

The Cluster Concept: Will Nigeria's New Industrial Development Strategy Jumpstart The Country's Industrial Takeoff?

Obi Iwuagwu

Lecturer in Economic History, Development Studies & Public Policy, Department of History & Strategic Studies, University of Lagos, Akoka, Nigeria.

Abstract

It is a known fact that industrialization is critical to economic development. In fact there is hardly any developed nation that is not industrialized. However, industrialization would only take place once there is a focused administration capable of wielding the necessary political will to implement clearly defined policies that can transform the nation's processes away from primary production. The experience of Nigeria indeed shows that the nation has never been lacking in policies. What is always absent is the political will to implement, coupled with the rapid turnover of people in government, with the resulting consequence of most of the policies being abandoned. The paper therefore argues that even the new industrial development strategy introduced by Nigeria, which is anchored on the cluster concept, will most likely suffer the same fate unless something is urgently done to reverse this ugly trend.

Keywords: Nigeria; Economic Development; Industrialization; Cluster Concept

Introduction

Since Nigeria became independent in 1960, achieving economic development through rapid industrialization has remained a major challenge. How to achieve rapid economic development has also remained the primary focus of succeeding administrations in the country. Thus, different economic development policies (with each having a bearing on the industrial sector) were adopted ranging from Import Substitution Strategy (ISS) through indigenization to the Structural Adjustment Program (SAP). However, it seemed as if none of these policies provided sufficient answers to the challenges of the country's industries to the point that many have concluded that the more new policies were introduced, the farther the country moved away from being industrialized.

The discovery of crude oil, which immediately became the primary export commodity and foreign exchange earner, was to worsen the situation leading to the almost total neglect of industries. Unfortunately, the volatility associated with international oil prices frequently led the country's resource expectations into avoidable difficulties resulting in the resurgence of calls for the diversification of Nigeria's economy in general and revenue base in particular. As in the past, government early in 2007 responded by introducing a new industrial development policy anchored on the Cluster Concept. But many are not yet convinced that this is the long term solution to Nigeria's industrial development challenges given the experiences of the past.

This paper therefore seeks to discuss Nigeria's new industrial development strategy (the Cluster concept) against the backdrop of previous policies. It starts by showing the relevance of industry to national development before undertaking a comprehensive review of the country's past industrial policies. It ends with a discussion of the Cluster Concept as being implemented by Nigeria, arguing that the new policy may still suffer the fate of its predecessors unless immediate steps are taken by governments at various levels to facilitate its implementation.

Scholars have eminently commented on Nigeria's industrial policies especially since 1960 (Ikpeze, Soludo & Elekwa, 2004; Adejugbe, 2004; Anakom, 2008; Ugbor, 1988; Dare-Ajayi, 2007; Ishiola, 2004). However, majority of these works reveal an obvious bias for some of the policies, while others in most cases simply criticized without properly analyzing the policies. Similarly, none of them discussed the Cluster Concept (introduced in 2007), which forms the subject matter of the present effort. In the same vein, the relevance of the cluster strategy as an acceptable model of industrialization particularly for developing economies has equally remained a subject of controversy. Whereas the inherent advantages of these clusters in most cases makes it attractive to both small and large enterprises, for Head et al (1995) the real attraction lies in its pull effect, which cities especially those with good infrastructure and established industrial bases, usually have on industrial agglomerations. The authors argue that firms in the same industry could be drawn to the same locations given that proximity generates positive externalities or 'agglomeration effects' even as chance events and government inducements could have lasting influences on the geographical patterns of manufacturing. Using the 'flowchart model', Kuchiki (2004) showed the role of policy

interventions (e.g. the setting up of export processing zones and industrial zones), local capacity building and lead firms, as important factors for developing industrial clusters, while Sonobe et al (2002) building on this have shown the contribution of industrial clusters to the industrial development of East Asia.

Africa's experience with the cluster strategy have been discussed in the works of Douglas Zeng (2006), Banji Oyelaran-Oyeyinka (1997) and others. The present work relying on these arguments further shows how the peculiarity of Nigeria's business environment makes the Cluster Strategy an acceptable platform for the country's industrial development.

Industrialization and Economic Development

Industrialization may refer to an increase in the share of manufacturing in the Gross Domestic Product (GDP) and in the occupations of the economically active population. It could also be used to describe the development of economic activity in relatively large units of production, making much use of machinery and other capital assets, with the tasks of labour finely divided and the relationships of employment formalized (Kirk-Greene, 1981). In either case, industrialization is concerned with the expansion of a country's manufacturing activities, including the generation of electricity and the growth of its communications network. It is also a process of reducing the relative importance of extractive industries and of increasing that of secondary and the tertiary sectors (Adejugbe, 2004). There is evidence to suggest that industrialization and in particular manufacturing is the prime mover of economic development. This is given that it creates employment, enables wealth creation and facilitates poverty alleviation.

Former United Nations Secretary General, Kofi Anan in his message to Africa's Industrialization Day (2003), highlighted the relevance of industrialization, especially its varied and valuable contribution to the alleviation of poverty. Industrialization, he argued, raises productivity, creates employment, reduces exposure to risk, enhances income-generating assets of the poor and helps to diversify exports. It is in fact argued, that the transformation of Southeast Asia within a few years and the unprecedented pace of development of China and India (which have lifted millions from poverty), are examples of what sustained industrialization could do to any economy.

There is an intrinsic relationship between industrialization and economic development. This is given that there is hardly any country that has developed without industrializing even as rapidly growing economies tend to have rapidly growing manufacturing sectors (UNIDO, 2009). Similarly, virtually every country that experienced rapid growth of productivity and living standards over the last two hundred years has done so by industrializing (Murphy, 1989). England, which is widely acclaimed as the first developed country, achieved this status using the Industrial Revolution, which enabled it, thanks to series of cost-reducing innovations, to increase its industrial output fourfold beginning from the first half of the eighteenth century. Since then, the main criterion for development has been an increase in per capita income resulting mainly from industrialization. The example of Southeast Asia, which we earlier alluded to, is self evident. In these economies industrialization has proved to be the natural route to development. Their spectacular rise, contrasts sharply with the continued industrial marginalization of sub-Saharan Africa as well as other least developed economies. Take the example of Qiaotou, which twenty years ago was only a small village in China. This same village today, produces almost two thirds of the world's buttons (UNIDO, 2009), thanks to its rapid pace of industrialization.

The potential of industrialization for explosive growth is particularly distinctive to manufacturing. As manufacturing activity expands, instead of running up against shortages of land or resources that inevitably constrain the growth of agriculture or the extractive industries, it benefits from economies of scale in terms of unit costs of production (UNIDO, 2009). Even within Africa, it is also true to say that the few economies that have showed some promise are the ones in which considerable attention have been given to industrial development. Some of these countries include South Africa, Mauritius, Botswana, Egypt, Namibia and Senegal. Mauritius is in fact a suitable example. From a poor sugar-dependent nation, this country has been able to diversify its economy to the point that manufacturing has become its primary source of revenue, with the result that its increased per capita income of about \$10, 000, is many times higher than sub-Saharan Africa's average of \$300. However, the key government strategies in Mauritius lie in the establishment of Export Processing Zones (EPZ), duty free areas and the provision of tax incentives to businesses.

Similarly, government increased spending on manpower and infrastructure development all of which aided the growth of industry.

Nigeria's approaches and methods of industrialization have been quite different leading to not too impressive results. In fact, large scale manufacturing plants were rare in Nigeria until the 1950s. The only enterprises equipped in organization and finance for these activities were the trading companies, which imported manufactured goods and beyond them, the overseas manufacturers who produced for the Nigerian market, but neither group saw compelling reasons to locate production in Nigeria (Kirk-Greene, 1981). In 1958, the contribution of manufacturing to GDP was N81 million (4% of GDP). Five years later (1963), it rose to N157.8 million (5.6% of GDP). The corresponding annual rate of growth was 17%. By 1967, manufacturing contributed N225.8 million (8.4% of GDP). The high degree of transformation taking place in the manufacturing sector was very remarkable. From 50% in 1958, the value-added generation from the processing of agricultural products fell to less than 25% in 1967, while industrial factory production accounted for the rest (Anakom, 2008).

The sector was to record more worrisome developments in later years. For instance, manufacturing value-added as a percentage of GDP was about 5% in 2000 (less than the proportion at independence in 1960), making Nigeria one of the 20 least industrialized economies in the world. The situation later picked up as industrialization soared during the oil boom era (1973 – 81) with manufacturing share of GDP reaching 11%, but later had a precipitous decline to about 5% in 2000. Manufacturing export was barely 0.4% of exports, while import of manufactured goods was about 15% of GDP or more than 60% of total imports (Ikpeze, 2004).

Nigeria's manufacturing sector especially since the 1980s have been beset by numerous challenges including low capacity utilization; unstable infrastructure (which impacts on cost of doing business); absence of venture capital for business start ups; high cost of capital especially from banks and other financial institutions; lack of long term loans; absence of enabling macroeconomic environment; multiple taxation by the different agencies of government, etc. All these have combined to frustrate the country's entrepreneurs especially the Small and Medium Scale

Enterprises (SMEs) known to be the engine of growth of most developing economies. It has also resulted in high cost of doing business to the point that even the little produced is always exorbitant and therefore unable to compete in the international market even as the country has become dumping ground for all types of poor quality foreign goods usually cheaper and more attractive to consumers.

Nigeria's Industrialization Policies 1960 - 2007

A country's industrial policy is the dynamic tool for stimulating and regulating its industrial development process. It is a blueprint detailing the objectives and strategies for optimally attaining the goals of non-primary production, particularly manufacturing, taking into consideration the resource endowment of the country in terms of labour, land, capital, entrepreneurship, international goodwill etc (Federal Ministry of Industry & Technology, 1992). Since Nigeria's independence in 1960 different administrations have introduced policies targeted at not only diversifying the country's economy but making industry the engine of economic growth. Some of these policies include the import substitution approach and the indigenization programme. At other times, government felt the need to raise the level of intermediate and capital goods produced locally and to promote the establishment of industries, which cater for overseas markets in order to earn foreign exchange (Ugbor, 1988). Some of these policies are discussed below especially to serve as background for assessing the Cluster Concept, which was introduced in 2007.

It could be said that the initial economic policy adopted by Nigeria at independence was a follow up to the colonial approach, which almost totally discouraged local manufacturing, essentially to ensure unrestrained supply of raw materials for metropolitan industries. The colonial government, in fact, saw the role of the colonies as mainly to supply raw materials to their factories, while receiving manufactured products from them (Federal Ministry of Industry & Technology, 1992). However, towards the end of colonial administration this policy gradually tilted towards the introduction of basic processing methods. This was the era of the pioneer oil mills for palm oil processing, palm kernel and groundnut crushing, cotton ginning, leather tanning, power driven saw mills, beer brewing and oil seed milling.

It was on the strength of this that the Import Substitution or Resource-based Strategy was adopted under the First National Development Plan (1962 – 1968) essentially to enable the country import capital goods like machinery, tools and spare parts and by so doing, facilitate the assembly of these products within the country, while encouraging the manufacture of consumer goods. These imported items were brought in at little or no duty even as the industries were also protected by high tariffs as ‘infant industries’. The essence was to achieve growth in the sense of laying a solid and enduring foundation for future expansion, which was considered a prerequisite for Nigeria’s evolution towards a self-sustaining economy. To this end, government was to stimulate the establishment and growth of industries, which contribute both directly and materially to economic growth; and, enable Nigerians to participate to an ever increasing extent in the ownership, direction and management of Nigerian industry and trade (Federal Government of Nigeria, 1962). In a bid to realize these targets, about 13% of the public investment programme or 90 million was set aside to trade and industry with the aim of establishing an integrated iron and steel complex; participating in the establishment of an oil refinery; providing funds for direct participation in industries as the occasion arose; and, setting up a Development Bank that would lend to industries and act as one channel for foreign capital (Federal Government of Nigeria, 1962). Government effort was consistent and in fact, began to pay off especially with maximum support from the Regions that seemed to be competing among themselves.

Perhaps, it was the remarkable successes recorded in this period that led many to describe it as the golden age of Nigeria’s industrialization, given that manufacturing as share of GDP rose to 6% up from 5%, which it was at independence (Ikpeze, 2004). Similarly, from the 150 plants of medium and large scale size in the industrial sector at independence (most of which were actually established in the 1950s), the number rose to 380 by 1965 arising from the intensification of the process of import substitution and the establishment of firms to undertake domestic manufacture of goods hitherto imported, though still largely dominated by low technology light industries (Dare-Ajayi, 2007). However, many argue that the First National Development Plan did not achieve much given that the objectives of the policy were not strictly implemented. For instance, under the scheme, industrial estates were to be developed and let out to foreign industrialists at subsidized rates. But in reality only very few industrial estates, in addition to those already in existence were

built even as the record of the establishment of cottage industries was unimpressive (Federal Ministry of Information, 1970). Unfortunately, even the modest achievement that was recorded was undermined by Nigeria's thirty-month fratricidal Civil War, which started in 1967. From then, attention shifted to prosecuting a war to ensure Nigeria's unity.

All the same many believe that the policy of import substitution, which characterized this period often, resulted in high import bills and disruptive supply bottlenecks, thereby raising the cost of local manufactures and further making them to be less competitive than the imported ones. Similarly, given that an important goal of import substitution was to correct the balance of payments disequilibrium by reducing the annual import bills on consumer goods, this was never achieved in the case of Nigeria. Other structural weaknesses of import substitution include over-reliance on imported inputs; bias for the production of consumer goods; predominantly internal market orientation for its output; over-dependence on protection for external competition which bred inefficiency and market distortions; capital intensive method of production; and, over-concentration on secondary stage processing with little or no internal linkages in the economy (Federal Ministry of Industry & Technology, 1992).

Conversely, it has equally been argued that there was nothing intrinsically wrong with the import substitution strategy but that in the case of Nigeria, the strategy was never followed to its logical conclusion, which should have led to the domestic production of industrial raw materials to substitute the imported inputs (Federal Ministry of Industry & Technology, 1992). This naturally would have taken the industrialization process to the next level. Unfortunately, it did not happen as the strategy was almost abandoned following changes in the country's economic fortune. As a result, in some cases even some of the machines imported were never used. In the oil and gas sector for instance, the strategy should have led to the production of petrochemical products from crude oil, which Nigeria had in abundance, and this obviously would have had ripple effects on manufacturing. Of course, this was the case with several other developing countries that adopted the import substitution strategy including Malaysia, Indonesia and India. Nigeria's case was different as the country and its leaders were deceived by the fabulous revenue that accrued from the oil boom of the 1970s. Consequently, industry was almost totally neglected. From then also,

government policy tilted a little, with government now moving into the direct control of the sector (without any form of partnership with the private sector) resulting in the establishment of heavy industries, most of which were to end up as white elephant projects. This was the beginning of policy inconsistencies as well as lack of proper implementation, which later became a recurring feature of government's attitude to the industrial sector.

At the end of the war in 1970, the overall government programme towards moving the country forward was encapsulated in the policy of the three Rs: Reconciliation, Rehabilitation and Reconstruction. The focus was to reconcile the people and to rehabilitate and reconstruct existing infrastructures and businesses. To this end, the focus of industrial development under the Second National Development Plan 1970 – 1974 was to: promote even development and fair distribution of industries in all parts of the country; ensure rapid expansion and diversification of the industrial sector of the economy; increase incomes realized from manufacturing activities; create more employment opportunities; promote the establishment of industries, which cater for overseas markets in order to earn foreign exchange; continue the programme of import-substitution and raise the level of intermediate and capital goods production; initiate schemes designed to promote indigenous manpower development in the industrial sector; and, raise the proportion of indigenous ownership of industrial investments (Federal Ministry of Information, 1970). This period was indeed remarkable in the sense that for the first time, the country had sufficient revenue (accruing mainly from its first oil boom), with which it invested in several sectors of the economy including industry. This period also recorded prolonged military rule up to 1979 with the attendant problems of lack of proper planning, as well as absence of transparency and accountability, which have always characterized military administrations in Africa.

It was not surprising therefore that government especially following its highly improved resource base now sought to assert itself by taking over the commanding heights of the economy. Little wonder why the industrial programs of this period were characterized by investment in heavy industries including oil refineries, petrochemicals, liquefied natural gas, fertilizer, machine tools, aluminum smelting, textiles, iron and steel, and motor assembly. At the same time, the location of these industries in some parts of the country including Lagos, Kano, Kaduna, Zaria, Port Harcourt,

Enugu and Aba was not always guided by economic considerations. Hence, the dispersion of industrial location without regard to economic considerations is a critical factor in understanding the reasons for poor performance and international competitiveness of such industries (Ikpeze, 2004). Nevertheless, with the new emphasis on importation, more finished goods were continually imported into the country so much so that local manufacturing was almost discouraged. But this jamboree was cut short by over-importation, and the sudden crash in oil prices. Gradually, the country began to accumulate debts, while government sought to introduce fresh policies to manage the situation.

But by far the greatest development of the period was the introduction of the indigenization policy as contained in the Nigerian Enterprises Promotion Decree of 1972, which reserved certain categories of industrial activity, mostly services and manufacturing, for Nigerians (Ikpeze, 2004). It has been suggested that the primary purpose of the Indigenization Decree was to compel foreign businesses in a large number of specified activities to transfer their ownership wholly or in part to private Nigerian investors and businessmen. It also became apparent later that public share acquisition (by the federal government, statutory corporations or state governments) was interpreted as part of the programme of indigenization (Kirk-Green, 1981).

The Decree initially categorized businesses into two Schedules with Schedule 1 containing enterprises that were strictly for Nigerians while Schedule 2 contained those enterprises in which Nigerians must have at least 40% share. Furthermore, under a 1977 Amendment, business enterprises were re-categorized as follows: under Schedule 1 were businesses to be 100%, owned by Nigerians; Schedule 2 contained businesses in which Nigerians were to have at least 60% equity; while Schedule 3 contained businesses in which Nigerians would have at least 40% equity. In the same vein, a Nigerian Enterprises Promotion Board was set up to administer the decree, while a publicly funded Bank of Commerce and Industry was established to provide finance for Nigerian purchasers. Also, commercial banks (in which the federal government acquired 40% shares in 1973) were encouraged to advance more loans and advances to their Nigerian customers (Kirk-Greene, 1981).

Nevertheless, the indigenization programme under which Nigerian shareholders obtained majority shares in companies hardly changed the control of neither the companies nor the relationship with their parent companies. In fact, it was erroneously believed that majority equity ownership would confer control of the businesses and that the restricted expatriate quota in the industries would substantially enhance the transfer of technology to Nigerians (Adejugbe, 2004). Instead leadership (e.g. chairman of the Board), which in most cases went without serious executive/administrative responsibilities was bequeathed to Nigerians, while the actual foreign owners still occupied almost all the strategic positions.

Meanwhile, the sudden collapse of oil prices in the international market was to have more debilitating effects on Nigeria's economy and industries in particular. Unfortunately, government could not rely on the productive sector given that industries depended almost entirely on imported raw materials. However, even as importation continued, the need now arose for government to rationally allocate its limited resources and foreign exchange. Unfortunately, government's prioritization of its needs did not favor industries. Several industries were for two years either paralyzed or forced to shed capacity due to their inability to secure import licenses to import vital inputs. In fact, it was from this period that corruption became a major issue in post-independence Nigeria. The sourcing and sale of import licenses became big business for many.

This was background to the introduction of the Structural Adjustment Policy (SAP) in 1986. Essentially, SAP was introduced amidst a gloomy background of mounting external debt, unhealthy investment and the failure of the regime of stringent trade and exchange controls, which had been pursued in the previous two decades (Federal Republic of Nigeria, 1986). For the industrial sector particularly, SAP was to among other things: encourage the accelerated development and use of local raw materials and intermediate inputs rather than dependence on imported ones; encourage the development and use of local technology; assist in maximizing the growth of value-added of manufacturing activity; promote export oriented industries; generate employment through the encouragement of private sector small and medium scale industries; remove bottlenecks and constraints that hamper industrial development, including infrastructural, manpower and

administrative deficiencies; and, liberalize controls to facilitate indigenous and foreign investment (Federal Republic of Nigeria, 1986).

Government policy in this period favored active participation of the private sector in economic development as well as freer access to the foreign exchange market. The target was to build a competitive economy. Thus privatization and liberalization of aspects of economic activity were pursued, while the import licensing regime was abolished. At the same time, industries were encouraged to integrate backwards meaning that they would now have to source most of their raw materials locally.

In 1988, government for the first time published a separate industrial policy completely different from the country's overall economic development policy. Titled "Industrial Policy of Nigeria: Policies, Incentives, Guidelines and Institutional Framework", its central objective was to achieve an accelerated pace of industrial development and make the industrial sector the prime mover of economic development. To this end government was to provide greater employment opportunities through industry; increase export of manufactured goods; ensure dispersal of industries; improve technological skills and capability available in the country; increase local content of industrial output; attract foreign capital; and, increase private sector participation in the manufacturing sector (Federal Ministry of Industries, 1988). This was to be made possible through a number of strategies including promoting increased private sector participation in the industrial sector; privatizing and commercializing government holdings in existing industrial enterprises; playing a catalytic role in establishing new core industries; providing and improving infrastructural facilities; improving regulatory environment; improving investment climate prevailing in the country; establishing a clear set of industrial priorities; and, harmonizing industrial policies at the federal, state and local government levels (Federal Ministry of Industries, 1988). It is important to note that this policy was to operate within the general framework of the Structural Adjustment Program (SAP). SAP remarkably led to some initial improvements in the fortunes of the industrial sector. For instance, capacity utilization, which was 30% at the end of 1986, increased to 36.7% by mid-1987 and further to 40.3% in 1990 and 42.0% in 1991 (Dare-Ajayi, 2007). This was given that manufacturers could now import their raw materials and other inputs as they now had access to foreign exchange.

It could also be argued that SAP further worsened the already difficult situation of Nigeria's industries. For instance, the liberalization of the foreign exchange regime and the high interest rate associated with the period was to lead to inflation and low purchasing power of consumers. As industries could not sell, they had to shed capacity and in most cases reduced their staff strength or close shop entirely. But this was not all. The net effect of trade liberalization under SAP was to result in the elimination of the protection hitherto enjoyed by local industries. It also gave rise to massive inflows of all manner of finished products from industrialized countries of the West and Asia, including second-hand and used products (textiles, footwear, automobiles and motorcycles, refrigerators and air-conditioners); substandard and fake products (e.g. pharmaceuticals, cosmetics and toiletries, electrical materials and foods). With time, some of the manufacturing companies were converted into stores for packing such imported items as fruit juice, detergents and warehouses for keeping used air-conditioners, refrigerators, freezers and generators (Ishiola, 2004). To this extent, SAP led to the de-industrialization of Nigeria given that it exposed local manufacturers to unfair competition from imports as those invading the local markets were cheaper, though sometimes inferior to the ones produced locally. This put a lot of pressure on local manufacturing companies as they were at a disadvantage in the struggle for market share (Ishiola, 2004). Based on the foregoing, it may therefore be said that the decade of the 1980s witnessed a deep crisis in the nation's industrial development evidenced by steady decline in capacity utilization; deterioration of the tools of production and decay of capital assets in some cases; low rate of investment in industry and in some cases disinvestment; as well as high cost, low quality and hence uncompetitive products (Federal Ministry of Industry & Technology, 1992).

Government from 1990 adopted the strategy of National Rolling Plans. The aim was to consolidate the achievements made under SAP. For instance, having identified the major constraints of industry in the First National Rolling Plan 1990 – 1992, to include, shortage of industrial raw materials and inputs; infrastructure challenges; inadequate linkage among industrial subsectors; and, administrative and institutional problems; the Industrial Master Plan (IMP), which was part of the First Rolling Plan therefore sought to promote the development of an efficient industrial system

through the determination and definition of all the functional aspects of an industrial system, and the preparation of an action plan to achieve established objectives and targets.

Another major program that resulted from the Rolling Plans was the privatization of public enterprises including those in the industrial sector for more effective performance. This was undertaken by the Technical Committee on Privatization and Commercialization (TCPC). Government as well commenced a deliberate policy aimed at assisting small scale industries given their contribution to the economy in terms of employment generation, promotion of indigenous technology as well as forward and backward linkages. In the same vein, government sought to make all areas of the country attractive to new investors through a package of incentives, including a program of industrial layouts and craft villages' development. It also pledged to assist state governments with matching grants in the establishment of industrial estates for small scale industries. Government equally promoted the Entrepreneurial Development Program (EDP), Working-for-Yourself Programs (WFYP) and Train the Trainers Scheme. The aim was to develop a corps of entrepreneurs needed for successful implementation of the small scale industrialization strategy (Federal Ministry of Industry & Technology, 1992).

Yet another industrial policy was released by the Federal Ministry of Industry in 2003. The overriding objective was to accelerate the pace of industrial development by radically increasing value-added at every stage of the value-chain. According to the policy, Nigeria's resources will no longer be traded in their primary state. Henceforth, government would emphasize increases in Total Factor Productivity (TFP) by pursuing knowledge and skill intensive production on the basis of available best practices. To this end, it would encourage forward and backward linkages within a few chosen niches (Federal Ministry of Industries, 1988).

The objectives of the policy were reduced into short, medium and long terms. For the short term, the objectives were to raise capacity utilization in manufacturing from 30% to 60%; create new opportunities for the development of the small scale sector; create more direct and indirect employment opportunities; and, create conditions to attract new investments in the medium and large industries. Its emphasis in the medium term, were to strengthen the competitiveness of manufacturers by facilitating access to technology and best practices; stimulate development of

small and medium size enterprises by developing the nation's resource as a base for cheap inputs; maximize linkages achieved between small-scale units and medium and large enterprises; and, adapt and respond to the changing global environment. The long term goals were to encourage 100% export-oriented units and encourage industrial development in the informal sector (Federal Ministry of Industries, 1988).

Government's commitment towards achieving these objectives was indicated by its renewed effort to enter into partnership with the private sector for industrial development. As well, ongoing policies of deregulation, privatization and commercialization were to be more vigorously pursued. And to tackle the issue of perennial lack of funds in industry, the Bank of Industry (BOI) was established as the primary development financial institution in Nigeria for lending to industries. It was created out of the National Economic Reconstruction Fund (NERFUND), the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Industrial Development Bank (NIDB). Similarly, the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) was set up and mandated to facilitate the availability of primary industrial inputs through the provision of medium to long term funds for agriculture and agro-allied industries. As in the case of the Bank of Industry, NACRDB was created out of the People's Bank, Nigerian Agricultural and Cooperative Bank, and the Family Economic Advancement Program (FEAP). Furthermore, government acting through the Central Bank of Nigeria (CBN) got commercial banks in the country to set aside 10% of their annual profit as equity funds for the promotion of SMEs under the Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

Other efforts to boost industrial development in this period include strengthening the National Office for Technology Acquisition and Promotion (NOTAP), which started in 1979 as the National Office of Industrial Property (NOIP); promoting the Export Processing Zones (EPZ) and Export Processing Factories (EPF); and, strengthening the Nigerian Investment Promotion Commission (NIPC) essentially to control and administer incentives to attract investments. Furthermore, although export promotion had been in focus since the 1980s, when the Export (Incentives and Miscellaneous Provisions) Decree No. 18 of 1986 was promulgated, it received greater attention in this period especially with the strengthening of the Export Expansion Grant (EEG), which was to

provide cash inducement to exporters who have exported a minimum of N500, 000.00 worth of processed products including solid minerals.

The Cluster Concept

Between the end of 2006 and the first half of 2007, Nigeria's industrial sector could be said to have passed through its most difficult period since independence. During this period, the sector grappled with numerous challenges including low capacity utilization resulting from: unstable infrastructure (especially poor power supply, bad roads, insufficient telecommunication facilities etc), which impacted negatively on cost of doing business; absence of venture capital especially for business start ups; high cost of capital from banks and other financial institutions; lack of long term loans; poor macroeconomic environment (including inadequate regulation and lack of business incentives); multiple taxation, etc. All these combined to bring industry's contribution to National GDP to just a little over 4%. Expectedly, some manufacturing companies even shut down, while others migrated to neighboring countries where the business environment was considered friendlier.

But two remarkable things also happened in this period. First, government early in 2007 merged the former Federal Ministry of Commerce and the Federal Ministry of Industry to form the Federal Ministry of Commerce and Industry. This was essentially borne out of the need to conserve funds previously spent to maintain large administrative machinery and to harmonize policies of the two Ministries that were considered to be related. Furthermore, government in July of that year (and for the first time) appointed Charles C. Ugwuh, an Engineer and a former President of the Manufacturers Association of Nigeria (MAN) as the country's Minister of Commerce and Industry. The thinking in government circles (which was also popular with Nigerians at the time), was that being a manufacturer himself from the private sector, he already understood the issues in the sector and therefore would be in a better position to tackle the problems. It was against this background that the federal government early in 2007 adopted the Cluster Concept, proposed by the Federal Ministry of Commerce and Industry as Nigeria's new Industrial Development Strategy.

The Cluster Concept according to the Minister was not entirely a change in policy (Nigeria had in the past promoted the setting up of industrial estates) but a refocusing of the country's

implementation strategy to achieve rapid takeoff and survival of industrial/productive enterprises in Nigeria. This was based on government's conviction that so long as Nigeria remained deficient in infrastructure and continued to be perceived as a hostile and unfavorable business environment, major foreign direct investments would continue to elude it (Federal Ministry of Commerce & Industry, 2007). The strategy therefore addressed the active steps, which Nigeria needed to take to grow its economy on the plank of rapid industrialization especially to realize the administrations Seven-point Agenda and Vision 20:2020, which will make it one of the twenty largest economies by 2020.

Along this line, government identified the major challenges of industry to include unstable infrastructure, which cannot sustain meaningful and competitive economic activities; lack of enabling environment for business development, particularly in terms of multiple taxation, inadequate incentives and absence of credit facilities; poor capacity utilization; insecurity; and, inadequate skills. The Cluster Concept it was argued, would create a community of businesses located together in which members would seek enhanced environmental, social and corporate performance towards effective global trade competitiveness. It would also enable government to concentrate infrastructure and other amenities necessary for the smooth operation of business in identified locations (Federal Ministry of Commerce & Industry, 2007). Clustering would permit greater focusing of public resources as infrastructural facilities would be concentrated in identified locations especially for industrial and commercial purposes. Moreover, because of geographic proximity of firms as well as financial and other business institutions, clustering would enhance the effectiveness of the innovation process necessary to kick start Nigeria's industrial takeoff. It would also encourage localization economies and enhance the likelihood of inter-firm technology and information transfers; and, equally motivate Nigeria's companies to go into product specialization and adoption of new technologies.

According to the policy, the Cluster Concept would operate on five planks: Free Trade Zones; Industrial Parks; Industrial Clusters; Enterprise Zones; and, Incubators. It defined Free Trade Zones, as oases of economic activities usually situated in the proximity of seaports or international airports (entry and exit points). In such zones, goods are brought in or taken out of the country

without being subjected to the usual duties, since it was considered to be outside custom's territory. Government would therefore establish more of such zones across the country to complement existing ones, while the zones would grant special incentives to attract foreign direct investments (FDI). Industrial parks were explained as mega parks covering areas of not less than 30 – 50 square kilometers for large manufacturing companies with high value addition in the production of finished products. The plan according to the policy was to locate at least one park in each of the six geo-political zones, with such parks focusing on processing products, in which the zones had both comparative and competitive advantages.

Furthermore, it defined Industrial Clusters as oases of industrial activities and commerce, covering areas between 100 and 1, 000 hectares, which would be controlled by the organized private sector. Usually smaller in scope than the parks, these clusters were to be established by the states and local governments. Enterprise Zones according to the policy are platforms of 5 – 30 hectares, targeted at scaling up businesses from the informal sector to the formal sector. The aim, was to tackle some of their problems, which ranged from skills deficiency, funding, access to credit to infrastructure. The target was to locate at least one of these specialized zones in every state capital, local government and major cities. The last leg of the Cluster Concept are the Incubators, which were described as start-up centers for new and inexperienced entrepreneurs, such as graduates of tertiary institutions, investors and vocational persons wishing to set up their own businesses. In these centers, prospective start-up companies would be equipped with entrepreneurial skills and programs aimed at nurturing them from scratch to maturity. These incubators would be attached to higher institutions and research institutes (Federal Ministry of Commerce & Industry, 2007).

Cluster Concept and Past Industrial Policies: An Assessment

It is important to note that the Cluster Concept was not entirely new to Nigeria and government at least admitted this fact. But one unique thing about it was that unlike previous policies, its implementation was to be based almost entirely on public-private-partnership (PPP). Thus, government was expected to identify and locate the clusters, provide infrastructures and incentives, while the private sector would locate their businesses within the clusters. They would also undertake the physical structures, while banks and other financial institutions would provide the

necessary capital both for the construction of structures and for business development. Presented below is a checklist for the implementation of the Cluster Concept, which was released by government.

Table 1: Cluster Concept - Implementation Checklist

S/N	Item	Quantity	To Do
1.	Acquire land (including C of O)	Depending on size required	Government (Federal & State)
2.	Build structures		Private Sector
3.	Power Supply	50/100MW	IPP/Private Sector/Government
4.	Link roads (including internal network)	Several	Government
5.	Rail link	Depending on size required	Government
6.	Water Supply		Government
7.	Sewage treatment		Government
8.	Training School/Vocational Centers	1 in every cluster	Government/Private Sector
9.	Airport		Government
10.	Telecommunication		Private sector
11.	Long term loans		Government (indirect), Private sector
12.	Incentives	Numerous	Government
13.	Mentoring		Government/Multilateral Agencies/Private sector
14.	Microfinance Credit for business development		Banks/Multilateral Agencies
15.	Third Party linkages (Multilateral Agencies)	Skills technology	Government (National Panning Commission)

16.	Establish Businesses	Numerous	Private sector
17.	Security		Government/Private
18.	Baseline Studies (Assessment)	Consultancy Advisory	Government.

Source: Federal Ministry of Commerce & Industry, Nigeria's Industrial Development Strategy: the Cluster Concept (2007), Abuja: Federal Ministry of Commerce & Industry, 30.

It is important to note that unlike previous policies, which in most cases were adjuncts to overall national economic policies, the new industrial development strategy was primarily targeted at finding solutions to the multifarious problems that confronted the country's industrial sector especially the infrastructural challenge. At a point when most of the country's industries were migrating to more friendly business environments because of Nigeria's unstable and unreliable infrastructure, the Cluster Concept, it was argued, would enable government to concentrate infrastructural facilities in designated locations thereby saving costs and achieving efficiency.

Moreover, the new strategy took into consideration the peculiarities of Nigeria's business environment by seeking to address the challenges of the informal sector especially the artisans who constituted the backbone of whatever little industrial activity that remained within the country. For instance, the primary motive for setting up Enterprise Zones was to scale up small businesses to the formal sector. In the Enterprise Zones, basic infrastructures as well as common facilities were to be provided to facilitate business development. Given that such businesses constituted the bulwark of Nigeria's informal sector but were scattered everywhere, making coordination and coherent policy intentions difficult, if not impossible, it also meant that once the Cluster Concept was successfully implemented, their fortunes would be seriously enhanced.

Experiences of the past have equally exposed the lack of capacity in most of the country's industries owing to the fact that they had to provide their own facilities. But by virtue of location within a common cluster, the new policy encouraged the use of common facilities. This would engender competition and innovation and promote economies of scale. Remarkably, this was the path taken by majority of the Asian economies, which led to their economic transformation within a short time.

The fact also remains that the bane of most policies in Nigeria was the lack of commitment towards full implementation. Often times, this resulted from the lack of political will as well as vested interests, leading to inconsistency on the part of political administration. Once the particular administration that introduced a given policy was out of office, such a policy was usually jettisoned. Hopefully, the cluster concept may not suffer the same fate. Although the Minister that introduced it has long left office, there is evidence to suggest that the policy is still being pursued by government (even if not as vigorously as the former Minister did.).

Beyond that, successive governments of Nigeria (including the present) seem not to have realized the critical role of industry in employment generation, wealth creation and, by extension, economic development. Hence, they have always paid lip service to issues relating to industrial development. Government officials mainly drum up the campaign to diversify the country's economy in periods when the overall national and global economy were in jeopardy or following a fall in oil prices resulting in reduced government revenue. Of course, such campaigns were usually abandoned once the economic fortunes of the country changed for the better.

There is every reason to suggest that Nigerians are in most cases usually excited by new policies and programmes, so much so that they hardly subject such policies to any critical evaluation or in fact understand the real issues involved in their implementation. As a result, the implementation processes were either not properly done or were undertaken in such haphazard manner that in the end no real value is added. A striking example of this trend is the establishment of free trade zones, which has been an on going policy of government. Once this was pronounced a major component of the new industrial development strategy, several States within the Federation began to set up new zones. At the moment there are about twenty three (23) free trade zones in the country ostensibly established to attract foreign direct investments (FDI) with less than five doing any serious business. Elsewhere, and especially in Taiwan upon which Nigeria's free trade zone concept was modeled, these zones are known to have played a key role in the economic development of their territories. One then wonders whether it was necessary to establish more of such zones given that existing ones were yet to be utilized. The case of the establishment of Industrial Parks is also

similar. The original idea was to set up at least one in each of the six geo-political zones of the country taking into consideration the peculiar economic advantages of these locations. But rather than toe this line, majority of the States have again undertaken the setting up of Industrial Parks, which in most cases were either not completed or ill equipped to support business development. In the end, the aim is usually defeated given that businesses cannot be attracted to these parks. Many even fear that if care is not taken, they may ultimately become a conduit pipe for siphoning state resources especially given the penchant of past leaders for prestige projects.

Conclusion

This paper has shown that, the quest for rapid industrialization in order to facilitate economic development has remained the focal point of successive administrations in Nigeria since independence. This is demonstrated by the multiplicity of industrial policies and strategies, initiated and implemented by the country over the period. That the industrial sector currently contributes a paltry 4% to national GDP is an indication that these policies were either not properly implemented or were not successful at all. The paper observes however, that it was not as if the policies were not suitable for the country but that in most cases they were either not properly implemented or the implementation processes were truncated midway. Hence, it identifies policy inconsistency and the lack of political will to implement as the real challenges of Nigeria's industrial development. This is given that the rapid growth of the Asian Tigers in particular, is easily traceable to the pursuit of sound industrial policies initiated by their governments but implemented with the patriotic support of the private sector.

The paper has also shown that industry is yet to receive the attention it requires from Nigeria's governments given its critical role as a growth driver. In other words, aside enunciating new economic policies, Nigeria must be willing to tread the path of industrial development, which will enable it to add value to its primary resources (especially agriculture and minerals). This will further lubricate the industrial process with additional raw materials while enabling the country to earn more foreign exchange.

It concludes that the Cluster Concept is capable of jumpstarting Nigeria's industrial takeoff given that it especially recognizes the present challenges of the country's business environment (infrastructure deficiency), while noting that the new policy may suffer the fate of previous ones, if it is not properly implemented or abandoned midstream.

References

- Adejugbe, M. A.** ((2004), "Industrialization, Distortions & Economic Development in Nigeria Since 1950" in M. O. A. (ed.), *Industrialization, Urbanization & Development in Nigeria 1950 – 1999*, Lagos: Cocept Publications Ltd.
- Anakom, U.** (2008), "Post Independence Nigeria and Industrialization Strategies: Four and Half Erratic Decades" <http://ssrn.com/abstract=1266633>
- Dare-Ajayi, D.** (2007), "Recent Trends an Patterns in Nigeria's Industrial Development", *Africa Development*, XXXII, 139 - 155
- Federal Government of Nigeria** (1962), *Economic Development Programme 1962 – 68*, Lagos: Federal Printing Division
- Federal Ministry of Commerce & Industry** (2007), *Nigeria's Industrial Development Strategy (2007 – 2011): the Cluster Concept*, Abuja: Federal Ministry of Commerce & Industry
- Federal Ministry of Industry & Technology** (1992), *Industrialization in Nigeria: A Handbook*, Ikeja: Sahel Publishing & Printing Co.
- Federal Ministry of Industries** (1988), *Industrial Policy of Nigeria: Policies, Incentives, Guidelines and Institutional Framework*, Abuja: Federal Ministry of Industries
- Federal Ministry of Information** (1970), *Second National Development Plan 1970 – 1974*, Lagos: Government Printer
- Federal Republic of Nigeria** (1986), *Structural Adjustment Programme for Nigeria, July 1986 – June 1988*, Lagos: Government Printer
- Head, K. & Ries, J.** (1996), "Inter-city Competition for Foreign Investment: Static and Dynamic Effects of China's Incentive Areas", *Journal of Urban Economics*, 40/1, 38 - 60
- Ikpeze, N., Soludo, C., and Elekwa, N.** (2004), "Nigeria: The Political Economy of the Policy Process, Policy Choice Implementation" in C. Soludo, O. Ogbu and H. Chang (eds.), *The*

- Politics of Trade and Industrial Policy in Africa: Forced Consensus?, New Jersey: Africa World Press/IDRC
- Ishiola, W. A.** (2004), “Structural Adjustment and De-Industrialization in Nigeria: 1986 – 1999” in M. O. A. Adejugbe (ed.), *Industrialization, Urbanization & Development in Nigeria 1950 – 1999*, Lagos: Concept Publications Ltd.
- Kirk-Greene, A. & Rimmer, D.** (1981), *Nigeria since 1970: A Political & Economic Outline*, London: Hodder & Stoughton
- Kuchiki, A.** (2004), “A flowchart Approach to Asia’s Industrial Cluster Policy” in A. Kuchiki & T. Masatsugu (eds.), *Industrial Clusters in Asia: Analyses of their Competition & Cooperation*, Japan: Institute of Developing Economies
- Murphy, K.** (1989), “Industrialization and the Big Push”, *The Journal of Political Economy*, 97/5, 1003 - 1026
- Oyelaran-Oyeyinka, B.** (1997), *Nnewi: An Emergent Industrial Cluster in Nigeria*, Ibadan: Technopol Publishers
- Sonobe, T., Dinghuan H. & Otsuka, K.** (2002), “Process of Cluster Formation in China: A Case Study of a Garment Town”, *Journal of Development Studies*, 39, 118 - 139
- Ugbor, F.** (1988), “Twenty five years of Industrial Growth in Nigeria in U. Eleazu, *Nigeria: the first 25 years*, Lagos: Heinemann Books
- UNIDO** (2009), *Industrial Development Report 2009*
- Zeng, D.** (2006), **Knowledge, Technology and Cluster-Based Growth in Africa: Findings from Eleven Case Studies of Enterprise Clusters in Africa**, World Bank: Knowledge for Development Programme

The cluster concept: Will Nigeria's new industrial development strategy jumpstart the country's industrial takeoff? Afro Asian Journal of Social Sciences, 2(2), 1-24. Google Scholar. Jaffee, S., Henson, S., Unnevehere, L., Grace, D., & Cassou, E. (2019). The safe food imperative: Accelerating progress in low- and middle-income countries. Washington, DC: World Bank. Google Scholar. Lawanson, T. (2014). Illegal urban entrepreneurship? The case of street vendors in Lagos, Nigeria. Journal of Architecture & Environment, 13(1), 33-48. Google Scholar. Lindell, I. (2010). Cluster development in rural areas. 4.4.6. Developing countries and transition economies. 4.5 Evaluation. p.5 p.5 p.9. Cluster-based response to systemic and market failures Possible cluster actions Cluster policies and tools Country size and clustering process Industry and competencies Distribution of women and men in the target groups and incubators Benefits and challenges of the initiative Pros and cons of the initiative. There is now a general interest in, and receptiveness towards, strategies in support of clustering.