement industry, it was established that entrepreneurs such as Aliko Dangote and Abdussamad Isyaku Rabi'u not only had access to financial resources for investment in fixed assets in the cement industry, but also, by virtue of their decades of experiences in import/export businesses and manufacturing/processing of light consumer goods such as sugar, pasta, rice and other staples, they had already acquired some investment, technological and organizational capabilities to deploy in the transformation of the cement industry. This contrasts sharply with the story of both state and indigenous Nigerian investors with substantial dominance in the large-scale textile and many small- to medium-scale steel companies. Indigenous Nigerian industrialists (both state and private)—especially those who had acquired controlling shares in manufacturing firms following the promulgation of the (in)famous indigenization decree of the 1970s—did not appear to possess the requisite investment, technological and organizational skills and capabilities to partake in productive and profitable manufacturing. In fact, indigenous Nigerian capitalists are historically known to be the poster children of the state specializing merely in commerce, contracts, and import/export businesses (see Forrest, 1995; Lewis, 2007).

However, it is interesting to note that in both the textile and iron and steel industries, there are still some islands of success exemplified by active private industrialists who, despite numerous challenges, still operate and even break even in their small-scale manufacturing activities. However, most of these successful/active small-scale private textile and iron & steel companies were found to be predominantly owned by foreigners with very few Nigerian (state and private) ownership. This buttresses the submission that the capabilities of entrepreneurs/industrialists in particular industries also explain the performance of policies in the industries. Why the islands of success in the textile and iron & steel industries have not driven the transformation of their respective industries



despite their possession of financial, technological and organizational capabilities associated with the success of the cement industrialists, is addressed by my third finding.

Because of huge *regulatory rents* in the cement industry—initially created and harnessed via the restriction of cement imports and award of import licenses to well-connected entrepreneurs, and later through heavy protection, tax incentives/evasion and disproportionate distribution of earnings—cement entrepreneurs such as Dangote and Abdussamad Rabiu have been generous financiers of successive ruling coalitions from 1999 to date (Kura, 2011; Africa Report, 2015; Wikileaks, 2005). This, I discovered, has conferred considerable political influence on especially Dangote who appeared to have leveraged on such to influence the design and enforcement of the Backward Integration Policy (BIP). This contrasts strikingly with the situation of many active/successful small-scale private textile and iron & steel entrepreneurs. Despite possessing capabilities that may be comparable to those of the cement entrepreneurs, this category of entrepreneurs are lacking in the requisite political connection, which are needed to influence the design and effective enforcement of industrial policy institutions in their respective industries of operation. This, I found out, was mainly due to two fundamental reasons. One, unlike the cement industry, rents/profitability in the textile and iron & steel industries come mainly from *market competition* at internationally defined costs, prices, and quality thresholds rather than from the regulatory/discretionary (in)actions of government. This implies that productivity and competitiveness are relatively difficult and take longer time to attain in the textile and iron & steel industries, and even if such are attained, the rents harnessed are not as substantial to allow for any significant political financing by the few active/successful private textile and iron & steel firms still in operation. Therefore, with very little, if any, rents to spare for financing ruling coalitions, these few active/successful textile and iron & steel firms have very little influence to exert on the design and enforcement of industrial policy institutions in their respective industries. Two, the research also found that these few active/successful textile and iron & steel industries are largely owned by foreign nationals (Indians, Lebanese and a few Chinese), which also means that they have limited political reach and symbolic importance to ruling coalitions. For obvious electoral/nationalistic reasons, ruling coalitions in Nigeria prefer to promote industries with the substantial participation of indigenous capital. However, the problem is, the indigenous capital in the textile, iron & steel and indeed other industries do not appear to have acquired the

requisite technological and organizational capabilities to drive structural transformation in their industries of operation for some reasons. For e.g., acquiring controlling shares in firms/industries since the enactment of the indigenization decrees of the 1970s, these indigenous Nigerian capitalists/entrepreneurs have been over-pampered through subsidies and other state supports. As for the state-owned textiles and iron & steel companies, the research discovered that pervasive rent-seeking and capture activities have been their main bane of these firms. Distributive politics was also found to have interfered in the appointment of managers and board of directors of state-owned companies.

Moreover, although various kinds of learning rents (e.g., subsidies, tax incentives, import duties rebates, protectionism) have been provided in all three industries, it emerged that those learning rents were only effective/successful in the cement industry. This, it has been argued, is because of the discipline and compulsion imposed by private entrepreneurship which are part of their capabilities that the state in Nigeria lacks. Direct state participation in the cement, textile and iron & steel industries failed because, unlike private entrepreneurs, the state in Nigeria lacks discipline and the capabilities to instil compulsions, monitor efforts and reward/punish performing/non-performing managers/firms accordingly. Thus, it is little wonder that in all three industries islands of successes are predominantly represented by private entrepreneurs/firms because they possess critical capabilities which, due to collective action problem, the Nigerian state lacks (see Lewis, 2006, 2007). Nursed on generous unconditional rents from the state, indigenous Nigerian entrepreneurs, created out of nationalistic sentiment and the exigencies of distributive politics, also lack these discipline, compulsions and capabilities. The obvious implication of this is that Nigeria's structural transformation is to a great extent contingent on private entrepreneurship, and the Nigerian political leadership has to muster the courage to carry all capable entrepreneurs along irrespective of their nationalities. Here the public has to be sensitized about the role of foreign capital in Nigeria's march to industrial development so that some consensus are built around the need for government to provide level playing ground for all capable entrepreneurs.

Finally, with the valuable insights gained during this research, our last research question (iii) on 'what feasible policy measures can be recommended to improve industrial policy performance in the case-study industries' has been addressed through detailed policy recommendations in **appendix 2**. The research and its findings are significant in many respects. *First*, it is a valuable addition to

what Kjær (2015) observed to be the few PS literatures that investigates variability in industrial policy performance among different sectors of the same economy. *Second*, existing literature's underemphasis on Khan's second dimension of PS that relates to the distribution of capabilities and holding power of productive capitalists and their impact on policy performance has also been rectified by this research. *Third*, although the case-study industries are the most important in Nigeria's industrialization quest, yet, to the best of the author's knowledge, this is the first attempt to explore the comparative performance of policies in these industries, and not only historically but also analytically via the application of the PS approach and the concept of rents space and TC theory. In fact, overall, there exist very few research on the case-study industries. *Fourth*, and finally, the findings of this research could not be timelier and more significant to Nigeria as it currently attempts to diversify away from overreliance on exports of fossil fuel into manufacturing. However, the research also has its limitations. Among others, the fieldwork for the research coincided with the outbreak of the Covid-19 pandemic and the resultant lockdown measures, which adversely affected the initial research plan. Scheduled visits to companies for interviews had to be cancelled and rescheduled, leading to the loss of precious time, and conducting some interviews via the phones. Establishing contact with some high-profile respondents initially proved very difficult and frustrating for the researcher. The lockdowns also had its psychological impact on the researcher as it did on many people across the globe. Back and forth travels on insecure roads for interviews/data collection was also very tedious, costly, and risky for the researcher. Mercifully, as Shakespeare would say 'all's well that ends well'.

## Appendix 1: Chronology of Research on Political Settlement

*SOME SELECTED WORKS THAT APPLIED THE POLITICAL SETTLEMENT (PS) FRAMEWORK AND THEIR FINDINGS/CONCLUSIONS.*

S/N	Author	Year	Methodology	Case Study		Highlights/Findings/Conclusions
				countries/regions	sectors/industries	
1.	<b>Khan, M.</b>	2010	Political Settlement (PS)	<ul style="list-style-type: none"> <li>•Thailand,</li> <li>•Maharashtra,</li> <li>•West Bengal,</li> <li>•Bangladesh,</li> <li>•Tanzania</li> </ul>	Maps out the evolution of the macro-political settlements in each country/region	<ul style="list-style-type: none"> <li>• Teases out the political settlement (PS) theory in great details.</li> <li>• Explains the evolution of PS in case-study countries/regions as per the thrusts of the theory.</li> <li>• Applies the PS framework to shed light on the performance of particular institutional experiments in case-study areas.</li> <li>• Concludes that the performance of institutions is a function of the distribution of power and capabilities and the compatibility of that with the distribution of benefits among powerful actors/organizations.</li> </ul>
2.	<b>Khan, M.</b>	2011a 2012 & 2017	Political Settlement	<ul style="list-style-type: none"> <li>•Bangladesh</li> </ul>	<ul style="list-style-type: none"> <li>• Garments</li> <li>• Electronics</li> <li>•Power sector</li> </ul>	<ul style="list-style-type: none"> <li>• Khan (2011a) is an introduction to what would be a detailed study (Khan, 2012) of three case-study sectors (garments, electronics and power generation) of the Bangladeshi economy using the PS framework.</li> <li>• Author further develops the PS theory.</li> <li>• Both Khan (2011a) and 2012 papers explore in details the evolution of political settlements in Bangladesh.</li> <li>• Khan (2012) applies the PS framework to explore the performance of the three aforementioned sectors in Bangladesh.</li> <li>• Author concludes that the designs, enforcements and outcomes of institutional policies in all three sectors depended on the political settlements and the alignment of incentive structures as well as the (non-)existence of compulsions for high efforts. That is, the garment sector was successful because of MFA-induced 'quota rents', the nature of the PS in the 1980s, and the structure of learning financing. For the electronics sector, the nationalist firm failed to absorb financing risks to ensure compulsions, high effort and efficiency. 'Procurement rents' and governance failure resulted in the failure of the power sector.</li> <li>• Khan (2017) and other works under the aegis of the SOAS ACE program deploys the PS framework with a view to finding alternative approach to addressing the problem of corruption in sectors of Bangladesh's economy.</li> </ul>
3.	<b>Khan, M.</b>	2011 b	Political Settlement	<ul style="list-style-type: none"> <li>•India</li> </ul>	<ul style="list-style-type: none"> <li>•Automobile</li> </ul>	<ul style="list-style-type: none"> <li>• Author argues that neither the liberalization model adopted in India after</li> </ul>

					<ul style="list-style-type: none"> <li>•Pharmaceuticals</li> </ul>	<p>1980 nor the <i>dirigiste</i>/'planning' model in existence before 1980 could be solely credited with India's growth accelerations' success after the 1980s.</p> <ul style="list-style-type: none"> <li>• Rather, author argues that India's post-1980 growth bursts could be better rationalized by examining the interactions among politics, economics and the enforcement of institutions and development of capabilities via the application of the PS framework.</li> <li>• Concludes that <i>dirigiste</i> policies before 1980s led to significant development of capabilities in the two industries, however, the nature of India's PS at the time did not allow for enforcement of institutions for achievement of global competitiveness. Hence, the adoption of liberal policies after 1980 only built on these earlier efforts by facilitating competition with the shift to competitive clientelist settlement.</li> </ul>
4.	<b>Whitfield, L.</b>	2011a & 2011b	Political Settlement	<ul style="list-style-type: none"> <li>•Ghana</li> </ul>	<ul style="list-style-type: none"> <li>•Mining</li> <li>•Cocoa</li> </ul>	<ul style="list-style-type: none"> <li>• In both DIIS working papers, the author maps Ghana's political settlement before applying the PS theory to answer the question of why Ghana's impressive economic growth statistics since the 1980s was biased against the productive/industrial sector of the West African country?</li> <li>• Adapting Khan (2010)'s PS framework, the author suggested that policy choices by ruling elites were informed by survival strategies which, in turn, were shaped by the nature of distribution of power within ruling coalitions and outside it as well as between ruling coalitions and productive capitalists.</li> </ul>
5.	<b>Whitfield, L. and Buur, L. 2014 &amp; Whitfield et al. 2015</b>	2014 & 2015	Political Settlement	<ul style="list-style-type: none"> <li>•Mozambique</li> <li>•Ghana</li> <li>•Tanzania</li> <li>•Uganda</li> </ul>	<ul style="list-style-type: none"> <li>• Sugar</li> <li>• Cocoa bean</li> <li>•Palm oil</li> <li>•Rice</li> <li>•Fisheries</li> <li>•Dairy</li> </ul>	<ul style="list-style-type: none"> <li>• Using the PS framework and thorough studies of the case-study countries/industries, the authors developed three conditions for the successful implementation of industrial policy as well as discuss the politics that produces those condition.</li> <li>• Thus, the authors suggested that successful structural transformation happened in sectors where: the <i>mutual interests</i> of ruling elites and those of the sector's capitalists coincide; there is <i>pockets of efficiency</i> in the state bureaucracy such that officials have the expertise to design and implement policies; and <i>learning for productive</i> development, as opposed to rent capture activities, has to take place in supported sectors.</li> </ul>
6.	<b>Gray, H. S</b>	2012, 2013, & 2018	Political Settlement	<ul style="list-style-type: none"> <li>•Vietnam</li> <li>•Tanzania</li> </ul>	<ul style="list-style-type: none"> <li>•Public finance</li> <li>•Land management</li> </ul>	<ul style="list-style-type: none"> <li>• Author argues that both Tanzania and Vietnam were characterized by what she termed as 'socialist political settlement'. This shaped the evolution of the PSs in both countries which in turn affected the</li> </ul>

					<ul style="list-style-type: none"> <li>•Industrial policy</li> </ul>	<p>processes of redistribution, primitive accumulation and technology acquisition.</p> <ul style="list-style-type: none"> <li>• Both countries were ruled by cohesive socialist dominant parties which designed and implemented policies and channelled resources to support economic activities, however, the outcomes of policy reforms and institutions in finance, land management and industries differed in both countries due to significant differences in the distribution of power outside the formal institutions in the two countries.</li> <li>•Both countries did not fare better due to failure to manage rents judiciously.</li> <li>• Drawing from Gray (2012, 2013), Gray (2013) also adopts the PS framework to make the case that Tanzania’s high growth in manufacturing since the mid-1990s cannot be solely rationalized or explained by the country’s later adoption of liberalization policies. Rather, Tanzania’s PS during the socialist era allowed for the enforcement of critical policies that lay the foundation for a robust state-capital relations even during the liberalization period.</li> </ul>
7.	Roy, P.	2013	Political Settlement	<ul style="list-style-type: none"> <li>•Gujarat,</li> <li>•Tamil Nadu</li> <li>•Pakistan</li> </ul>		<ul style="list-style-type: none"> <li>• Author applies the PS framework to unravel the puzzles of the differences in institutional policy outcomes in Gujarat, Tamil Nadu and Pakistan post-1980. These puzzles pertain to the high growths recorded in Gujarat between 2001 and 2013 and Tamil Nadu—although with limited capability development in the former state compared to the latter.</li> <li>• Using the PS approach, the author argues that Gujarat’s impressive industrial growth record could be attributed to the enforcement capabilities of the BJP-led government under Chief Minister Narendra Modi whose party’s use of the instrument of violence against Muslim minority served as an effective signal of government’s capabilities to enforce policy institutions. However, the vulnerabilities of the BJP as an authoritarian dominant party could not allow for the effective enforcement of conditionalities on learning rents. This, according to the author, limited the extent of capability development in Gujarat’s industrial sector. For Tamil Nadu, high industrial growth was achieved both before and after liberalization despite its intense clientelist competition because the two major parties “share a common ideology and mobilize almost identical social groups” in addition to sharing a common industrialization objective. Finally, the author concludes that despite its adoption of good governance</li> </ul>

						agenda and liberalization policies, Pakistan posted low economic growth rates. This, the author argues, has to with 'legitimacy crisis' faced by successive ruling coalitions due to alliance with the USA and the resultant violence that affected institutional performance.
8.	<b>Oduro, F., Mohammed, A., &amp; Ashon, M.</b>	2014	Political Settlement	•Ghana	•Mapping of Ghana's PS	<ul style="list-style-type: none"> <li>•The paper maps Ghana's PS</li> <li>•It identifies the key actors/organizations in Ghana that shape the evolution of its PS</li> <li>•It qualifies Ghana's PS as 'competitive clientelist' and hypothesizes about how that can affect inclusivity and development in both the short- and long-terms.</li> </ul>
9.	<b>Qadir, U.</b>	2015	Political Settlement	•Pakistan	•Automotive	<ul style="list-style-type: none"> <li>• The thesis applied the PS framework to explore the performance of Pakistan's automotive industry</li> <li>• Author discovered that potentially growth-enhancing rents channelled for the growth of Pakistan's automotive industry were subjected to contests by fragmented clientelist interests groups in a PS characterized by "low levels of political stability" and incessant regime changes. Vulnerabilities of successive regimes also made them overlook primitive accumulation and rent capture activities in the industry thereby sacrificing long-term economic plan/growth for short term regime survival. This weakened the industry's propensity to develop capabilities for global competitiveness. However, with proper alignment of incentives to reflect the nature of Pakistan's clientelist settlement, the author argues, capability in the industry could be improved.</li> </ul>
10.	<b>Kjær, A. M.</b>	2015	Political Settlement	•Uganda	•Dairies •Fisheries •Agric Advisory services	<ul style="list-style-type: none"> <li>• Using the case study of the three Ugandan sectors, the author found that ruling coalitions promoted sectors whose entrepreneurs have important relationship with them in terms of enthroning or maintaining their coalition in power. This, Kjær found out, was the case in the dairy, but not in the fisheries and agricultural advisory services, sectors.</li> </ul>
11.	<b>Behuria, P. and Goodfellow, T.</b>	2016	Political Settlement & the Deals space (Pritchett & Werker, 2013; see also Pritchett, Sen & Werker, 2018)	•Rwanda	•Coffee •Mining •Construction •Financial services	<ul style="list-style-type: none"> <li>• Applying the PS approach, the authors characterize Rwanda's political settlement as one that approximates to <i>potentially developmental coalition</i> due to the weaknesses of excluded lower-level and opposition factions. This, they argue, not only seamlessly aligned the interests of the Rwandan ruling coalitions with long-term growth but also empowered the coalition with strong capabilities to enforce policy institutions.</li> <li>•Authors analyses state-business relationships through the application of the deals space concept where the striking of</li> </ul>



						ordered, rather than disordered, deals characterized the relations between ruling coalitions and entrepreneurs in Rwanda. This resulted in Rwanda's growth in manufacturing.
12.	<b>Abdulai, AG and Hickey, S.</b>	2016	Political Settlement	•Ghana	• Education	<ul style="list-style-type: none"> <li>• Authors discovered that the distribution of power within Ghana's ruling coalitions among various regions determines the allocation of public goods and services. The evidence for this was gathered from their investigation of Ghana's school feeding program which was supposed to target the poor and educationally disadvantaged northern districts/regions, but did not because of the weak holding power of northern political actors within the New Patriotic Party.</li> <li>•Authors, therefore, question the potentials of democracy in driving development under a clientelist setting such as Ghana's and the rest of Sub-Saharan Africa.</li> </ul>
13.	<b>Kelsall, Hart &amp; Laws</b>	2016	Political Settlement	<ul style="list-style-type: none"> <li>•Vietnam</li> <li>•Kyrgyzstan</li> <li>•DRC</li> <li>•Myanmar</li> <li>•Bangladesh</li> <li>•Indonesia</li> </ul>	•Universal Health Coverage (UHC)	<ul style="list-style-type: none"> <li>•Using the PS approach, the authors show that the success of case-study countries in achieving the goals of the UN's UHC is affected by the configuration of power in particular countries which in turn affect the extent of particular countries' "political commitment, policy pathways, funding and governance arrangements" towards the implementation of the UHC policy. This, the authors conclude, albeit cautiously, determines the performance of countries in attaining the UHC's goals/objectives.</li> </ul>
14.	<b>Languille, S.</b>	2016	Political Settlement	•Tanzania	•Education (textbook provisioning)	<ul style="list-style-type: none"> <li>• Author uses the PS approach to analyse how Tanzania's political settlement brought about a change in textbook provision policy.</li> <li>•The change in policy was informed by the evolving distribution of power and capabilities among ruling coalitions, business elites, bureaucrats and donors in Tanzania. Each of these actors was found to have an interest which was at variance with the nurturing of local textbook producing companies.</li> </ul>
15.	<b>Roy, P.</b>	2017	Political Settlement	•Nigeria	•Anti-corruption	<ul style="list-style-type: none"> <li>•Author begins with an overview of the major sectors and growth drivers in Nigeria.</li> <li>•Author maps out the evolution of Nigeria's PS from post-independence period to date.</li> <li>•Investigates corruption in Nigeria in the oil sector and examines the performance of conventional anti-corruption measures to address the problem.</li> <li>•Author concludes that with the failure of conventional anti-corruption strategy to be proactive and effective, there are ample "strategic opportunities" in adopting horizontal, sector-centric, incremental and pragmatic measures to complement the top-down, vertical approach.</li> </ul>

16.	<b>Andreoni, A.</b>	2017	Political Settlement	•Tanzania	•Anti-corruption	<ul style="list-style-type: none"> <li>•Author maps out the evolution of Tanzania's PS overtime</li> <li>•Author argues that John Magufuli's presidency shifted from a "Bulldozer phase" to a "Builder phase" in his second term.</li> <li>•Acknowledging, Magufuli's vertical anticorruption efforts, the author argues that such efforts can be substantially complemented by a horizontal, sector-specific approach.</li> <li>•Based on five major cases of corruption instances in Tanzania which highlight the lack of proactiveness and ineffectiveness of conventional anti-corruption measures, the author concludes by establishing the need for a new horizontal anti-corruption strategy as advocated by SOAS ACE Research Consortium.</li> </ul>
17.	<b>Behuria, P., Buur, L., &amp; Gray, H.</b>	2017	Political Settlement	•Africa	•Review of PS theory and applications in Africa	<ul style="list-style-type: none"> <li>•Authors review the state of the application of the PS methodology to the study of economic, social and political issues in Africa.</li> <li>•They highlight the varied PS approaches used in studying political-economic phenomena in Africa with a view to exploring the nexus between politics and economic change.</li> </ul>
18.	<b>Croese, S.</b>	2017	Political settlement	•Angola	•Housing	<ul style="list-style-type: none"> <li>• Author rationalizes the success of Angola in mass housing construction within the context of a political settlement that concentrates power and patronage in the presidency. It argues that despite Angola's deviation from the standard 'good governance' practices, the PS results in a desirable developmental outcome as per the provision of mass housing during the post-war period</li> </ul>
19.	<b>Cammack, D.</b>	2017	Political Settlement	•Malawi	Maps out Malawi's PS	<ul style="list-style-type: none"> <li>•Author reveals that Malawian elites have since 1994 deployed patronage politics (for social conciliation) and quasi-democratic arrangements to construct a PS that serves their interests at the expense of national economic development.</li> <li>• Four 'critical junctures' (between 1994 and 2014) that underpinned the evolution of such PS in Malawi have also been identified and explained.</li> </ul>
20.	<b>Frederiksen, T</b>	2019	Political Settlement	•Zambia	•Corporate Social Responsibility (CSR)	<ul style="list-style-type: none"> <li>•Applies the PS framework to explain CSR practices among large metal mining companies and how that influence local and national dynamics of governance for natural resource extraction and inclusive development in Zambia.</li> <li>•Author concludes that CSR practices are influenced by the PS in a country which they hardly go against or may even work to entrench to minimize investment risks or improve operational stability.</li> </ul>

21.	<b>Gray, H.</b>	2019	Political Settlement	•Africa	•PS theory and application in Africa	<ul style="list-style-type: none"> <li>•Highlights the differences in the various variants of the PS framework in terms of their core conceptualizations and causal mechanisms.</li> <li>•Divides the PS literature into two major strands: those that view PS as an action and those that view it as a process, arguing that both PS proponents and critiques have to recognize this differences.</li> <li>•Explores how both variants have been applied to the study of economic, social and political phenomena in Africa.</li> </ul>
22.	<b>Tyce, M.</b>	2020	Political Settlement & The concept of rents space	•Kenya	•M-Pesa mobile money	<ul style="list-style-type: none"> <li>• Author argues that the efforts of Kenya's mobile network operators, Safaricom and Vodafone, in successfully creating a mobile money service provider, M-Pesa, cannot be completely rationalized within the theoretical frameworks of either the neo-liberal or the statist models of development. Rather, the author applied the PS and rents/deals space theories to explain the complex political-economic dynamics behind M-Pesa's success.</li> <li>•Author concluded that political, developmental and patronage considerations made successive ruling coalitions in Kenya to shield M-Pesa's parent company, Safaricom. This was because many powerful actors and organizations including the state (through dividends, taxes, and licenses) had stakes in M-Pesa's parent company, Safaricom. Hence, the interests of diverse elite groups were aligned for M-Pesa's success.</li> </ul>
23	<b>Roy, P., Iwuama di, K., &amp; Ibrahim</b>	2020	Political Settlement	•Nigeria	•Electricity	<ul style="list-style-type: none"> <li>•Authors explore the performance of the electricity sector in Nigeria especially since the 2010 privatization exercise.</li> <li>•Authors identify, technical inefficiencies, poor tariff collection strategies, revenue shortfalls and 'legacy' corruption as the major sector problems affecting power supply and demand in Nigeria.</li> <li>•Authors recommended short-to-medium-and long- terms strategies that are based on the alignment of incentives of critical stakeholders for power supply efficiency.</li> </ul>
24.	<b>Usman, Z.</b>	2017 2020 & 2022	Political Settlement	•Nigeria	•Telecommunications. •Oil	<ul style="list-style-type: none"> <li>• Author uses the PS approach to explain the success of the telecommunications sector reform and the failure of oil sector reform in Nigeria since the return to democracy in 1999.</li> <li>•Author found out that the success of reforms in the telecom sector goes beyond the liberalization of the industry. It (the success) also benefited significantly from certain dynamics in Nigeria's PS at the time. These pertain to external constraints in forms of pressure from donors, debt burden, oil shocks and regional competition as well as a push by business elites within</li> </ul>

						<p>the then PDP ruling coalitions who wanted to invest in the telecom industry.</p> <ul style="list-style-type: none"> <li>•In contrast, the author found that the failure of reforms in the oil industry was informed by pressures from distributive politics both at the horizontal (rents for elites and politicking) and vertical (oil subsidy for masses) levels.</li> <li>•Author concludes by examining how disparity in growth distribution between states like Lagos and Kano could affect future political and policy trajectories.</li> </ul>
25.	<b>Wolff, E.A.</b>	2021	Political Settlement	<ul style="list-style-type: none"> <li>•Kenya</li> <li>•Uganda</li> <li>•Rwanda</li> </ul>	•Textile & Apparel/Used clothing	<ul style="list-style-type: none"> <li>• Author applies the PS framework to explain the variations in a 2016 regional commitments to phase out used clothing imports by Kenya, Uganda, and Rwanda.</li> <li>•Author concludes that Kenya and Uganda failed to ‘hold out’ against pressures from USA and other affected groups to rescind the ban on used clothing imports because of vulnerabilities of their ruling coalitions and contestations within them.</li> <li>•In contrast, the strong dominant party in Rwanda successfully ‘held out’ against such pressures by banking on its legitimacy, sensitizing the populace and somewhat compensating policy losers</li> </ul>
26.	<b>Bukenya, B. et al.</b>	2022	Political Settlement	<ul style="list-style-type: none"> <li>•Kampala</li> <li>•Nairobi</li> <li>•Mogadishu</li> </ul>	•Covid-19	<ul style="list-style-type: none"> <li>•Authors examine how the political settlements affected governmental policy responses to the Covid-19 pandemic in low-income neighbourhoods in three East African capital cities.</li> <li>• Authors tentatively conclude that although responses to Covid-19 were almost the same across the three-cities, there were differences in the stringency of Covid-19 response measures. This, they argue, might not be unconnected to differences in the roles of the three cities in their respective political settlements. Being a political threat to President Museveni, Kampala, had the most stringent response. Being a prize to be won by both President Kenyatta and the opposition, Nairobi had a comparatively less stringent Covid-19 measures. Being the sanctuary of the Somali ruling coalitions, Mogadishu had the least stringent anti-Covid measures.</li> </ul>
27.	<b>Chinsinga, B. et al.</b>	2022	Political Settlement	<ul style="list-style-type: none"> <li>•Ethiopia</li> <li>•Malawi</li> <li>•Rwanda</li> <li>•Tanzania</li> </ul>	•Poverty	<ul style="list-style-type: none"> <li>• Uses the PS approach, based on data generated by the ESID program, to argue that political settlements affect the performance of poverty reduction programs in case-study countries through the instrumentality of elites commitments and state-capability.</li> </ul>
28.	<b>Machiko, T.</b>	2022	Political Settlement	• Africa	•PS applications in Africa	<ul style="list-style-type: none"> <li>• The paper reviews the development of the PS theory and surveys the application of the theory in the study of social, political and economic issues in Sub-Saharan Africa.</li> </ul>

29.	<b>Kelsall, T. <i>et al.</i>,</b>	2022	Political Settlement	<ul style="list-style-type: none"> <li>•Rwanda</li> <li>•Ghana</li> <li>•Guinea</li> <li>•Cambodia</li> </ul>	•PS theory development and applications	<p>•Authors attempts to develop the PS theory by generating dataset on “..a method for measuring and categorizing political settlements”. This, the authors argue, will provide a “scientific footing” for “comparative analysis of different types of political settlements and their political and developmental consequences”.</p> <p>•Authours used their dataset to develop a PS model that “predicts” the processes and nexus between political settlements and structural change in case-study countries.</p>
30.	<b>Ndlovu, X. A., Ngwane, Z., &amp; Mongae, M.</b>	2022	Political Settlement	•South Africa	•Mining	<p>• Authors investigate how the adoption of new technologies occasioned by the advent of the Fourth Industrial Revolution may affect the distribution of power between organised labour and mining companies in South Africa.</p> <p>• Acknowledging the role of S.A’s macro-PS in shaping technology upgrade in the mining industry, the paper argues that sustained mechanization of the industry is likely to shift the balance of power away from organized labour to mining companies.</p>

Source: Author’s

## Appendix 2: Policy Recommendations

In this appendix, policies pertaining to the structural transformation of the case-study industries are recommended.

### *On the Cement Industry*

It is indisputable that the replacement of cement imports with local production in Nigeria through the instrumentality of the backward integration policy (BIP) is a feat to be celebrated. Among other things, the development has; facilitated technological learning, created some employment opportunities, and saved Nigeria the foreign exchange that would have gone into cement importation. However, beneath the veneer of all these, the cement industry's transformation appears to, at the very least, be a success still in the making. The industry still requires decisive government action to address the contradictions that accompanied its transformation. Should the industry continue to be protected by government at the expense of both revenue generation and consumer welfare? While it is the case that all successive ruling coalitions, under both the PDP and APC, have been lobbied by the cement producers into protecting the industry from imports, all administrations have also failed to tax cement producers as they should be largely because the producers' have huge political influence which they drive from their deployment of some of the rents they generate in the industry for political financing (see Wikileaks, 2005). This, influence, it has been shown, provides protection and immunity from taxation to the Nigerian cement producers. However, many adverse consequences result from this, for instance the Nigerian cement consumers continue to buy cement at prices that are higher than those obtainable not only in advanced countries' frontier markets but also in other African countries with similar costs of production. Thus, the Nigerian cement consumers buy cement at prices above what would have been the equilibrium if protection was removed. However, the argument officials often give for the continuation of protection is hinged on the jobs the industry provides. This research established that the total number of people employed in the industry is estimated to be around 30,000 people (including truck drivers)<sup>88</sup>. Though the minimum wage for cement workers is higher than the government's minimum wage, yet *“the costs inflicted on the Nigerian cement consumers who have to pay through the nose to buy a 50kg bag of cements far outweigh whatever benefits in salary and allowances that the twenty-five or so thousand cement workers*

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<sup>88</sup> Gwom (2020, Interview 6)

enjoy”<sup>89</sup>. Hence, the rhetorical question was posed “*does Nigeria wants to improve the welfare of a few thousand employees and a couple of cement producers over and above the welfare of millions of other Nigerian cement consumers?*”(ibid).

Hence, to maximize social benefits, the Nigerian government should, in the circumstance, liberalize the cement market thereby by allowing local and foreign cement firms to compete in the market. It is interesting to note that both the management of cement companies and workers do not want the market to be liberalized. In my interview with a senior manager at the Dangote cement factory Obajana, Mr John Gwom, he vehemently dismissed the suggestion for liberalization although he agreed that such decision would augur well for the cement consumers (Gwom, 2020, interview 6). Mr Gwom’s main argument against liberalization was that “*a lot of jobs would be lost and unemployment which is more than 26% now will increase with the attendant consequences of worsening the security situation which is already dire*”. However, a cement consultant, Mr Rotimi Ajayi, dismissed this concern as “self-serving” adding that “*I do not expect Dangote and BUA or any of their staff to find the idea of liberalizing the cement market as palatable because the status quo favours them.*”

However, the challenge seems to be finding a capable government that can be courageous enough to liberalize the cement market in Nigeria. A former director at the Central Bank of Nigeria (CBN) admits that this is “a real problem” because stakeholders in the cement industry have “*influential friends in government circles*”, and so it would be difficult to liberalize the markets. Another public analyst (Isa, 2021j, Interview 36) holds a different view. According to him, “*if the government is put under pressure by members of the public, it will liberalize the market, however, at the moment I don’t see such pressure. You know we Nigerians like to talk and talk and talk but we don’t want to act. We always grumble about the high price of cement, but what have we actually done to change that apart from talking? We must protest to be taken seriously.*” While it is true that the Nigerian cement consumers have not done much in this regard beyond privately grumbling over the high costs of cement products, my investigation reveals that cement producers especially the dominant player (Dangote Cement Plc) have been in the habit of deploying resources to lobby the media and pressure groups to sustain the ban on cement import. Here the assertion of a public analyst (anonymous, 2021k, Interview 37) is worth

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<sup>89</sup> Ajayi (2021(i), interview, 35)



quoting at length, “*Well, you know there is a saying that ‘the mouth that eats doesn’t talk’.* During [the time of] the late president YarAdua, if you recall, there was massive protests led by the NLC (Nigerian Labour Congress) and TUC (Trade Union Congress) over the high prices of cement and other issues. At that time YarAdua almost lifted the ban on cement import but for his worsening health conditions which had him flown abroad at the time. However, what happened when he came back to the country? Not only did the leadership of the NLC and TUC mellowed down on their demand for the lifting of the ban [on cement import], but in an ironic turn of event, the TUC later turned around to honour Dangote for jobs creation! Now, what does that tell you? Was the prices of cement reduced by Dangote to warrant such honour?”. Similarly, Dangote is said to have formed the habit of facilitating the appointment his loyalists<sup>90</sup> as leaders of labour/trade organizations or giving donations to pressure groups with a view to co-opting them into supporting/sustaining policies that are favourable to his businesses (Odijie & Onofua, 2020).

Finally, to maximize social benefits, it can be deduced that Nigeria needs to liberalize its cement market. However, the challenge remains finding the government/ruling coalitions with the capability to do so. While that is not impossible as the example of the YarAdua-led administration demonstrated, the citizens whose welfare have been adversely affected by the ban on cement import and the consequent hike in cement prices also need to act by piling on the pressure on leaders to counterbalance the rent incentives that aid the ban’s sustenance under both the PDP and APC ruling coalitions.

### ***On the Textile Industry:***

Given that almost all state-owned and private indigenous textile firms (e.g., the KTL, Arewa Textiles, Bagauda Textiles, Gaskiya Textiles, Dantext and many others) are comatose and inactive, it is highly recommended that Nigeria should first and foremost commit to carry owners of active textile firms in the country—most of whom are foreigners—along in the design and implementation of textile revival policies. This is important because this category of textile industrialists (of foreign descent) hold better promise and prospects for the transformation of the Nigerian textile industry than the favoured, overpampered but unproductive indigenous (state and private) textile industrialists that appear to be only interested in capturing easy rents. In fact, although indigenous textile producers

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<sup>90</sup> For instance, the president of the influential Manufacturers’ Associations of Nigeria (MAN), Alhaji Mansur Ahmed, is the Executive Director of the Dangote Group (see: <https://www.dangote.com/about-us/mansur-ahmed/>)

possess the political clout or holding power to capture the rents in tax incentives and subsidies that come with textile revival policy interventions, it is indisputable that this group of pseudo-industrialists have failed woefully in deploying these rents to transform the industry. In contrast, although expatriate owners of active textile firms are lacking in the political connection to benefit from policy interventions, yet, against all the odds, they have managed to, not only keep their firms operational but also break even in the process (for example Sunflag, Woolen & Synthetics, Jaykay Carpets & Rugs, and Angel Spinning among others). This, as it was discovered, came mainly due to the fact that these expatriate owners of active textile firms possess some critical skill sets—that is, technological and organizational capabilities for textile manufacture. The Nigerian government or policymakers can leverage on these capabilities to transform the textile industry thereby creating jobs for the teeming unemployed youth in the country, saving foreign exchange that goes into importation and facilitating transfer of technologies and capabilities through the design of a robust industrial policy for the industry.

Moreover, Nigeria’s attempt, under the Cotton Textile and Garment to address the problems of the textile industry from the upstream (cotton farming) through the mid-stream (spinning and weaving) up to the downstream (fabric/garment manufacture) segments all at once appears to be over-ambitiously wholistic and hence infeasible to achieve. Hence, there is a need for a feasible, pragmatic, incremental and sequential approach to addressing the textile industry’s problems. This gradual and sequential approach to structural transformation “can add up to something enormous” in as much as they are consistent (Chang & Montes, 2013).

Therefore, based on insights gained in the course of this research, a gradual and sequential policy approach to transforming Nigeria’s textile industry is outlined in the following table 37. The approach is based on a three-phase plan of incremental/sequential textile policy design and implementation over the course of fifteen years.

TABLE 36 A SEQUENTIAL APPROACH TO TRANSFORMING THE NIGERIAN TEXTILE INDUSTRY

	Phase 1 (1-5yrs)	Phase 2 (6-10yrs)	Phase 3 (11-15yrs)
(1)	Import of finished textile products should be made conditional on demonstration of credible commitment to	Imports of finished textile materials should be phased out.	Imports of all finished textile products should be banned and enforced. By this time, industrialists should have possessed the financial and

	establish textile firms in Nigeria.		political capabilities to lobby for effective enforcement of bans.
(2)	Tariffs/custom duties on the import of cotton lint, chemicals, machineries should be removed	Imports of raw cotton, lint, gray baft, and chemicals should be phased out with pragmatic timelines agreed upon via thorough consultation with textile firms' owners. Custom duties should also be imposed on items that can be procured locally.	Here only imported textile machineries and spare parts should enjoy some rebates on tariffs/custom duties. Imports of other raw materials that can be sourced locally should be completely banned or prohibitively taxed.
(3)	Subsidies in form of extension services and soft credit facilities to be administered by commercial banks (not the Bank of Agriculture or the CBN) should be given to cotton farmers. This should be subject to collateral and with guarantors who MUST be local leaders (e.g., ward heads) who know real cotton farmers. This is to prevent subsidy capture by privileged individuals (as the case now is) who are not cotton farmers.	Successful cotton farmers who repay past loans should continue to receive subsidized credit facilities at minimal interest rate (between 3-5%). Defaulters should be penalized say by having their collateral expropriated.	Soft loans and extension services to cotton farmers (both peasant and large-scale commercial investors) can, and should, still be maintained with strict measures taken against defaulters. The importance of supporting the cotton farmers derive from its trickle-down effects given that over 60% of Nigerians are famers.
(4)	Interest rates on loans to all industrialists (both indigenous and expatriates) should not exceed 5%.	Interest rates for successful textile firms (i.e., those who have demonstrated firm and credible commitment to backward linkages, use of modern technology and production of quality & internationally competitive products) should be remained at most 5%	At this stage, while interest rates may exceed 5%, it has to be ensured that rate is not so high as to affect the profitability of firms and hence, expansion and employments.
(5)	Establish special economic/trade zones where provision is made for critical infrastructure accessible to firms at affordable prices e.g.,	The provision of critical infrastructure should be improved with a robust communication channel/forum between industrialists and government through the	A technical committee (not the CBN or Bank of Industry) comprised of experts should in consultation with industrialists and other stakeholders continue to advise government on the best ways to further support the

	electricity, gas, water and good roads.	intermediation of a strong technical committee established	industry through infrastructural, administrative and other aspects.
(6)	A 5-year tax holiday should be given to all categories of textile mills against the existing discriminatory policy of tax breaks only for textile firms in the mid-stream (spinning) sub-sector of the industry	Successful firms should have another additional 3-5years of tax break granted conditional on capacity expansion, exports, technology and quality upgrade.	At this stage, tax can be imposed, however, local, state and federal tax laws should be harmonized to avoid multiple taxation—a theme that frequently recurred in interviews with textile industrialists who bitter complain thereon.

*Source:* Author's.

To conclude, two important points have to be emphasized. First, going forward, all textile intervention policies should be administered by a strong and independent committee of experts comprising of industrialists, bureaucrats from relevant ministries, department and agencies (MDAs), technocrats, academics and civil society organizations (CSOs). In past and current policy interventions, it has been discovered that appointed/career bureaucrats (e.g., heads of Central Bank, BOA, and BOI officials) were the main policy designers/supervisors. This therefore makes them prone to manipulation by politicians who use their influence to intimidate them into channelling intervention funds to where they are unintended for. A local representative of Cotton Farmers' Association (Anonymous, 2020e, Interview 41) who is part of the coordinators of the loans given to cotton farmers by the Central Bank of Nigeria confided in me that many of the beneficiaries of the loans are not real farmers but people who, by virtue of their connection to politicians, secure the loans for their own private uses. He in particular narrated to me the stories of a beneficiary he knew of who sold the farm inputs/items given to her in loans under the CTG to buy a new car. When I asked him if she was supposed to pay back the loan he replied that “theoretically yes, but in practice most of these loans are rarely paid back in full”. Secondly, all interventions supports should treat indigenous (state and private) as well as expatriate owners of textile firms equally without any discrimination. It has been discovered that although past policies favoured indigenous owners of textile firms against expatriate textile industrialists who have been discriminated against, yet the former category of industrialist fared worse than the latter category. This indicates that any sort of discrimination along these lines would only result in further precious resource wastage and lack of structural transformation in the

industry. Most of the active/successful small-scale textile firms were found to be owned by Indian, Lebanese and Chinese industrialists. These entrepreneurs possessed significant capabilities for Nigeria to leverage upon to transform its textile industry.

### ***On the Iron & Steel Industry***

In Nigeria, the iron and steel industry has for long been considered as ‘the bed rock’ for industrialization. However, as we have seen in the foregoing, all attempts by successive governments to develop the industry have failed due to series of problems such as poor infrastructure, insufficient local capabilities, rent seeking and capture activities that continue to impede the progress of developing state-owned steel companies to this day. Hence, one of the most pertinent questions to address here is how can Nigeria successfully surmount these obstacles on her path to establishing a vibrant iron and steel industry?

From the insights gained in the course of this research, it emerged that for Nigeria to develop its iron and steel industry, it must review and redefine the nature and scope of its engagement with and commitments to the industry. By now, it is obvious that while the Nigerian state has a lot of role to play in the development of the iron and steel industry as was the case in the Asian Tiger economies, a direct investment strategy where the state is the sole provider of finance for the industry appears to hold very little promise in the circumstance for Nigeria. This is more so that Nigeria lacks the basic administrative and bureaucratic capabilities to monitor expenditure and effort and enforce compulsions, contractual terms and conditions. Moreover, politics in Nigeria is based on patron-clientelist exchanges with capital-intensive projects like the Ajaokuta Steel Company serving as a conduit for personal wealth accumulation (Omoweh, 2005). This often undermines the credibility of the commitment of governments to industrial policies as political exigencies often tend to override economic policy consideration. Hence, the state in Nigeria would do better to consider entering into a partnership with private investors or engage with such countries as South Korea, Japan, China based on equal equity participation. Government equity participation has the advantage of allaying fears associated with the risks of expropriation, and easing the problem of cumbersome administrative and bureaucratic red tape that affect investment in developing countries. It also reduces the risks of rent capture as private investors can mitigate the prevalence of rent capture activities often perpetrated by powerful political patrons too strong for ruling coalitions to discipline. On their part, private

entrepreneurs can pile the pressure on government to make credible its commitments to providing infrastructure and support services such as good electricity and transport facilities as well as favourable government policies.

Nigeria also has to draft and execute favourable iron and steel trade and industrial policies to support the nearly 40 small-scale private steel companies that remain in operation in the country. These companies are already organised, and the government has to work closely with them in order to provide them with all the support and empowerment they need. A policy to compel patronage of locally produced steel materials will be very helpful here with enforcement agencies strengthened legally and logistically to enforce compliance. Strengthening the capabilities of the Nigerian Customs service to assist in checking the smuggling of finished steel materials into the country would help greatly boost local steel production capacity according to industrialists and other stakeholders interviewed (Anonymous, 2021h; Ijo, 2021; Junaid, 2021). The Backward Integration Policy also can be introduced in the iron and steel industries where the existing small-scale steel firms can be conditionally supported to integrate backward into iron ore mining. The only word of caution here is for government to ensure it avoids the problems of monopolistic and anti-consumer antics and tendencies associated with the cement industry.

Whether pursuing a private or public or mixed venture model of steel company organization, Nigerian government should tailor the award of learning rents to be based on certain achievable conditionalities or performance index. This, as the industrialization history of the East Asian NICs demonstrated, is critical for inculcating the right compulsions for firms to work towards higher production capacity, productivity and competitiveness. The government must also strengthen its enforcement capabilities. These it does by, among other things, insulating its regulatory and enforcement agencies such as the customs service, industrial policy implementation crew and other agents from undue political pressure or interference. The body responsible for the award of learning rents must be able to reward or discipline firms based on their performance without political interference.

The capability and technical know-how of steel entrepreneurs and Nigerian engineers should also be enhanced by government through subsidization of learning. This can be done through the award of scholarships to Nigerians who want to study engineering, metallurgical sciences and similar courses that are of benefits to the iron and steel industry. This is because of the positive externalities

associated with education and training. Unlike in the past when government sponsored thousands of Nigerian engineers to iron and steel companies in Britain, India and Japan to practically learn and acquire iron and steel making capabilities based on contents or curriculum entirely designed by their instructor-countries, a more robust learning arrangements where Nigeria not only also contributes to the contents of what is to be taught based on needs but also spread incentives in a way that both instructor-countries and trainees put in high enough effort in the learning processes.

A robust iron and steel industrial policy that captures and addresses all the essential variables including the conditions, rewards and penalties for utilization of learning rents must be designed. The era of leaving key policy design and implementation issues at the mercy of career bureaucrats or political appointees who can be easily intimidated and manipulated by powerful political patrons should forgone for good. Every critical element from the nature and scope of incentives to be offered to the time frame within which firms are expected to meet performance targets should be clearly spelt out and diligently adhered to with a powerful technical committee of experts and relevant stakeholders to oversee this.

Moreover, while the use of political appointees such as federal ministers and heads of government agencies and parastatals as well as career bureaucrats for industrial policy implementation is quite inevitable in the current democratic setting, efforts must be made to insulate these personnel from political interference and the pressures of distributive politics. Towards this end, seasoned technocrats can be engaged to help with policy design and implementation. Technocrats often tend to be more independent-minded and bold than career bureaucrats or political appointees. Political leaders are also less likely to fire technocrats knowing that their knowledge is high demand than they are to dismissing political appointees whose appointment was politically motivated in the first place. Thus, a combined team made up of technocrats, bureaucrats and some political appointees is the best for a healthy synergy and successful policy implementation.

#### *Outlines of the Backward Integration Policy (BIP) for the Iron and Steel Industry*

The backward integration policy (BIP) that Nigeria used in the cement sector can be replicated in the iron and steel industry. The small-scale private steel producers should be generously incentivized to integrate backward into iron ore mining and beneficiation. The BIP for the iron and steel industry should be well-designed and contained in a robust policy document that captures all the essential incentives,



conditions, rewards and penalties for the utilization of learning rents. The policy should, among other supports, provide the following incentives:

- Removal of custom duties on importation of equipment and semi-finished metallic materials such as metal blooms, billets and slabs for local steel producers who show credible commitments to integrate backward into iron ore mining and beneficiation. This incentive should last until locally mined and beneficiated iron ore is enough to meet domestic demand. Care, however, has to be exercised in awarding iron ore mining licenses to investors or entrepreneurs with technological and other capabilities needed for mining and beneficiating ores at the least and sustainable economic and environmental costs.
- Tax holidays for a period agreed upon by critical stakeholders should be provided to attract local and foreign investors into the industry. While this tax holiday should be generous, attempts should be made to clarify its terms and conditions so as not to leave loopholes for abuse perpetrated by some players in the cement industry.
- Imports of finished foreign steel products should also be banned to protect catching up indigenous steel firms from unfair competition. This, however, should not last indefinitely as the ban on importation of bagged cement appear poised to. If domestic steel producers have the feeling that this incentive would last for long they will fail to summon the requisite compulsions to work towards increasing capacity, raising productivity and becoming globally competitive, or they will exploit steel consumers by charging excessively higher prices than is obtainable in the frontier markets as is the case with the cement producers.
- Government should also vigorously campaign for and incentivize the patronage of locally made steel products. An issue to raise here is that government should also ensure that the quality of locally produced steel products meets international standards and specifications. The Standard Organization of Nigeria (SON) can be empowered to monitor this, enforce compliance and penalize defaulters.
- As local steel production capacity grows, government should encourage and even explore the possibilities of conditionally subsidizing exports of the Nigerian-made steel products to neighbouring countries or members of the Economic Community of West Africa (ECOWAS).

This can be done through the already existing Export Expansion Grant (EEG). Export promotion had, in the East Asian NICs, served as a way of disciplining learning and making firms become globally competitive (World Bank, 1993).

- A platform where steel entrepreneurs and policy makers exchange views through brainstorming should be created for constant interactions and briefings on how to improve policy successes and rectify failures. The policy makers who represent government and act on its behalf should be seasoned experts from relevant disciplines (such as engineers, development economists, lawyers and other technocrats) assembled based on merit rather than political connection.
- If the BIP for iron and steel industry is successfully implemented, then after a reasonable amount of time (say 10 years), the outcome of the policy in terms of whether or not its net social benefits outweigh its social costs should be assessed. For, success in industrial policy implementation does not always automatically mean success in policy result or outcomes. This is demonstrated by the success in implementation of the BIP in the cement industry which did not translate to success in the policy outcomes. This is so because, with the continued ban on cement importation and the excesses of local cement producers in charging outrageous prices, it can safely be concluded that the net social costs of the BIP in the cement industry outstrips whatever social benefits the policy might have brought in terms of employments, conservation foreign exchange and self-sufficiency in cement production.

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## Interviews

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2. Adhama, 2020: Alhaji Saidu Dattijo Adhama, owner, Adhama Textiles and Garments Ltd., Thursday 23 July 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Kano.[2]
3. Anonymous, 2020a: Thursday 26 March 2020. Interviewer: Hamisu Salihu, PhD fieldwork.[3]
4. Anonymous, 2020b: Wednesday April 15, 2020. Interviewer: Hamisu Salihu, PhD fieldwork.[4]
5. Anonymous, 2021a: BUA Cement Company Plc. Saturday 9 January 2021.[5]
6. Gwom, 2020: John Gwom, Senior General Manager (process), Dangote Cement Company Plc., 9-11<sup>th</sup> March 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Obajana, Kogi State.[6]
7. Kwajaffa, 2020: Hamma Kwajaffa, Director-General, Nigerian Textile Manufacturers’ Association (NTMA), Friday 28 August 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Lagos.[7]
8. Maiwada, 2020: Prof. Salihu Maiwada, professor at the Department of Industrial Design, Ahmadu Bello University, Zaria. Interviewer: Hamisu Salihu, PhD fieldwork, in Zaria, Kaduna State.[8]

9. Muhammad, 2021: Murtala Muhammad, Lecturer and Researcher on the Nigerian textile industry, 20th January 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[9]
10. Saminu, 2020: Engr. Sani Saminu, General Manager (Mining), Dangote Cement Company Plc., 9-11<sup>th</sup> March 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Obajana, Kogi State.[10]
11. Shehu, 2020: Engr. Suleman Shehu, Deputy General Manager (Packaging Dept.), Dangote Cement Company Plc., 9-11<sup>th</sup> March 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Obajana, Kogi State.[11]
12. Ugwoeruchukwu, 2020: Chief Andrew Ugwoeruchukwu, Personnel Manager, Woolen & Synthetics, Saturday 29 August 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Lagos.[12]
13. Usman, 2020: Mallam Saidu Usman, Chief Accountant, Zaria Industries Ltd., Wednesday 29 July 2020. Interviewer: Hamisu Salihu, PhD fieldwork, in Zaria, Kaduna State.[13]
14. Salako, 2021: Mr James Salako, Executive Secretary, Cement Manufacturers' Association of Nigeria (CMAN)[14]
15. Gwom, 2021 (further interview): John Gwom, Senior General Manager (process), Dangote Cement Company Plc., 23rd June 2021. Interviewer: Hamisu Salihu, PhD Fieldwork, Interview via the phone.[15]
16. Agbese, 2021: Mr Sunday Agbese, Public Relations Officer, Sunflag Nigeria Limited, 7<sup>th</sup> June 2021. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, Interview via the phone.[16]
17. Akilu, 2021: Mallam Abubakar Akilu, a Staff, Funtua Textiles Limited, 22<sup>nd</sup> May 2021. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, Interview via the phone after administration of questionnaire.[17]
18. Junaid, 2021: Mr Ridwan Junaid, staff, Allah's Will Steel Constr. Ltd, 17<sup>th</sup> September 2021. Interviewer; Hamisu Salihu, PhD Fieldwork 2021, Interview via the phone and administration of questionnaire.[18]
19. Otayokhe, 2021: Mr Samson Akinwale Otayokhe, Public Relations Officer, Kams Industries Nigeria Ltd, 22<sup>nd</sup> August 2021. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, Interview via the phone and administration of questionnaire.[19]
20. Umar, 2021: Mr Umar Suleiman Muhammad, General Manager, Engineering Works & Services, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 15<sup>th</sup> September 2021.[20]
21. Adama, 2021: Mr Adama Ismail, Engineer, Sintering Plant Unit, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 15<sup>th</sup> September 2021.[21]
22. Joseph, 2021: Mr Babalola Kayode Joseph, Manager, Pattern Making Unit, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 15<sup>th</sup> September 2021.[22]

23. Ogwu, 2021: Mr Adejo Friday Ogwu, Head, Foundry, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 16<sup>th</sup> September 2021.[23]
24. Ijo, 2021: Mr Umepeh Samuel Ijo, Head, Machines and Tools Unit, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 16<sup>th</sup> September 2021.[24]
25. Tahir, 2021: Mr Mohammed Tahir, Technical Officer, Machines & Tools Unit, Ajaokuta Steel Company Ltd. Interviewer: Hamisu Salihu, PhD Fieldwork 2021, one-to-one interview 16<sup>th</sup> September 2021.[25]
26. Anonymous, 2021b: 16<sup>th</sup> September 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[26]
27. Anonymous, 2021c: 23<sup>rd</sup> September 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[27]
28. Anonymous, 2021d: 28<sup>th</sup> October 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[28]
29. Anonymous, 2021e: 29<sup>th</sup> October 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[29]
30. Anonymous, 2021f: 29<sup>th</sup> October 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[30]
31. Anonymous, 2021g: 7<sup>th</sup> March 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[31]
32. Anonymous, 2020c: 28 August 2020. Interviewer: Hamisu Salihu, PhD fieldwork 2020/21. [32]
33. Anonymous, 2020d: Thursday 18<sup>th</sup> June 2020. Interviewer: Hamisu Salihu, PhD fieldwork 2020/21.[33]
34. Anonymous, 2021h: 20<sup>th</sup> October 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[34]
35. Anonymous, 2022a: 10<sup>th</sup> February 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[35]
36. Isa, 2021j: Mr Rabi Isa, Public Affairs Analysts, Kogi. Interviewer: Hamisu Salihu, PhD Fieldwork[36]
37. Anonymous, 2021k: 12<sup>th</sup> December 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[37]
38. Muhammad, 2022: Murtala Muhammad, Lecturer and Researcher on the Nigerian textile industry, 7<sup>th</sup> February 2022. Interviewer: Hamisu Salihu, PhD fieldwork.[38]
39. Anonymous, 2021i: 13<sup>th</sup> November 2021. Interviewer: Hamisu Salihu, PhD fieldwork.[39]

40. Anonymous, 2021j: 19<sup>th</sup> September 2021. Interviewer; Hamisu Salihu, PhD Fieldwork 2021, Interview via the phone.[40]
41. Anonymous, 2020e: 5<sup>th</sup> July 2020. Interviewer: Hamisu Salihu, PhD fieldwork 2020/21.[41]
42. Ugwoeruchukwu, 2022: Chief Andrew Ugwoeruchukwu, former Personnel Manager, Woolen & Synthetics, 18th April 2022. Interviewer: Hamisu Salihu, Interview via telephone.[42]
43. Akilu, 2022: Mallam Abubakar Akilu, a Staff, Funtua Textiles Limited, 18<sup>th</sup> April 2022. Interviewer: Hamisu Salihu, Interview via Telephone[43].
44. Usman, 2022: Mallam Saidu Usman, Chief Accountant, Zaria Industries Ltd., 18<sup>th</sup> April 2022. Interviewer: Hamisu Salihu, Interview via Telephone. [44]