

The Global Financial Crisis (GFC) and Industrialization in Nigeria: The Implications of Policy Reversal and the Prospects for Growth.

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Abstract

Nigerian microeconomic interventions are characterised by epitome of policy shifts and reversal. The industrial policy objectives and strategies in Nigeria are often subject to either modifications, or neglect or even total abandonment (Ikpeze et al, 2004, p. 341). This paper employs holistic approach in analysing Nigeria's industrial policy measures between 1900 and 2007 prior to the GFC. The paper presents possible implications of industrial policy reversal as a result of the current global financial crisis on Nigerian economy. The author argues that productive intervention aimed at stabilising market institutions, investment in human capital and infrastructure, mobilisation of domestic capital supported by FDI in Nigerian agro-industrial sector are necessary measures for a sustainable economic growth after the crisis.

1 Introduction

Overtime economists believed that African economies are full of market failures and the only means countries in the region could escape from their poverty traps would be through forceful government interventions. Industrial policies are pursued on the assumptions that an effective set of microeconomic policies will address specifically the problems associated with market failures (Rodríguez-Clare, 2005, p. 4). However, the reality was not a good picture for African countries after forceful government intervention in economic production. The import substitution, central economic planning, and state ownership did produce some initial successes in terms of industrial expansion, but overtime, the policies became a colossal failure and entrenched the region into serious economic crises.

In recent times, the interventionists have recognised the power of market forces and private initiatives in economic development. They have also increasingly recognised that Africa countries need to embed private initiative in a framework of public actions. Such public actions have led to restructuring of the economy towards market oriented economy and intervention that favour diversification of production. In other words, market forces and private entrepreneurship are considered to be the engine that drive the economy while governments would perform the strategic and coordinating role in the production arena (World Bank, 1997, p 1). Such activities should focus not only on ensuring property rights, contract enforcement, and macroeconomic stability but also on issues relating to provision of security, infrastructure and public social utilities.

The economic reforms undertaken in some sub-Saharan African countries have benefited export activities and financial interests which have resulted to relatively increase in economic growth rates in the region (Lall and Kraemer, 2005, p. 68; Uzor, 2007, pp. 432-3). The impact of the GFC on economic reforms is such that policymakers in the region can apply measures which will drastically derail the reform processes thereby hampering the gains already made.

This paper therefore analyses the Nigeria's industrial policies from 1900 to 2007 and show how frequent policy reversal have derailed Nigeria's economic development efforts. The paper uses holistic approach in analysing different industrial policy regimes and went further to discuss the factors which contributed to trade and industrial policy failures in Nigeria. The paper argues that human capital development, mobilisation of domestic capital supported by FDI and massive investment agricultural production are that basic measures for long term sustainability of economic reforms in Nigeria. The paper is organised in five sections. The next section provides the synopsis of different Nigeria's industrial policy regimes and their implications in economic development. Section 3 focuses on the roots and implications of policy reversal in Nigeria while section 4 provided different strategies for sustainable economic development in the face of GFC and thereafter. Section 5 concludes the paper.

2 Nigerian Industrial Policies in the mist of Political and Economic Turbulences

2.1 Nigerian Industrial Policies in the Colonial era from 1900 to 1954

The Critiques of British colonial administration's industrial policies argue that the pattern of industrial development then basically undermined private sector development in Nigeria. However, their analyses failed short of recognising that promotion of modern trade and commerce in Nigeria started actively between 1900 and 1954. This was possible through the provision of infrastructural amenities which gave rise to movement of people and goods across regions. The framework that fashioned the rule of law and order in the Nigeria was established during the period (Dauda, 1993, p. 75). Furthermore, industrial development policy was then geared towards promotion of local handy craft and skill development, development of access roads. Arguably it may be more appropriate to view colonial industrial policy not in isolation but rather as a product of a wider British tradition of *laissez-faire* and a general negative attitude to central economic planning system (Dauda1993, p. 75).

Specifically, under British colonial administration, two agencies namely: the Nigeria Local Development Board (NLDB) and the Department of Commerce and Industry (DCI) were entrusted to promote industrial development (Ikpeze, 1991, p. 585). The objectives of the NLDB were to promote and develop village crafts and industries; promote industrial development that focused on the development of products from Nigeria. NLDB was also charged with the responsibility of setting the modalities for research and development in processing industries and other matters concerning industrial development as approved by the Governor-in-Council. The DCI on the other hand was responsible of overseeing and promoting local trade and industrial development (Ikpeze, 1991, p. 586). Three implications incidentally emerged from these policy specifications. The first is that industrial development in such an underdeveloped economy should start from the grassroots. The second is that emphases were focused on small scale agro-processing and handicraft industries in rural areas. The third implication is that promotion of trade, commerce and industry started at early stage of Nation building. However, Ikpeze (1991, p. 586) however questioned the effectiveness of the policy in the sense that about £22 million was budgeted for industrial development in the planed period, only £6 million was spent. One would also argue that even during colonial administration, government direct involvement in industrial development was also ineffective in Nigeria.

In general, it can be argued that industrial development in Nigeria between 1900 and 1954, was influenced by the following factors: provision of physical infrastructure characterised by massive construction of access roads and construction of rail tracts to the hinterland which gave rise to rapid movement of people and goods; creation of regional and provincial administrative authorities that allowed decentralisation of administrative functions and establishment of institutional framework for industrial development (Asiodu, 1967, p. 161)¹. Dauda (1993, p.7 5) argues that the colonial government used the available local resources and funds to promote the enabling environment for private commercial activities. On this note, Ikpeze (1991, p. 586) argues that government interventions in industrial development in Nigeria is not a new phenomenon. Industrial development became popular at the end of the World War II with 182 companies registered between 1935 and 1946 period to strengthen production. However, Policy changed drastically in a short period between 1954 and 1958 as movement for political independence intensifies.

¹Institutional framework was the creation of legislative instrument such as *Aid to Pioneer Industries Ordinance of 1952* aimed at providing incentives for industrial development in Nigeria (Asiodu, 1967, p. 161).

2.2 Nigerian Industrial Policies from 1954 to 1958

The regional governments and legislative councils were established between 1954 and 1958, in Nigeria. As political independence became certain, the central government established central bank and national regulatory bodies for international trade, finance, and foreign exchange (Dauda, 1993, p. 76). Subsequently, the regional governments began to take active role in industrial and commercial activities. The surpluses accumulated from agricultural commodities were used to fund their respective industrial development projects (Ohiorhenuan, 1989, p. 147, Forrest, 1993, p. 21). During the period three major statutes namely: *the Industrial Development (Import Duty Relief) Act of 1957; the Industrial Development (Income Tax Relief) Act of 1958, and the Customs Duties (Dumping and Subsidised Goods) Act of 1958* were established and used to advance industrial development programmes in Nigeria (Ikpeze, 1991, p. 587).

Under the Import Duties Relief Act, a firm can be granted concessionary rates of duty on imported raw materials and tax breaks for importation of industrial capital goods. In some cases, the relief can reach 100 per cent. The industrial Income Tax Relief Act was aimed at offsetting investment costs against profits during the tax holiday period. The Act granted new companies the pioneer status and provided tax relief for foreign companies operating in Nigeria with tax holidays of five years period. The tax holidays was also extended to the shareholders of the pioneer firms. The dividends accrued to shareholders were exempted from taxes during the tax holiday period (Aremu, 2003, p. 50). Under the Customs Duties (Dumping and Subsidised Goods) Act, the government can charge additional duties on specific imported goods, when there is clear evidence of dumping or government subsidy in the country of origin. The government can also grant duty drawbacks or refunds of duty paid on materials imported and used in the manufacture goods for exports (Asiodu, 1967, p. 166). Export promotion emerged during the colonial administration and the IDAs provided the framework for increased foreign investment in Nigerian industrial sector. As a result, the number of registered industrial establishments increased from 182 companies recorded between 1935 and 1946 to about 1,027 companies between 1946 and 1958 with 15 per cent of them being medium/large scale enterprises (Uoro, 1977).

The problem was that the industrial Development Acts (IDAs) lacked specifications in terms of industries that are qualified for pioneer status (Asiodu, 1967, p. 163). In other words, all

newly established enterprises were automatically qualified for pioneer status regardless of national interest or needs. The IDAs failed to recognise the importance of human capital development and development of local inputs (Ogbuagu, 1983, p. 244). The promotion of small scale agro-processing and rural industries was neglected.

The drastic change in political climate as a result of movement for political independence led to the shift in industrial policy objectives during the period between 1954 and 1958. Hence, the IDAs of 1957 and 1958 were regarded as the corner stone that laid the foundation for import substitution programmes (Ohiorhenuan, 1989, p. 146). As a result of the gains in industrial expansion, the import substitution programme was intensively pursued immediately after the political independence.

2.3 Nigerianisation and Nationalisation Policies of 1958 to 1972

Government participation in promoting industrial development became more visible between 1958 and 1972. The theoretical assumption backing government intentions was that private sector was still very weak hence government had to engage in proper industrial planning and programming for public sector development. Government considered such measures to be necessary in order to encourage the private sectors to channel their investment strategies towards the areas of greater priority (Asiodu, 1967, p. 162). In the late 1950s and early 1960s, government intervention became much vivid such that industrialisation programmes were directly linked to general economic development and growth. To achieve this, funds were made available for government to participate directly in industrial development activities. Besides direct intervention, indirect measures were also pursued. Such measures were in the form of guaranteeing foreign loan for new industrial projects or rendering special assistance like providing industrial estates and public utilities to public industries (Asiodu, 1967, p. 162). To strengthen their participation in industrial development activities, government later integrated industrial development policies in the National Development Plan (NDP). Under the NDP framework, the government pursued regulated industrial development activities which were based on open-door-policy (Dauda, 1993, p. 76). In the first NDP of 1962-1968, about 14 per cent of public investment was directed to industrial development (Asiodu, 1967, p. 162).

However, the debate about nationalisation of businesses resurfaced in Nigerian political discussions during parliamentary debate on Petroleum Profit Tax Bill in 1959. In November

1961, the tune of the debate changed from “nigerianisation” to “nationalisation” in order to reduce the level of foreign influence and control of the economy². In the political circle, the resentment on foreign dominance in the country’s economy especially in extractive and secondary industries, commerce, small scale distributive trade and shipping sectors became very high (Ogbuagu, 1983, p. 247). Consequently, government started gradually to introduce measures to reduce foreign dominance in the economic activities. The first formal step taken to promote indigenisation of businesses after the independence was the establishment of the Immigration Act of 1962. The Act excluded the foreigners who wished to participate in trade already served by Nigerians. The Act also specified the ratio of Nigerians to non-Nigerians employed in foreign firms. This was followed by the creation of an Expatriate Quota Allocation Board in 1966. The board was charged to ensure greater indigenous participation in the control, development and management of certain economic resources in Nigeria.

The second step was the promulgation of the *Companies Decree* of 1968 that provided the formalities for incorporation of foreign companies in Nigeria³. The aims of the decree were to bring local subsidiaries of foreign firms under the control of the Federal government and later to secure the participation of Nigerians in such businesses. The decree also made it illegal for a company to render financial assistance to any person in the polity to help in the purchase of its shares or shares of its holding company (Ogbuagu, 1983, p. 248). In 1971, skill acquisition programme was introduced for the first time in Nigeria’s industrial development programmes. The decree establishing Industrial Training Fund was promulgated in 1971 with the aim to encourage skills acquisition in industries. The decree also recognised the need to train and supply the capable manpower needed in Nigeria's growing economy.

Berger (1975) argues that between 1964 and 1972, import substitution strategy implicitly succeeded in Nigeria based on the number of industrial establishment. The economic indicators at the period suggests that the number of industrial establishments grew at average annual rate of 12.1 per cent. The number of employees in industrial sector increased at the annual average rate of 12.6 per cent. Between 1964 and 1972, the annual average growth rate of wage bill and the gross domestic output increased by 17.9 per cent and

²Nigerianisation in the context implies increasing the ratio of Nigerians in foreign firms’ management position and “nationalisation” implies increasing the ratio of equity share of foreign firms to Nigerian.

³The Companies Decree of 1968 stated that every foreign company “...shall in respect of its operation in Nigeria be deemed to have been incorporated under the decree as a separate entity from the company incorporated outside Nigeria in whose name a place of business in Nigerian was established, and company so deemed to have been incorporated in Nigeria shall have as part of its name (unless already therein) the word Nigeria”.

16.4 per cent respectively. While the gross value added of industrial sector grew at the rate of 18.7 per cent. Following massive criticisms on government's poor implementation of first NDP, the call for Nationalisation of Nigerian business become intensive in 1970. These events arguably led to the birth of Nigerian Enterprises Promotion Decree of 1971 and the second NDP of 1970-1974.

2.4 Nationalisation Policies of 1972 to 1985

Nigerian Enterprises Promotion (NEP) Decree of 1972 "Indigenisation Decree" has been considered as the most radical industrial policy change in Nigeria 12 years after attaining independence. The objectives of the policy were theoretically a) to create an economically independent country with increased opportunities for indigenous Nigerian businessmen; b) to ensure greater retention of profits accruing from the economic sector; c) to encourage further foreign investment in the sophisticated area of intermediate and capital goods production.

The NEP Decree of 1972 created two categories of business enterprises known as schedules 1 and 2. Schedule 1 contained the list of enterprises which were exclusively reserved for Nigerians. Schedule 2 contained businesses which foreigners could engage in but under certain conditions in terms of size and ownership. In other words, foreigners lost the right to own a business in Nigeria under the NEP decree of 1972. The basic argument in favour of NEP Decree 1972 was the implicit end of *imperialism* in Nigeria's political and economic discourse. Governments all over the world adopted nationalisation as a strategy to support local control of their economy after attending political independence. The policy of indigenisation therefore should be seen as complement to political sovereignty (Soyode, 1989, p. 195). The implication is that Nigerians should then account for their own political and economic destiny.

Contrary to expectation, the indigenisation decree of 1972 failed to meet its desired objective in terms of reducing foreign dominance in Nigerian economy. The Chambers of Commerce and Industry as well as the Manufacturers Association of Nigeria continued to push for more participation of Nigerians in the country's business activities. The NEP was considered to be very weak hence there were modifications 1977. The NEP was revised in 1977 such that the classes of enterprises that fall in each schedule were reviewed. There were also changes in equity share participation between Nigerians and foreigners in any business venture (Ogbuagu, 1983, pp. 252-3). However, the revision did not improve the situation

instead it turned out to be a colossal failure. Ikpeze (1991, p. 593) argues that the policy tried to use a single policy instrument simultaneously to achieve three distinctive objectives namely; indigenisation, diversification and Nigerianisation of management. Dauda (1993, p. 77) argues that the actions were not simply based on nationalistic ideology rather a reflection of economic situation then⁴. The policy explicitly exposed Nigerian weaknesses in terms of business environment. Such policy according to (Aremu, 2003, p. 56) should not be a priority option in a country that was in serious need of FDI.

In general, one can argue that policymakers in early 1970s pursued a short sighted economic development strategy which failed to recognise that development is a learning process and path dependent as well. The neglect of learning process and small and medium agro-processing industries created vacuum in Nigeria's entrepreneurship and industrial development path. Arguably the balance between the NEP Decree of 1972/77 and property right was massive loss of foreign direct investment in manufacturing sector in Nigeria. Policymakers also failed to understand that foreign investors rarely wish to invest in country where they have no effective voice and control over their capital (Aremu, 2003, p. 56).

In spite of these lapses, Nigeria's industrial policy gradually shifted from open door policy to increased government dominance in production activities (Ohiorhenuan, 1989, p. 148). The priority areas of industrial policy in the second NDP drastically shifted to capital intensive industries. To protect the new industries and sustain its policy, the government introduced different types of import restrictions. Between 1973 and 1982, Nigeria witnessed rapid industrial expansion with compound growth rate of manufacturing sector, which rose by 9.5 per cent and a GDP growth rate of 2.3 per cent. In 1982, the symptoms of economic down turn started to emerge as access to foreign exchange became persistently difficult. Firms could no longer import spare parts and the required raw materials hence industrial capacity utilisation began to drop. The expected gains from Nationalisation such as employment generation, acquisition of skills and development of local technological capability became a total flop (Ikpeze, 1991, p. 593).

2.5 Nigerian industrial policies under general economic restructuring of 1985 to 1988

The Economic Stabilization Acts of 1982 and 1983 failed to rescue the fast deteriorating Nigerian economy. It became inevitable that Nigeria's industrial policy must be charted

⁴As Dauda (1993, p. 77) put it - "The 1970s were a period in which Nigeria felt it can be able to use its *petropower* to establish its economic power".

towards a new direction. After a national debate in 1986, a Structural Adjustment Program (SAP) was launched and a new economic and industrial development path based on market principles was adopted. The fundamental aim was to boost the confidence of domestic and foreign entrepreneurs in the economy. Critically, the SAP was a reversal of second NDP with specific policy instruments. The measures were aimed at rolling back the public sector and shrinking government involvement in production through privatisation. On economic front, deregulation and liberalization of the market were simultaneously introduced. The Second-Tier Foreign Exchange Market was created in order to enhance foreign currency as well as facilitating imports and exports. The tariff structure was simplified, privatisation of public enterprises, and promotion of small scale enterprises as well as rationalization of institutions for industrial development were also implemented (Ikpeze, 1991, p. 596).

One major argument in favour of the new policy was reduction of the potential conflicts arising from bureaucratic problems. Rapid increase in Federal Government employees indicates increasing trend in bureaucratic power⁵. Prior to 1970, National Economic Council (NEC) and Joint Planning committee (JPC) were the two intergovernmental organs responsible for the formulation of industrial development plan. In 1970, both were replaced by Supreme Military Council and the Joint Planning Board respectively. The two organs continued to function until 1988 when an independent National Planning Commission (NPC) was established as part of civil service reform (Dauda, 1993, p. 80)⁶.

The privatisation and commercialisation decree No. 25 of 1988 was promulgated with an autonomous NPC established to oversee the implementation of the program. The policy objective was to restructure the economy towards fiscal-balance and economic growth in order to enhance efficiency through privatisation and commercialisation⁷. A 13-member committee known as Technical Committee on Privatisation and Commercialisation (TCPC) was created for the implementation of the programme (Onah, 1991, pp. 619-23). The privatization scheme was vehemently opposed by

⁵The Federal government employees increased by 54.21 per cent from 196,068 in 1979 to 302,349 in 1985.

⁶Change of the structure is not the real problem that confronts Nigerian policy initiatives rather functionality and effectiveness. As Dauda (1980, p. 80) put it, the non-Nigerian members left the planning scene shortly after the launching of the first NDP. They were however not replaced by Nigerians of the same number with the same educational level and quality.

⁷The terms privatisation means disinvestments (partially or fully) of government equity interest in wholly or partially state owned enterprises. Commercialisation implies retaining government ownership but improving performance and reducing or eliminating subsidies and subventions (Wilson, 1990, p. 12 quoted in Onah, 1991, p. 621).

the North for fear of losing the privatized companies to more advanced southern private sector. The privatization was fashioned to allow state governments to buy the shares in privatised companies on behalf of their people (Ikpeze et al, 2004). If state governments hold the shares in trust for “their people” the economic viability of the privatised companies will continue to decline because of government direct interruption in the running of the companies. It also suggests that group and ethnic interest still dominates Nigeria’s domestic policies.

The recent appraisal of the programme suggests that appropriateness or accountability of the regulatory framework raises questions and suspicion about the effectiveness of the programme. The implementation lacks political leadership, allegation of corruption and lack of adherence to a transparent process (Ariyo and Jerome, 2005, p. 344). The economy witnessed a drastic policy reversal in 1988 which consequently injected uncertainty in the economy and eroded the gains of the economic reform.

2.6 Nigerian Industrial Policies under Volatile Political and Economic Environment of 1988 to 1999

The persistent economic down turn in Nigeria forced the government to review the NEP Act of 1977 in 1989. The three schedules in NEP were reduced to a single schedule in NEP Act No. 54, of 1989. Under the Act, a foreigner can own an enterprise classified in the single schedule if the level of capitalization is not less than N20 million. This implies that foreigners were no longer restricted to the proportion of shareholdings in their investment. It also suggested that the foreigners could identify and invest in areas as well as sectors that have higher returns on their capital in Nigerian economy (Aramu, 2003, p. 59). Subsequently, the Companies and Allied Matters Act (CAMA) was promulgated in 1990 and it became the principal law regulating the incorporation of businesses in Nigeria. Under section 54 of the Act, foreign investors intending to transact business in Nigeria are mandated to take all the necessary steps required to incorporate their companies⁸. The most significant aspect of the Act was the establishment of Corporate Affairs Commission. Contrary to the old system which was problematic due to its centralised and organisational structure, the new Corporate Affairs Commission was decentralised with an office in each State of the Federation. The

⁸However, foreign companies invited by the Federal Government, foreign government-owned companies engaged solely on export promotion activities. Foreign engineering consultant and technical experts were exempted from incorporation subject to the approval of the Council of Ministers (Aremu, 2003, p. 60).

decentralisation of functions helped to reduce the cost of registration and made the registration processes less cumbersome (Ekwere, 1993, p. 52).

In 1995, the Exchange Control Act of 1984 was repealed and was replaced by foreign exchange Decree No. 17 of 1995⁹. Subsequently, an Autonomous Foreign Exchange Market (AFEM) was created. This made it possible for individuals or corporate bodies to invest in any Nigerian enterprises or securities. According to the Acts, foreign investors can bring in foreign currencies in Nigeria only through an authorized dealer. In other words, the modalities for capital importation for foreign investors were deregulated and simplified¹⁰. In 1995, Nigerian Investment Promotion Commission (NIPC) was also established. The NIPC Act No. 16 of 1995 was designed to promote, coordinate and monitor all investment in Nigeria. In 1999, the Act establishing the Investment and Securities was signed into law. The aim of the reform was to deregulate Nigerian capital market in order to facilitate inflow of FDI in the economy. To achieve this, the Capital Gains Tax Act, the Venture Capital (incentives) Act and the NIPC Act were harmonised to avoid conflicting interest and overlapping in terms of jurisdiction (Aremu, 2003, pp. 63-4). Subsequently, industrial development activities during the period suffered serious setback due to political instability and civil unrest following human right abuse by the military dictatorship. The expected gains from the reform in terms of private sector development and FDI in manufacturing sector became an illusion.

2.7 Industrial Policies under free market capitalistic framework of 1999 to 2007

Nigeria departed from its past pervasive state intervention policies to a new path that embraces free market capitalism. The policy initiatives were embedded in the new policy framework called the “National Economic Empowerment and Development Strategy” (NEEDS) launched in 2004¹¹. The NEEDS policy document explicitly recognised economic growth as the basic instrument for poverty reduction. In order to stimulate economic growth, promotion of private sector development became the central objective of the NEEDS policy

⁹The Exchange Control Act of 1984 was the principal legislation regulating foreign currency related transactions in Nigeria.

¹⁰Nigeria Foreign Exchange: Deregulation and Guidelines. www.nigeria-law.org/Foreign Last accessed: 22.09.08.

¹¹A critical view of the policy framework shows that NEEDS is a revised SAP that aimed at reforming government institutions by encouraging effective budgetary implementation, fighting corruption, promoting accountability and transparency (NEEDS, 2004, p. 12). The basic difference between the NEEDS and SAP is that NEEDS is a locally groomed concept with a neo-liberal background.

package. The key elements of the strategy focused on privatisation of public enterprises, deregulation and liberalisation, investment in infrastructure for development. The policy also targeted specific sectors such as agriculture, industry/SMEs, services, oil and gas, and solid minerals. The policy document also recognised the importance of small and medium scale enterprises (SMEs) in the economy in terms of employment generation and wealth creation. Enterprises clusters were regarded as a key strategy in Nigerian industrial development in the policy document (NEEDS, 2004, p. 7). In 2002, the government launched Small and Medium Industry Equity Investment Scheme (SMIEIS). Under the scheme, commercial banks were mandated to set aside 10 per cent of pre-tax profits for equity investments in SMEs¹². Equity investment could be in the form of cash injection and/or conversion of existing debts with additional funds as loan by the banks (World Bank, 2002. p.16; Oyekanmi, 2004, p. 66). By September 2008, a total of about N26 billion had been distributed to SMEs.

Furthermore, telecommunication was actively privatised which led to mobile phone and internet revolution in the country. The state owned industries were privatised coupled with massive campaign for foreign direct investment. The energy sector was partially deregulated in order to allow public and private partnership investment. This was followed by the establishment of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) through the parliamentary process. The agency was assigned to promote, facilitate and coordinate all government policies on SMEs (NEEDS, 2004, p. 80). The implication here is that policies on SMEs in Nigeria are now a macroeconomic issue which has to be centralised with unified mechanism. This is against flexibility and effectiveness which implementation of SME policies demands. Furthermore, a new national policy on Micro- Small and Medium scale Enterprises (MSMEs) was launched in March 2008. The fundamental objectives of the policy according to the report are, to provide an overall framework of action as a guide for well focused, harmonious and coordinated programming by all actors. According to the document, the objective cover among others, evaluation and monitoring of stakeholders activities. The major technical problem of the policy is lack of clarity and functional objectivity. It is very difficult to understand whether the package represents a “policy document” or an “institutional structure”. The former is concern with the application of specific economic and political instruments in order to achieve specific objective or objectives. While the latter focuses on information flow, coordination, monitoring, evaluation and documentation of the problems the SMEs face. If the objective of

¹²NEEDS documents were created in march 2004, pp. 78-83

SMEDAN is to combine both, then there will be a problem. SME policy implementation requires sequential scheduling, targeting and costing with evaluation mechanism that involves different actors and independent monitoring agencies.

3 The Roots of Nigeria's Trade and Industrial Policy Inefficacy

Nigeria's trade and industrialisation problems are beyond the impact of GFC. The problems can be classified into five dominant factors namely: conflicting development concepts, failure of articulated government objects, dominance of ethnicity sentiment in politics, governance based on patronage, and dominance of private and group interest over national interest. These factors more often than not have influence on public policy formulation and implementation.

Nigeria's industrial policy has been a victim of conflicting development concepts that often resulted to policy reversal and distortion in general economic management. For example, development policy moved away from grassroots strategy in the then Ten-Year Plan of Development and Welfare of 1946 to 1956 in the 1960s. This was basically as a result of conflicting ideological development path in the three dominant regions of Nigeria with weak central government. The socialist movement in the then Western region had different development path as opposed to neo-liberal thinking in Eastern region and feudal capitalist system in Northern region (Uzor, 2009). As the struggle for regional economic power heightened, the development institutions such as marketing boards, development corporations and economic policy making units became the engine that drive economic development in their respective regions. The organisational structures of the institutions were relatively stronger than the newly established Federal organs. Hence, there was no articulate central government trade and industrial policies. Regional industrial development projects were financed by high taxes on farmers and proceeds from agriculture (Forrest, 1993). Industrial development which started from the grassroots with emphasis on small scale agro-processing and rural handicraft industries was speedily replaced by so called import substitution industries in the regions.

The political scenario in Nigeria changed in the 1970s as the military consolidated power. The country began to witness a new powerful federal civil service that was committed to the principle of federalism. The bureaucracy started to influence the economic policies, nationalisation of the economy started to surface. The creation of more states weakened the regional powers such that most economic and development policies of the states followed

Federal Government pattern (Forrest, 1993, pp. 48-49). The sudden rise in prices of petroleum oil in international market in 1973/74 provided the Nigerian government the choice of unguided spending as a result of oil revenue windfall. The increase in oil revenue further strengthened the power of central authorities which led to budget expansion. This was supported by the creation of strong exchange rate regime that gave leverage for cheap importation of foods and other consumer goods.

Furthermore, the failure of industrial and trade policies in Nigeria was also as a result of politics that failed to promote efficiency rather ethnicity thinking was encouraged. For example, the domination of the political leadership by the North from 1960 to 1999 contributed to location certain key industries such as Iron and steel, refineries in the region. Dispersion of industrial location without regard to economic considerations contributed to poor performance of these industries (Ikpeze et al, 2004). Furthermore, the active involvement of the state in economic production resulted led to poor private sector development in Nigeria. As the state become the main source of finance and contracts, most businessmen in Nigeria became actively involved in politics in order to get contracts and all politicians became also businessmen. One can no longer differentiate between a politician and a business man in Nigeria business. Consequently, governance based on patronage flourished through contracts, foreign exchange allocation, direct credit at below market interest rates, and tariff concessions. Personal and special interests therefore determine the nature of tariff and non-tariff barriers to trade. The implication is such that interest groups often determine the structure and timing of trade and industrial policies. In other words, policies can easily be reversed thereby undermining national interest. The dominance of private and group interest over national interest contributed to failure of Schumpeter entrepreneurs to emerge in the system and poor development of tradable goods for exports.

4 The Prospects for Economic Growth

The tragic experience of Nigeria's external trade and industrialization efforts was a classic case of misplaced policy choices and direction. This left the manufacturing value-added as a percentage of GDP to a disappointing about five percent in 2000. Hence the country has been classified as one of the 20 least industrialized countries in the world (Ikpeze, et al, 2004). Nigeria departed from its past pervasive state intervention policies to a new path that

embraces free market economy with private sector development as core policy objective in 2002. What is imperative in the face of global financial crisis and thereafter is how to strengthen the private sector and identify the industrial sector which can enhance growth.

One basic fact is that productive investment of the state and private firms can have profound impact on GDP growth. The impact of investment strategies of the state and private sector are often reflected on the improved value added to the GDP growth. GDP growth has explicit impact on aggregate employment and income changes in the sense that firms employ more workers during the boom period. Policies targeting human development, skill development and physical infrastructure will have positive impact on Nigeria's industrialisation efforts. As Nigeria is campaigning for FDI inflow, improvement of these factors will attract FDI and foster transfer of technology effectively. Policy direction must therefore focus on how improve human development record which remains very low. Human development index (HDI) measures the average achievement in a country in terms of provision of education and services such as portable water, public-health facilities and sanitation. Table 4.1 shows the trend in Nigeria's HDI performance between 1975 and 2005. The HDI values improved from 0.321 in 1975 to 0.470 in 2005 by 46.4 per cent. Despite the improvement, the country has not been able to reach the 0.5 minimum performance benchmark of the HDI.

Table 4.1: Nigerian Human Development Index Trends (1975-2005)

	1975	1980	1985	1990	1995	2000	2005
Values	0.321	0.378	0.391	0.411	0.432	0.445	0.470

Source: UNDP Human Development Report 2007/8, p. 236

Investment in human capital development can be seen as the basic measure aimed at long term sustainability of the economy. The growth in output per worker is associated with the accumulation of physical capital, skill development and technological change (Baier et al, 2002, p. 29). Furthermore, the factors which determine the efficiency of labour include education per worker, knowledge, economic, political, and social systems. Education has scale of measurement in terms of years of schooling. Hence, the differences in the efficiency of labour across time and countries can be explained by differences in the average years of schooling per worker (Benhabib and Spiegel, 1994, p. 144). Investing in education is deemed as an important measure to upgrade the output per worker in a competitive environment.

Productivity growth is an important determinant of long run economic performance in terms of GDP growth while accumulation of machinery is a prime determinant of national rates of productivity growth (De Long and Summers, 1995, p. 1). High rate of investment in equipment is regarded as the key factor for rapid economic growth (De Long and Summers, 1992, p. 38)¹³. The positive effect of externalities is learning-by-doing that increases workers' skills and organizations' capacities to handle technologies. In this case, technological accumulation is crucial for firms and capital market play the major role in financing the accumulation process. If the local capital market is developed, it will be easier for credit constrained entrepreneurs to start their own firms, expand their businesses by acquiring varieties of intermediate goods. An increase in the number of varieties of intermediate goods leads to positive spillovers in the final goods sector (Alfaro et al, 2007, p. 3). The growth of domestic investment therefore depends on the level of domestic stock market. A stable stock market serves as signal and basis for linkages in international capital markets. There are three plausible effects of capital market on local firms. During capitalisation in the stock market, firms are forced to improve their managerial capabilities by hiring qualified workers. Firms can improve their human and capital stock through capitalisation. Firms can acquire good will and reputation which can easily facilitate joint venture initiatives between local and foreign partner.

With the exception of South Africa, the private sectors have very limited access to financial resources in most countries in the sub-region. Table 4.1 shows the domestic credit

¹³For example, if government strategy targets productivity growth of three percent per year, then the income per worker will increase eight fold over a lifetime and the income itself will also double if annual growth is one percent (De Long and Summers, 1992, p. 19).

flow to private sector expressed as a percentage of GDP in four selected countries in sub-Saharan Africa¹⁴. As indicated in the Table, the domestic credit to private sector in South Africa increased from 81.0 per cent in 1990 to 164.3 per cent in 2007 by a percentage point increase of 83.3. In Mauritius, the domestic credit to private sector increased relative to Nigeria and Ghana, from 35.6 per cent in 1990 to 83.5 per cent in 2006, thus indicating a percentage point increase of 47.9. The scenario is quite different, in Nigeria and Ghana. The domestic credit to private sector in both countries is not only very low but also increases sluggishly. For Nigeria it increased by a percentage point increase of 16 between 1990 and 2007. In Ghana, domestic credit to private sector increased by 13.1 percentage point between 1990 and 2006 and declined by 0.2 percentage point between 2006 and 2007. The implication is that limited access to credit for firms could result to low aggregate production.

Table 4.1: Domestic credit to private sector in four selected countries in sub-Saharan Africa as % of GDP between 1990 and 2006

	Nigeria	Ghana	Mauritius	South Africa
1990	9.4	4.9	35.6	81.0
1995	7.8	5.2	48.7	130.6
1996	10.6	6.6	44.7	137.0
1997	8.2	8.2	50.5	135.0
1998	9.1	9.4	59.2	118.9
1999	13.8	12.0	58.5	136.3
2000	13.9	14.1	61.4	141.9
2001	17.8	14.1	62.7	148.5
2002	17.8	12.0	61.3	131.7
2003	15.7	11.8	59.3	142.1
2004	15.6	13.1	59.5	141.3
2005	14.9	15.5	76.7	143.5
2006	15.0	18.0	78.0	160.8
2007	25.4	17.8	83.5	164.3

Source: The World Bank, World Development Indicators 1997, pp. 232-234; 1998, pp. 154-156; 1999, pp. 270-272; 2000, pp. 260-262; 2001, pp. 270-272; 2002, pp. 280-282; 2003, pp. 258-260; 2004, pp. 255-256; 2005, pp. 270-272; 2006, pp. 266-268; 2007, pp. 264-266; 2008, pp. 268-170, 2009, pp. 270-272

In modern economic activities, economic growth depends on an efficient financial sector that can pool domestic savings and mobilise foreign capitals for productive investments and international trade. Productive projects will be unexploited when some sets of financial institutions do not exist in the economy (Bekaert et al, 1995, p. 3). The capital market serve not only as means of ensuring liquidity and risk diversification in the economy but also as

¹⁴Domestic credit to private sector reflects the degree of financial resources provided to the private sector through credit, loans and purchases of non-equity securities, and trade credits and other accounts receivable that established a claim for repayment (World Bank, 2002, p. 283).

means of acquiring information about firms and reducing transaction costs. Table 4.2 shows the position of capital market in four selected countries in sub-Saharan Africa. The Table shows that market capitalisation or capital market value in Nigeria grew from US\$1,372 in 1990 to US\$86,347 in 2007 and fall drastically by 42.3 percent to US\$49,803 arguably as a result of GFC. The relative increase in overall size in stock market between 2005 and 2007 can be linked to the capitalisation of Nigerian commercial banks.

Table 4.2: Capital market position in four selected countries in sub-Saharan African

	1990	1995	2000	2005	2006	2007	2008
Nigeria							
Market capitalisation (mil. US\$)	1,372	2,033	4,237	19,356	32,819	86,347	49,803
Market capitalisation as % of GDP	4.2	7.5	10.3	19.6	28.5	52.2	n.a
Turnover Ratio*	0.9	0.6	7.3	11.5	13.8	28.7	29.3
Size of listed domestic stocks	131	181	195	214	202	212	213
Ghana							
Market capitalisation (mil. US\$)	76	1,680	502	1,661	1,729	2,380	3,394
Market capitalisation as % of GDP	1.1	26.6	9.7	12.8	25.0	15.7	n.a
Turnover Ratio	0.0	1.2	1.5	3.2	3.4	5.1	5.2
Size of listed domestic stocks	13	19	22	30	32	32	35
Mauritius							
Market capitalisation (mil. US\$)	268	1,381	1,331	2,617	3,598	5,666	3,443
Market capitalisation as % of GDP	10.1	35.2	38.7	41.6	56.7	83.3	n.a
Turnover Ratio	4.5	4.8	5.0	6.1	6.0	8.7	8.9
Size of listed domestic stocks	13	28	40	42	41	41	41
South Africa							
Market capitalisation (mil. US\$)	137,540	280,426	204,952	565,408	715,025	833,548	491,282
Market capitalisation as % of GDP	128.9	206.2	254.2	236.0	280.2	294	n.a
Turnover Ratio	6.1	6.7	33.9	41.6	49.5	52.8	60.6
Size of listed domestic stocks	732	640	616	388	401	422	425

*Key: n.a = not available at present year; * turnover ratio is the value of share traded as % of capitalisation*

Source: World Bank, World Development Indicators, 1997, pp. 241-243; 2002, pp. 288-290; 2006, pp. 278-290; 2007, pp. 276-278; 2008, pp. 280-282, 2009, pp. 282-284

Market capitalisation in nominal value is relatively low in Ghana and Mauritius indicating that the domestic capital is poorly mobilised. High market capitalisation in South Africa suggests that the market is relatively large, less risky and diversified compare to Ghana, Mauritius and Nigeria.

The market capitalisation expressed as a percentage of GDP shows the rate at which securities are traded in the capital market. It also reflects the size of the market and the liquidity position in the capital market. As shown in Table 3.2, in 2007, market capitalisation as a percentage of GDP recorded 274.0 per cent in South Africa, 83.3 per cent in Mauritius, 52.2 per cent in Nigeria and 15.7 per cent Ghana. This shows that securities can easily be bought and sold in South African capital market than in Mauritius, Nigeria or Ghana stock market. It also suggests that there is existence of effective institutions protecting investors in South Africa.

The turnover ratio which is the value of traded shares expressed as a percentage of GDP in Nigeria improved from 7.3 in 2000 to 29.3 in 2007 but relatively low compare to South Africa. The low turnover ratio in Ghana and Mauritius can be explained by high transaction costs and low liquidity existing in the market. Low number of local domestic companies listed in Ghana and Mauritius capital market suggests that the ability to mobilise capital and diversify risk in both countries will continue to be low.

The major problem in Nigeria's industrialisation process was the neglect of importance of small-scale industries (SSI) in Nigeria economy and the impact of linkages in industrialisation process. The pattern of Nigeria's industrial development process laid more emphasis on government large-scale enterprises or the so called CIPs. The Nigerian in development strategies failed to promote sectoral linkages and agro-industrial processing (Osoba, 1991). To sustained Nigerian economy in the face of GFC and thereafter, industrial development strategies should focus on areas where the country has comparative advantages, on promotion of sectoral linkages and capability building for possible linkages with large international firms. Focusing on agro-industrial processing is considered to be very important for rural-urban linkages. The agro-industry provides the crucial farm-industry linkage and contributes to rapid development of agricultural sector. Agro-industrial processing is the process of transforming agricultural produce into a different chemical or physical state. The process involves numerous activities that take place between harvest and production of the final products. An Agro-industry is an enterprise that processes agricultural raw materials including ground and tree crops, livestock and fisheries (ADB, 1994, p 10).

The basic idea in engaging in agro-processing is to enhance the nutritive value of the agricultural products and transforms the products into transportable form for local and distance market. The development occurs through induced backward linkages such as supply of credit and inputs as well as forward linkages in terms of processing and marketing. The economic advantages of agro-processing include also value addition to farmer's produce, creating opportunities for employment, and increasing farmer's net income. Consequently, the process opens up possibilities for agricultural development because the farmers will be motivated to increase production. Upgrading involves not only the strategies that enhance increase in the volume for exports, but also the strategies that aimed at transforming the nature of the commodity into a higher quality value. Upgrading in terms of quality provides an incentive for possible integration of the products or commodities into the global value chains (Gibbon, 2001, p. 359). Subsequently, integration efforts induced by global value chains have implicit effects on economic development in terms of industrial upgrading, employment creation and economic linkages (Uzor, 2007a).

5 Conclusions

The GFC can be regarded as a contributing factor in recent Nigerian economic crisis but the sudden fall in oil prices in international market remains a major factor. Hence, there is need to diversify production for export by improving non-oil sector. Nigeria has pursued a development strategy that placed priority on CIPs and capital-intensive industries. The industries were protected with high tariffs and subventions hence in the course of time the industries became more or less sick babies, uncompetitive and non-viable firms. Investments were concentrated on final stage consumer goods that lack sectoral and inter-firm linkages. These strategies could not be sustained due to an associated high dependency on imported inputs. The industrial capacity and the production expanded rapidly but at the expense of agro-industrial development. When the oil prices collapsed in early 1980s followed by foreign exchange crunch and surging foreign debt crisis, industrial capacity declined rapidly due lack of imported industrial inputs.

Mobilisation of domestic capital is an important instrument in industrialisation process. Capitalisation of banking institution is necessary but not a sufficient measure for sustainability of the economy. Strengthening the capital market at regional level will not only strengthen the local production but also increase access to investment capital for private

sector. The most important instrument to sustainable development and economic growth is food security. Investment in agricultural production is necessary for securing food security and boost agro-industrial linkages in agro-industrial sector. In this context, creating the good environment for foreign direct investment in agro-industrial processing will help to facilitate increase in agricultural output. Most importantly, investment in human capital development is a necessary factor that supports learning processes such that gains from economic reforms in Nigeria can be effective.

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