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Nigeria needs a new industrial strategy

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Seven years after the Nigerian Industrial Revolution Plan, the goal of making Nigeria the preferred manufacturing hub in West Africa has not produced tangible benefits for the country. Inequality, poverty and unemployment rates remain high and in some regions insecurity has worsened. But if a new industrial strategy is needed, what issues should be the focus?

The average income of Nigerians, measured by GDP per capita, is at a lower level than it was ten years ago. To this end, one of the major challenges facing the Nigerian economy is its inability to provide sufficient jobs for Nigerians. Flaws in the structure of the economy, alongside large inequalities, meant that even in the early 2000s when the country experienced higher economic growth jobs were not created, and poverty actually increased. The gains largely accrued to political and business elites.

Similar to many African countries, Nigeria is faced with the task of industrialisation – moving away from production and exports dominated by commodities to higher value economic activities such as manufacturing. The 2014 Nigerian Industrial Revolution Plan (NIRP) had the stated objectives of making the country the preferred manufacturing hub in West Africa; the preferred source for supplying low and medium technology consumer and industrial goods domestically and regionally; diversifying and increasing government income and exports; and pursuing job and wealth creation, and import substitution. Industries would focus on agro-allied, metals and solid minerals, oil and gas, construction, light manufacturing and services.

Seven years since the launch of the NIRP, the Plan is considered to have struggled to meet its objectives; the oil sector still accounts for 65% of government revenue; the unemployment rate has jumped to 33%; almost half of the country is living in poverty; and between 2014 and 2019, exports have declined by 54% and continue to be dominated by crude oil.

Current internal and external realities mean Nigeria should review its industrial strategy. One of these is the launch of the African Continental Free Trade Area (AfCFTA), which aims to gradually eliminate tariffs on over 90% of goods and services produced and traded within the continent. Another issue is the changing investment landscape in the oil and gas industry, as climate pressures heighten and international protocols advance. A third important issue is the worsening state of insecurity in Nigeria, and the need for all development and growth policies to contribute to finding solutions to the challenge. There are also suggestions that changes in the global economy means late industrialisers need to pay more attention to industries without smokestacks. Finally, the COVID-19 pandemic has affected global affairs in many ways that should be taken into account in national planning.

What issues should drive a new industrial strategy in Nigeria?

A new strategy should decisively address the issues of poverty, unemployment and inequality. At the core of these issues is the provision of good jobs for Nigerians. Significantly increased employment can no longer be viewed as a natural outcome of industrial policies but must be at the centre of policy design. According to the International Monetary Fund, Nigeria needs to create five million jobs per annum over the next 10 years in order to close its unemployment gap. These jobs can only be created with an incredible effort focussed on promoting local and foreign investment in labour-intensive sectors, such as agri-processing, which involve factories that employ lower-skilled labour – in abundance in Nigeria. Strategies for further improving the country's business environment should also be more realistic and learn lessons from past attempts. Further, jobs can contribute to reducing levels of insecurity in the country.

A new industrial strategy should also reflect the internal disparities within Nigeria. The country's northern region is in a developmentally worse situation than the south and has a higher amount of unskilled to low-skilled labour, as well as greater agricultural activity. By extension, this means that agri-processing factories may in the short to medium term be well-suited to the region. On the other hand, some parts of the southern region are experiencing growth in the services industry, with financial technology organisations, for example, attracting labour and investments. Although a focus on services may not make sense for the entire country, a mix of policies promoting services and manufacturing dependent on the land and labour profiles of certain regions may be advisable. These disparities should also inform pragmatic plans for human capital development across the country – a critical component of any growth policy.

These should further work alongside strategies to boost exports and productivity growth. Although the NIRP sought to increase exports, its import substitution approach presented several challenges. Policies from the Nigerian government and its central bank have focused on trying to curb imports, a losing battle, given that total imports jumped in 2020 despite the COVID-19 pandemic. Instead of working to control imports, policymakers should focus on eliminating the challenges facing existing and would-be exporters. These include logistical issues at Nigerian ports, as well as access to forex for critical inputs. A strong export push can contribute to productivity growth, given that producers will be forced to compete internationally. The AfCFTA provides an additional platform for exporting 'made in Nigeria' products.

Value chains have always been an important part of industrial strategies and continue to hold this status. In the context of Nigeria, more attention should be paid to integrating Nigerian producers into value chains at all levels national, regional, continental and global. Indeed, national and regional value chains are critical to the demand and supply of inputs for agri-processing, and global value chains are needed for breaking into global manufacturing markets. This can allow Nigerian producers to carve a niche for themselves in specific goods and services that may serve as inputs for more advanced and competitive manufacturers.

Particularly in Nigeria, industrial strategy should be conflict sensitive. Although facing high levels of insecurity in 2014 when the NIRP was launched, the country's worsening situation means attempts to grow certain industries, especially in the north, can not be naïve to the realities of operating in insecure regions. Strategies for risk mitigation need to be made clear in any efforts to promote investments.

Lastly, Nigeria must re-shape its oil sector in the face of a heightening climate crisis. Although natural resources will potentially continue to play important roles in many national economies, the Nigerian government must accept the industry's decline in attractiveness to investors. The oil sector should therefore focus on improving its governance and moving output up the value chain. The recently signed Petroleum Industry Act makes some of these commitments, but also counterintuitively commits even more government revenue to oil exploration.

The type of structural transformation necessary for Nigeria to solve these problems does not emerge spontaneously from the interplay of market forces. It rather requires protracted state interventions that not only provide some level of macroeconomic stability, infrastructure and security but also include broad horizontal as well as selective vertical sector policies. Yet any decisions must recognise that appropriate policy design, and successful state interventions, will depend on both initial institutional and political conditions. At a minimum, the actual motivations behind the practice of industrial policies are better understood within a broader framework of patron–client politics. More importantly, as all industrial policies must involve the distribution of state resources, to be viable in the Nigerian context some alignment with the surviving interests of political and industrial elites is essential. Sector selection for government intervention must therefore take domestic politics into account.

These issues will be addressed more fully in a subsequent article.

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