Industrialisation Policies In West Africa

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List of Abbreviations

AGC	Ashanti Goldfields Corporation
AOE	African Economic Outlook
BOG	Bank of Ghana
BOI	Bank of Industry
CAST	Consolidated African Selection Trust
CBN	Central Bank of Nigeria
CET	Common External Tariff
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EDP	Entrepreneurial Development Programme
EPFs	Export Processing Factories
EPZs	Export Processing Zones
FDI	Foreign Direct Investment
FES	Friedrich Ebert Stiftung
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GIHOC	Ghana Investment Holding Company
GSS	Ghana Statistical Service
HDI	Human Development Index
ILO	International Labour Organization
IMF	International Monetary Fund
IMP	Industrial Master Plan
IP	Industrial Policy
ISI	Import Substitution Industrialisation
ISSER	Institute of Statistical Social and Economic Research
MVA	Manufacturing Value Added
NACRDB	Nigerian Agricultural, Cooperative and Rural Development Bank
NBCI	Nigerian Bank for Commerce and Industry
NEEDS	National Economic Empowerment and Development Strategy
NEPD	Nigeria Enterprises Promotion Decree
NERFUND	National Economic Reconstruction Fund
NIDB	Nigerian Industrial Development Bank
NIID	National Integrated Industrial Development
NNPC	Nigeria National Planning Commission
NOIP	National Office for Industrial Property
NOTAP	National Office for Technology Acquisition and Promotion
NRC	National Redemption Council
PRSPs	Poverty Reduction Strategy Papers
SAP	Structural Adjustment Programme
SMEs	Small and Medium Enterprises
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
TCPC	Technical Committee on Privatisation and Commercialisation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Development Organisation
WACIP	West African Common Industrial Policy
WDI	World Development Indicators
WFYPs	Working-for-Yourself Programmes

Background to the Study

The failure of Structural Adjustment and its successor neo-liberal policies to transform the economic structure of West African economies in any significant way has become obvious. Despite modest economic growth rates, countries in the sub-region are mired in deep poverty. The manufacturing sector virtually collapsed along with the jobs that it used to provide. The few industries that were set up in the first two decades after independence have been wiped out and no new ones have emerged to take their place.

The failure to industrialise via the market approach as envisaged by the neo-liberal reforms has led to re-examination of not development strategies in general but equally importantly industrial strategies in particular. Countries in the sub-region are beginning to set up industrial policies to facilitate their industrial ambitions. The political euphoria and clamour for this could potentially affect the soundness of the policies countries are likely to choose and implement. The possibility for repeating past mistakes loom large.

The Friedrich Ebert Stiftung (FES) has taken keen interest in the discourse around industrial policy and industrial development programmes in the West African sub-region. The foundation commissioned this study to provide both historical and comparative analysis of industrial polices in the sub-region. The analysis covers Ghana and Nigeria. This is intended to provide broad overview of industrial policies in the two countries and their impacts (if any) on industrial development.

Overall, the study seeks to provide guidance for the design and implementation of industrial development strategies with a heavy focus on the political context for the success or otherwise of industrial policies. It does this with the conviction that industrialisation should form an important part of any development strategy that is focused on changing economic structure and alleviating poverty on a sustainable basis. The study provides overview of economic structures in West Africa (Ghana and Nigeria). It also identifies the factors that make for success or failure of industrial policies.

Study Methodology

The study is based essentially on extensive review of existing literature on industrial policy and industrial development globally and in West Africa. Large numbers of academic publications, policy documents, political speeches and declarations were reviewed as part of the study. Current and past industrial policy documents of Ghana and Nigeria were analysed bringing out their strengths and weaknesses. In addition to these sources, interviews were also conducted with an academic from the University of Ghana and a practitioner from the Ministry of Trade and Industry of Ghana.

Additional information were also obtained from two conferences organised by the Friedrich Ebert Stiftung in Cotonou, Benin (on economic transformation in West Africa) and in Nairobi, Kenya (on Industrialisation in Africa) in 2011. The two conferences brought together diverse individuals and institutions that are specialised in industrial development strategies including the United Nations Industrial Development Organisation. The expert knowledge shared at the two conferences provided useful information for this report.

Introduction

"Such is the power of industry that no mine of silver or gold in New Spain or Peru can compare with it, and the duties from the merchandise of Milan are worth more to the Catholic King than the mines of Potosi and Jalisco. Italy is a country in which … there is no important gold or silver mine, and so is France: yet both countries are rich in money and treasures thanks to industry"

Giovanni Botero

The need to industrialise has never been lost on either the African people or their political elites. The immediate post-independence period (1960-1980) saw many countries in the region embarking on rapid industrialization with heavy reliance on the state machinery. The state not only led the development process but also captured the commanding heights of the economy. Many countries adopted Import Substitution Industrialisation (ISI) policies in their attempt to transform their economies. In the absence of a functioning middle class, the state led the entrepreneurial efforts by establishing industries of various kinds in nearly all sectors of the economy. The policy of industrialisation was supported by an array of policies that are today described as unorthodox. This included the erection of tariffs barriers, maintenance of fixed exchange rates and fixed interest rates, directed credit lines, establishment of grand marketing boards and the fixing of all kinds of prices among others.

These policies, and indeed, the state-led industrialisation project they supported, have been described by mainstream economists, as inappropriate and counterproductive. For example, the maintenance of protective tariff walls in the name of infant industry protection has been derided as having led to situations where firms that were grossly inefficient were kept afloat. The fixed exchange rate regime was said to have grossly over-valued domestic currencies and destroyed incentives for exports. Directed credit lines led to inefficient allocation of resources. Overall, the heavy hand of the state in Africa in virtually all aspects of economic life killed market incentives and individual initiatives.

However, and to a larger extent many of these policies could be justified by the initial conditions in which many of the countries found themselves at independence – the huge infrastructural deficits; absence of entrepreneurial middle class; lack of a functioning private sector and a political imperative to meet aspirations of the people. Indeed history appeared to have been on the side of state-led approaches to industrialisation. In the Western world itself, governments' interventions were visible in many areas of the economy as part of the new deal to address the crisis of the 1930s[1]. The success of the Marshall Plan in fixing the war-ravaged economies of Western Europe showed how the visible hand of the state can facilitate development.

It would however be fair to say that in many African countries, these policies were carried to the extreme. When viewed against the background that most of the countries were just beginning to put together functioning bureaucracies in a multi-lingual, multi-ethnic society, state mediation and provisioning in and of everything was bound to encounter challenges that the state could not sufficiently address. These challenges were exacerbated by dictatorial rule, pervasive corruption and external factors including the oil price shocks of the 1970s. By the beginning of the 1980s most countries on the continent had accumulated debts that they could not service let alone repay. The continent was faced with festering debt crisis. In exchange for the restructuring (including outright forgiveness) of their debts, countries were compelled to jettison the state-led industrialisation policies. In their place, series of market-driven policies were instituted and implemented. Among other policies, state-owned enterprises (SOEs) were privatized almost overnight; the public sector workforce was down sized. Protective tariff walls were dismantled as both external trade and payment regimes were liberalized. Financial markets were deregulated and interest rates became determined by the market. The investment regime was also liberalized.

At the heart of the new economic management philosophy was the idea that the 'State' was part of the problem of economic malaise that countries were confronted with. Therefore, an important first step in addressing the crisis was to rollback the state. What was required is a leaner government that is focused on providing an 'enabling environment' for the private sector to flourish. Industrial Policy and for that matter any deliberate attempt to influence the industrial structure of the economy was seriously frowned upon.

The market model of development became institutionalized in most of the countries. The claim was that markets were superior in terms of their ability to generate better economic performance compared to the State. After more than three decades of unleashing market forces the juror is out there. The results both in terms of economic and social performance have at best been embroiled in controversy. Economic growth as narrowly measured by growth of Gross Domestic Product (GDP) has barely crossed the 6 percent mark. At the same time, the modest growth rate that has been recorded in some countries has failed to create jobs in their right quality and quantities.

[1]The Marshall Plan was a classic example of government intervention that help fixed the war-ravaged economy of Western Europe.

The vast majority of the inhabitants of the sub-region have not benefited from the modest growth rates. Inequality has widened as economies grow.

The neoliberal market driven policies were deficient in many respects – these would be explored throughout this paper. But beyond their inherent deficiencies were the manner in which they were implemented. As we have noted earlier, thrusting the State in every sphere of economic activity and denying completely the role of the private sector and market incentives for resource allocation was bad policy choice. One, which was bound to lead to economic failure as it eventually did. But swinging economic policy from one end of the continuum – state-led economic policies – to market-led approach in one go, entails many perils. Such an abrupt shift was likely to disorganize society and disorient many people. Structural adjustment and its offspring, Poverty Reduction Strategy Papers (PRSPs) entailed heavy deployment of market forces and a complete denial of the role of the State in economic activity and management. Just as the State was everything in the immediate post-independent period, the period from 1980 onwards saw the rise of market fundamentalism in which the market became everything and the State was demonized. The State was to African Socialism, what the market is to neo-liberalism. But those who pushed for market solutions to the developmental problems of Africa failed to recognize the enclave nature of African economies. Most of the countries had a dual economy; a small formal sector that is linked to markets and a survivalist informal sector. . In many areas of economic life there were no markets at all. Pushing for market solutions means that you can only affect the lives of the few players in the market.

Consequently, economic growth performance has been sluggish at best. Export diversification has failed to occur as the structures of the economies remain unchanged. Africa's share in global trade has been halved. Increasing export revenues have been made possible by increased export volumes and occasional commodity price spikes. Adult literacy has fallen over the last three decades, life expectancy remains at below 60 years, the lowest in the world. Per capita income in Africa today is lower than it was in the 1970s. More than half of the population of Africa lives on less than one dollar a day. Indeed, the number of Africans living in poverty almost doubled between 1981 (at the start of Structural Adjustment Programme) and 2002. According to the United Nations (UN), by 2015 more than a third of the world's poor will be in Africa, compared to a fifth in 1990.

The abysmal performance of the two development models – the State- and the market-only-approach, has led to a rethinking of development policy in Africa**.** The need to change the structure of African economies remains uncontested. Ending the spectre of poverty would require that Africa add value to its vast natural resources. Manufacturing or industrialisation remains central to the quest to promote Africa's development. The private sector has to play a crucial role in this transformation process. Market discipline and market incentives cannot be ignored. At the same time the domestic private sector in much of West Africa is too weak and faces too many constraints. On reasonable balance they cannot be expected to survive and flourish in the global market place. A deliberate programme of support carefully crafted and implemented is urgently required. There has been a resurgence of interest in how industrial policy can be used to bring about real transformation in the economies of West Africa. This paper looks at industrial policy and the conduct of it in West Africa from a historical and comparative perspective. The analysis covers two countries – Ghana and Nigeria. The paper analyzes strengths and weaknesses of industrial policies in the two countries and suggests how the countries could make use of industrial policies in their development programmes. It does so by identifying the factors that make for the successes or failures of industrial policy.

Review of the Debates over Industrial Policy

The literature defines industrial policy in different ways, emphasizing various aspects of state intervention in support of industrialization. And there are as many varied definitions and explanations of Industrial Policy (IP) as there are varied views about its desirability or otherwise. Central to these definitions is the recognition that Industrial Policy encompasses a deliberate attempt to promote industry as a whole or specific industry sectors that are considered important for economic growth and transformation.

The United Nations Conference on Trade and Development defines Industrial Policy broadly to include all government measures aimed at improving the competitiveness and capabilities of domestic firms and promoting structural transformation (UNCTAD, 2011). Such government measures or policies are intended to stimulate domestic firms engaged in specific economic activities and promote structural shift in the relative importance of the economic sectors. The specific activities that are supported might not necessarily be in industry or manufacturing per se. Therefore, industrial policy is not about *industry* per se. Policies targeted at non-traditional agriculture or services qualify as much as incentives for manufactures (Rodrik, 2004).

Chang (1994) describes industrial policies as governmental actions supporting the generation of production and technological capacity in industries considered strategic for national development. This definition implies an attempt by government to discriminate among activities, sectors and agents. It also implies that the discrimination is based on the belief that the favoured activities, sectors and agents have greater potential than others to advance economic development. This approach frames the broader discussion of industrial policy in terms of the qualitative differences among economic activities (since not all sectors are equal in their ability to generate growth and transform the structure of the economy) and in terms of the impact of industrialization on the paths of development. Flowing from this, Rodrik (2004), describes Industrial Policies as restructuring policies in favour of more dynamic activities.

These definitions manifestly underscore a long held view in development theory that some economic activities are inherently more supportive of qualitative structural transformation than others. Thus, Reich (1982), who was a great defender of industrial policy in the United States, defined industrial policy as the set of governmental actions designed to support industries that have major export potential and job-creation capacity, as well as the potential to directly support the production of infrastructure.

The key assumption is that some economic activities are by their nature subject to diminishing returns – the inability to extend production (beyond certain point) at falling cost. Other activities are subject to increasing returns. Economic activities that are characterized by increasing returns experience falling costs as production volumes increase. Added to this is the fact that activities characterized by increasing returns tend to enjoy greater degree of product differentiation than those that are characterized by diminishing returns – maize is maize but there are many different brands of cars.

These differences in economic activities produce market power for firms and economies that are engaged in economic activities that are subject to increasing returns. Such firms are able to influence the price of what they sell. In economic parlance, this is referred to as 'imperfect competition'. On the other hand, firms and economies that are engaged in diminishing returns activities are unable to affect the prices of the commodities that they produce and sell. Such firms are said to be in 'perfect competition'.The task or the rationale for industrial policy is to shift economic production away from activities and products that are subject to diminishing returns to those that are characterize by increasing returns to scale. Theoretically, this task of shifting to increasing returns activities can be accomplished by relying on the devices of the market. And since the publication of the Wealth of Nations by Adam Smith in 1776, the belief in the ability of the market to undertake this gargantuan task has pervaded economic theorizing. In the last thirty odd years, this belief in the efficacy of the market permeated economic thinking to a level where contrary views were not only frowned upon but were nipped in the bud. The apparent triumph of neo-liberalisms elevated the market to the level of a religion that showed profound hostility to dissent.

However, the reality as we have come to know it shows that markets left to their own devices can at best produce perverse transformation – as in moving from low productivity agriculture to equally low productivity service activities. A cursory glance at the global economic landscape points to the fact that all countries that have industrialized have done so through deliberate state-sponsored policies and programmes that moved them away from raw materials and diminishing returns activities to activities with increasing returns – manufacturing – where costs per unit falls as production is expanded and where countries gain market power.

By its nature therefore, an important component of industrial policy is that it is selective of economic activities. It does discriminate and selects among industries, sectors and agents and it is designed specifically for each chosen industry and sector within a given national territory (Landesmann, 1992). It is for this reason that Industrial Policies have been labeled as an attempt by the state to pick winners and losers.

The emerging consensus on industrial policy is that on its own it might be less effective in building a lasting industrial base for any economy. It should, therefore be taken as part of a broader productive development strategy which is concerned to enhance capital accumulation and knowledge accumulation (UNCTAD /UNIDO 2011). Industrial policies must then be viewed as including all policies designed to support industry, including fiscal and monetary incentives for investment, direct public investment and public procurement programs, incentives for investment in research and development, major programmes for the creation of "national champions" in strategic sectors, and policies to support small and medium enterprises (Pinder, 1982).

The debate about the effectiveness or otherwise of Industrial Policy to deliver industrialisation and development has been rich and often emotive. That debate has often been wrapped in economic principles punctuated with nationalistic sentiments. The debate comes down to the question: what is the best way to achieve industrialisation and development? Series of questions flow directly from this: is government action effective or even necessary in the pursuit of industrialisation and development? What should be the appropriate role of government in the development process? And what should be the balance between market forces – the invisible hand – the government intervention – the visible hand?

The case for industrial policy rests on two sets of proposition. First, is the proposition that structural transformation, and in particular the development of competitive manufacturing activities (increasing returns activities), is a necessary condition for sustained and inclusive economic growth rather than simply a side-product of this process. This argument flows from the knowledge that not all economic activities are the same in terms of their potential to affect development. Sustaining economic growth and making it inclusive cannot happen without structurally transforming the economy. There are historical examples of countries that have grown without achieving structural transformation. Specialisation in agricultural or natural resource production can initiate economic growth and sustain it for a while. But without special effort to diversify into other sectors that raise the value of natural resources, growth could neither be sustained nor be made inclusive in the longer term.

The second argument is that government action is necessary to promote structural transformation**.** Again, this argument rests on the hard to discount notion that markets do fail and that unfettered markets are more likely to produce sub-optimal outcomes. Government action, strategically chosen, can prevent market failures or address its consequences. There are also instances when government direct involvement in certain economic activities is necessary for growth and development. The private sector might not have the incentives or even the resources to invest in areas that are critical for national development. Thus, the State can play both direct and indirect role in economic transformation. That role must be geared towards supporting the private sector rather than subduing it.

Those that are oppose, to industrial policy deny the importance of economic structure and the role of government in economic transformation. From their perspective, industrial policy is perceived as irrelevant from the outset because structural transformation is not an integral aspect of a successful growth process. They do not appreciate that some sectors have greater potential than others to propel economic growth and development. They see the economic growth processes in terms of an aggregate production function in which added inputs of various kind (capital, labour) and productivity growth (through disembodied "technological progress") leads to economy-wide increments to output. Underlying this view is an abiding faith in the ability of the market to set in motion the processes and guide them to a successful conclusion. On the basis of this 'faith' those oppose to Industrial Policy are also profoundly hostile to action by the State that seek to direct the development process believing as they do that the State and its agent – governments – once they branch out of their night-watchman role, become agents of economic destruction (Coats, 2011).

There are important economic reasons for State or government action in the quest to promote structural transformation and in particular to develop manufacturing capabilities. In the past, the justification for industrial policy in developing countries rested on the need to protect infant industries (Soludo, Ogbu and Chang 2004). However, in recent years, the economic case for industrial policy has focused on either the need to counteract market failures, or more broadly the need to address systemic failures and build capabilities (Rodrik 2004, 2008).

Coordination failure occurs when a group of firms could achieve a more desirable equilibrium but fail as individual firms because they do not and possibly could not coordinate their decision making and activities. Coordination failure could arise, for example, when the profitability of an activity depends on whether or not there are simultaneous investments by other agents acting independently. In such situations, social welfare could be enhanced through collective action. In the presence of coordination failures profitable new industries can fail to develop unless upstream and downstream investments are undertaken simultaneously. Market failures could also take the form of information asymmetry where firms lack complete knowledge of which industries are viable and which ones are not. Firms may not have full knowledge of technical alternatives and the requisite know-how, much of which comes as tacit knowledge gained through experience and practice, and are both costly and time-consuming. For firms in developing countries at early stages of industrialisation, mastering existing technologies is more significant (and perhaps easier) than introducing new products and processes, which are new to the world.

But firms in developing countries may not even know how to search and learn about global technological opportunities. There are also major externalities in technological learning, which means inter-firm linkages are important to the process (See Lall and Teubal 1998). But there are many reasons to belief that technological capabilities of firms particularly in developing countries do not develop automatically through market forces. Low investments in Research and Development could hamper the ability of firms to undertake profitable new investments. Foreign capital and technology could play role. But the dynamics of the global technological market do not always ensure sufficient transfer of technology.

There are also issues of information externalities arising from the success or failure of pioneering firms because no one is willing to be the first mover. Firms that venture into an economic activity have to bear the full costs if the activity fails but they have virtually no way of preventing others from entering the market and profiting from it if the activity turns out to be viable and profitable. The State has to place a facilitating role in dealing with market failures and externalities. In developing countries, the state may even be required to play a more direct role in the development process. It might have to undertake strategic investment either in railways or port services without which other profitable investment activities might not occur. But the involvement of the state in direct economic activities should be based on the reason that private capital has failed to enter the activity not because the activity is not viable or profitable but because the initial capital requirement is beyond the domestic private sector. At the same time, the direct involvement of the State should be to facilitate the private sector in ways that allow the State to exit when the private sector is able to take over.

Indeed, early development theorists promoted government intervention as a rational response to the missing factor – capital, technology, entrepreneurship. The predominant view in the 1950s and 60s was that these important factors are unlikely to be procured solely by relying on market forces. Imperfect capital markets, for example, were unlikely either to generate sufficient savings or allocate them efficiently without some form of market intervention. Technological and pecuniary externalities lead to underinvestment particularly in sectors and activities that are considered critical for economic transformation.

In addition, investors' expectations were often based on past experience, requiring some kind of 'inducement' mechanism to elicit investment in new industrial activities (Hirschman, 1958, 1977)**.**Different methods could be employed to elicit these missing ingredients for growth. In the face of this challenge, and equipped with a weak private sector and scarce capital, only the State had the capacity to mobilize and allocate resources. Due to the prevalence of pecuniary externalities, Nurkse (1953), Rosenstein-Rodan (1943), and Scitovsky (1954) argued that, governments need to coordinate investment decisions and promote a 'Big Push'. The idea that the State and its apparatus could be used to rapidly industrialise under-developed economies was so beguiling that in most cases no prior assessment of viability was done before a flamboyant industrial activity took off. Consequently, instead of converging to developed countries' income levels, income levels in countries that adopted this approach stagnated and even declined. The attempt to industrialise as quickly as possible through import substitution failed and showed that, establishing industries is different from industrialisation.

And indeed, the story of development in the last half century has often been one of disappointments. The success stories have been few. The contrast between economic and/or development strategies and economic performance has been intriguing both to economists and development experts. At all times in the last 50 years, countries that followed the dominant economic theories/strategies of the time in formulating their economic policies failed to change their economic structure in any qualitative way (Justin, 2009). On the other hand, countries such Japan and the Asian Tigers (Korea, Singapore, Taiwan and Hong Kong), industrialized rapidly through economic policies that do not conform to any of the dominant theories of the time. China, Vietnam and Mauritius have attained rapid and sustained growth by following a gradual transition approach to a market economy instead of the 'shock therapy' approach passionately prescribed by the Washington Consensus[2].

The lesson flowing from the above is that positing the development process and approach as one of reliance either solely on the devices of the markets or state intervention misses the point. History of development in the last century teaches us that neither the State nor the market is capable of delivering industrialisation or development on its own. Both have complementary role to play. The question then is what should be the respective roles of the market and the state in generating and nourishing the dynamics of structural change. And Industrial policy works best when policymakers are not only aware of their own limits but equally importantly they have the skill to intervene strategically in perceive or real failings of the market. It is equally important that they know their limit.

[2]See appendix for the 10-point principles underlying the Washington Consensus.

Chapter 1

Overview of Industrial Policies in West Africa

From Manufacturing you may expect the two greatest ills of humanity, superstition and slavery, to be healed.

Ferdinando Galaiani

1. Introduction

The preceding chapter has looked at the merits and demerits of industrial policy globally. The chapter also dealt with the historical debates on the best way to industrialise under-developed economies. It looked at the market-led versus State-led approach to industrialization and draws the conclusion that in the end, it is neither a question of solely relying on the market nor the State. It is a question of how the dynamism of the market forces can be complemented by the institutional efficiency of the state, recognizing that in reality both markets and governments do fail.

In this chapter, we look at industrial policies that have been pursued in West Africa in the last half century. The analyses cover two countries namely Ghana and Nigeria. We do this by first exploring the political and economic realities of the countries within which the policies were implemented.

2. The Political, Economic and Social Context

According to Rostow (1960), the journey from traditional to modern society entails significant changes to the economy and in the balance of social values. However, a decisive factor in nearly all successful transformations has been political (Rostow, 1960). The argument is that it impossible to structurally transform an economy in the absence of strong and purposeful centralized nation state that is able and willing to confront the traditional interests and neo-colonial forces and set in motion the tasks of building a modern nation.

As we have seen, colonialism bequeathed to West African countries a unique role of hewers of wood and drawers of water. In other words, West African economies have been set up solely to produce raw materials for export to feed the industries of their colonial masters. In return, countries imported finished products – made from the raw materials they exported – from the colonialists. The colonial economy had been designed on the basis of division of labour and comparative advantage. Since West African countries were rich in natural resources but lacked the manufacturing industries, it was advantageous for them to export their primary products and imports finished products. Thus, Ghana exported cocoa timber and mineral resources while Nigeria exported Cocoa and groundnuts and later oil. Liberia exported Timber. The commodity price boom experienced during the colonial period hide the negative effects of this pattern of development.

The countries emerged from colonialism with this pattern of development, specializing in the production of raw materials for exports while importing all manufactures. This was in line with the dominant motive if colonialism – the search for cheap raw materials and expansion of markets for the products of the colonialists. Consequently, more than half of the GDP of the respective countries emanated from the agricultural and related activities. The economies were open, small and thus heavily dependent on international commerce. For instance, foreign trade made up about 30 percent of Ghana's GDP in the 1960s. In Nigeria, the colonial authorities stimulated the production of raw materials such as palm oil and kernels, cocoa, cotton, groundnut and rubber. The result was that export trade in these commodities soon became the dominant feature of the colonial economy.

The few modern industries that emerged during the period were foreign owned and remained enclaves with very limited links with the domestic economy. These foreign-owned enterprises either in the mines or in the plantations drew on the domestic economy only for unskilled labour and the virtual free use of natural resources.

At independence, it became obvious to the political leaders of the sub-region that the economic prosperity they had promised their people could not be met with this pattern of development. The nationalist leaders of the various countries had singled out colonialism as the sole reason for all that has gone wrong in the lives of their people. The refrain as part of the struggle to overthrow colonialism was that independence – and in this case self-determination – was the first stage to economic prosperity.

With the attainment of full political independence, leaders came up to the tasks of delivering economic dividends to a population whose appetite they have wetted. And they soon realized that they could not deliver the economic dividends they have so eloquently promised their people during the struggle for independence within the colonial economic framework they inherited. The need to restructure the economies away from primary commodity production into manufactures was recognized across the sub-region. Economic restructuring was, however, conceived more in political terms than in economics. The need to satisfy a freed people whose lives have been battered by colonialism had become a political imperative the ruling elite could no longer ignore. Admittedly, the struggle for independence had itself brought about some degree of enlightenment and political organisation that pressured the ruling political elites to deliver all that according to them (the elites) colonialism had denied the people. But since Nkrumah's paradise could not be delivered in a short space of time and within the inherited economic framework, leaders faced the impossibility of meeting their promise to the people.

Politics came to their rescue; the more influential lobbies groups were internalized into party structures. The ruling parties became increasing diffused into State structures, and the distinction between State and party became increasingly blurred. Groups that could not be absorbed were repressed as governments became dictatorial across the sub-region.

On the economic fronts efforts were made to industrialise as rapidly as possible to secure real benefits to the people. As we noted earlier, the approach to industrialization in the two countries decidedly fell on import substitution industrialization. It is important to state that this was a period of declining world trade in which the dominant theory of circular deterioration of the terms of trade was in vogue. Producing for the export markets seemed impossible; the emergence of the General Agreement on Tariff and Trade (GATT), had led to large trade distortions particularly in products of exports interest to developing countries – agricultural products. At the same time, the few export sectors that the countries had built up had led to enclave pattern of development. All this took place in the context of scarce entrepreneurship. The State was, therefore, compelled to fill the entrepreneurship gap by investing in large-scale industrial projects with a focus on the domestic market.

The subsequent difficulties that attended the pursuit of import substitution in large parts of the developing world including across West Africa have led to closer examination of that policy. The consensus among development practitioners has been that import substitution was and is a bad way to attempt industrialization. The policy is so much discredited. This consensus, however, misses the fact that most of the countries including some of the Asian tigers actually began their industrialization projects on the back of import substitution. We argue that the import substitution industrialization was not bad in itself; it was about the way it was pursued and sequenced.

The first stage of import substitution is characteristically easy. It involves the production of non-durable goods for which countries with no previous industrial experience are able to manage. The goods are frequently intensive in unskilled labour. The efficient scale of output is typically small and technology is usually unsophisticated. At this stage, there is no need for elaborate network of suppliers of parts, components and accessories. Low wage economies such as we find in West Africa should be able to produce economically their own non-durable consumer goods such as clothing, shoes and households goods. Most countries including the United States, Japan, Korea, Singapore and Taiwan went through this phase – on the basis of their domestic markets. The second phase involved the establishment of industries to produce durable consumer goods and more capital-intensive intermediaries like steel petrol-chemicals. This phase is much more arduous in terms of sophisticated technology, and extensive network of suppliers. It also requires greater skills and competencies. Above all, this phase requires bigger markets. In Latin America attempt was made to support this second stage with the establishment of regional trading blocs in order to provide a wider market. In large parts of the developing world however including West Africa, countries pushed on to this stage on the basis of their domestic market.

The countries that succeeded were those that broke with the policy of import substitution once the initial the easy first stage is passed. Those countries moved on to an outward-looking strategy that favoured the growth of non-traditional exports.

1.1 3. Industrial Strategies

Two main industrial development strategies have been pursued in West Africa since independence. The first path was import substitution industrialization in which the State established various industries to produce for the domestic market. The previous section has laid out the political and economic context that informed the choice of this path to industrialization. The second path is the Structural Adjustment Programme in which markets and the private sector mechanism became the main instruments for industrial development.

1.1.1 3.1 Import Substitution Industrialisation

Both Ghana and Nigeria implemented an import substitution industrial policy in the 1960's up to the early 1980's. The stated objectives of the policy were two-fold. The first was to lessen over-dependence on foreign trade and to save foreign exchange by producing those items that were initially imported. The strategy was to complement political independence with economic independence by producing for the domestic markets products that used to be imported. And this was in tandem with the widely held view at the time that there could be no genuine political independence without economic independence.

Import Substitution industrialization was supported by array of unorthodox policies including the erection of tariff barriers to protect domestic industry. The structure of tariff protection entailed high tariffs on finished products and low tariffs on intermediate inputs. In essence, the strategy involved protection of domestic industries against competition from imports. Apart from the imposition of high tariffs, quotas were also instituted making it illegal to import foreign products beyond specified quantities. In addition, domestic industry benefited from subsidies.

Monetary policy was geared towards low interest rates. And in most cases there were ceilings on interest rates preventing them from rising above certain levels. Directed credit lines were also implemented to ensure that preferred industries obtain their credit requirements at affordable rates of interest. Interventions in this area included the establishment of State-Owned Banks, which came to dominate the financial sector. The rationale was to provide cheap credit to agriculture and industry. Fiscal policy measures were also generally accommodative reflecting the nationalist desire to expand infrastructure – social overhead capital.

Initially, the Ghanaian authorities had a taken a view that State Owned Enterprises would eventually be transferred into private hands once they become viable. However, Nkrumah became disillusioned with the idea of private enterprise believing that there was little prospect of building indigenous business class capable of industrializing the country as quickly as possible. He thus aborted the idea of transferring State enterprises into private ownership. For reasons of politics and ideology, it became doubtful whether the ruling the political elites in many of the countries in West Africa were actually interested in fostering private entrepreneurship. Private capitalism, it was feared, could pose formidable threat to the power base of the ruling elites.

Thus, genuine lack of entrepreneurial middle class capable of investing in industry for which reason State intervention became necessary muted into ideological and political tool for suppressing the development of private capital. State ownership of economic production became an end in itself. No serious attempt was made to foster private ownership. In many countries, indigenous private enterprises were seen more in terms of a threat to the political establishment to an extent where they face persecution.

3.2 Indigenisation Policy

The hostility to private enterprise was even more pronounced when it came to foreign capital. In 1972, both Ghana and Nigeria implemented a comprehensive programme of indigenisation. Among other objectives, the policy sought to:

- Transfer ownership and control to citizens in respect of enterprises wholly or partially owned by foreigners
- Foster widespread ownership of enterprises among indigenes
- Create and reserve opportunities for indigenous business people
- Encourage foreign investors to move away from unsophisticated sectors of the economy to sectors that require large investments and sophisticated technology.

The Nigerian Enterprises Promotion Decree (NEPD) of 1972 created the first indigenisation policy of the country. The policy contained two schedules. The first schedule contained 22 selected enterprises in which no person, other than a Nigerian citizen or association, could be the owner. In other words the Decree barred foreigners from doing business in this category. This scheduled contained 6 light or small-scale industries (block and brick making, bread and cake making, tyre retreading, the manufacture of ordinary tiles for building and construction works, candles and ordinary garments not combined with the production of textile materials); two medium scale industries (manufacture of jewellery and related articles and singlets); two processing industries (blending and bottling of alcoholic drinks and rice milling); four businesses in the service sector (advertising and public relations, pool betting and lotteries, hairdressing, laundry and dry-cleaning); two in transportation (haulage of non-petroleum goods by road, municipal bus and taxis); two in entertainment (casinos and gaming centres, cinema and other places of entertainment); two in media (newspaper publishing and printing, radio and television broadcasting); commercial businesses (i.e., retail trade). The indigenisation Decree listed under schedule 2 contained thirty-three other businesses and industrial ventures in which foreigners could not be owner or part owner. Enterprises in this schedule exempted on the basis of their size were required by law to make available to Nigerians up to 40 percent of their total equity shares. The Decree exempted from schedule many of the large import substitution industries in which the paid up share capital exceeded N400, 000 or the turnover exceeded N1,000,000.

The 1972 Decree was replaced the 1977 indigenisation law which made major revisions and extended the remit of the policy. The new law created schedules. In schedule one few enterprises were removed including departmental stores. But also, added other enterprises including wholesale distribution of goods. Thirty-three new economic activities were added to schedule 2 including activities in banking, insurance, manufacture and petrochemical industries. The mandatory domestic ownership was raised from 40 to 60 percent. Incidentally the indigenisation policy of the Ghanaian authorities occurred at the same time as those in Nigeria (around 1972). The Timber Operations

(Government Participation) Decree, 1972 (NRDC 132), made the Ghanaian government the majority (55%) shareholder in all foreign-owned timber companies. The Ashanti Goldfields Corporation (AGC), Consolidated African Selection Trust (CAST) and the Ghana Bauxite Company were affected by this Decree. The African Manganese Company (Nsuta) was completely taken over by the government under a new name – National Manganese Corporation. Participation was also opened in all major foreign owned commercial, banking and industrial establishments not only to government but also to local business people. Thus for example, at least 40 per cent equity shares in such major multinational commercial and banking institutions as Mobil, Texaco, BP, UAC, U'l'C, Barclays Bank and Standard Bank were acquired by the state. In others, Ghanaian shares were fixed at 55.0 per cent to 40.0 percent for the state and 15.0 per cent tor Ghanaian capitalists. By Section 13(5) of the Ghanaian Enterprises Development Decree, 1975 (NRCD 330), workers were given the legal basis to participate in enterprises which were to "go public" under NRCD 329.

The policy of indigenisation was part of a broader policy of Africanizing the economies of the newly independent countries. It had its roots in the independent struggle itself. The immediate post-independent leaders pursued one segment of the policy, which was to deal with the large presence of Europeans in the civil serve of their respective countries. But they also had their eyes on indigenizing their respective economies.

In 1957, Chief Awolowo stressed in a presidential speech to an emergency meeting of his party, the Action Group, that[3]:

"We must not allow foreign monopoly in any field of industrial venture. By this I mean that we must not allow a foreign investor to go it alone. Experience has shown that once a foreign investor has entered a particular field of industrial venture, that field is forever close [sic] to Nigerian entrepreneurs... What we are anxious about is that a foreign investor should always take into partnership in any new venture, either the Government or any of its agencies or private indigenous investors. We all know that the latter class of investors is almost non-existent just now and, until they are forthcoming, it is only fair that the Government, as the trustee of our people, should insist on financial participation in any new industrial venture. ... We hope that.., the federal Government will see to it that no industrial venture is launched in this country in the future unless there is a substantial indige-

[3]Four years later, Chief Awolowo, as leader of the Opposition party in the federal legislature, took a more extreme position. He moved a motion that called for a programme of nationalization. The motion read: '[i]That this House approve in principle the nationalization of basic industries and commercial undertakings of vital importance to the economy of Nigeria'

nous financial participation either by the Government or its agencies, or by private individuals. Unless this is done now, we would be creating a situation which might lead to serious consequences in the future."[/i]20

3.3 Structural Adjustment and Its Successor Market-Based Policies and Their Approach to Industrialization

As we have seen, the extensive 'statism' in economic policy and management had a disappointing outcome. The large numbers of State-Owned Enterprises were so poorly managed that in the end they became a drag on the national purse. Their managers (often appointed on the basis of their political loyalty) were neither competent nor had the incentives to be so (Kwakye, 2001). They lacked the appropriate regulatory and supervisory safeguards and performance-based reward systems. In essence, managers of these enterprises had a blank check; they could draw on the support of the State as long as they managed to maintain the political loyalty of the ruling elites. The industries established were often dependent on foreign raw materials**.** The zeal to industrialise was not matched by a corresponding zeal to develop domestic agriculture, which could provide the necessary raw materials. The collectivization approach to the development of agriculture equally floundered. Thus, there were weak linkages in the economy. At the same time, the focus on producing for the domestic market led to the virtual neglect of the export sector. With large-scale industry depending on imported raw materials, foreign exchange reserves were depleted at a rapid rate setting in motion balance of payments crisis. The continued operation of these industries resulted in large-scale and often indiscriminate borrowing resulting in the build-up of external debts in excess of what countries could realistically service or repay.

The depletion of large amounts of foreign exchange reserves and the subsequent accumulation of external debts led to the debts crisis of the early 1980s. Debt servicing had reached unsustainable levels for most countries in the sub-region to an extent where countries were either printing money or had to embark on expensive borrowing. The SOEs were grossly inefficient but they were being propped up with large subsidies. The strangulation of the private sector had led to a situation where the public sector had become the only source of employment leading to an over-bloated public sector. Countries came up against high inflationary pressures as supply rigidities and expansionary policies intensified.

Countries had no choice but to resort to seeking assistance from the International Monetary Fund (IMF) and the World Bank[4]. In 1983, Ghana implemented the Economic Recovery Pro-

[4]The International Bank for Reconstruction and Development (IBRD).

gramme (ERP) with the support of the IMF, the World Bank and bilateral donors. The ERP consisted of comprehensive set of policies to reform fiscal, monetary and trade sectors. The focus was to stabilize the economy. In 1986, the country adopted the Structural Adjustment Programme (SAP) with the objective of laying the foundation for growth and strengthening the country's external payment position.

At the heart of the structural adjustment programme were policies that sought to reduce State interventions in the economy. As we have noted earlier structural adjustment identified the State as an important part of the many difficulties that faced the economy. Among other objectives the programme sought to align relative prices in favour of productive activities (away from rent-seeking), dismantle controls, rehabilitate the economic and social infrastructure and encourage private savings and investment (World Bank, 1987a). Other reform objectives included the restoration of fiscal and monetary discipline and liberalization of trade and external payment regimes.

In the area of industrialization, structural adjustment policies brought radical change in focus and approach. The obsession with industrialization using the State run enterprises was brought to an end. The new industrial policy approach focused on improving incentive structure using the exchange rate and trade taxes, privatizing the state-owned enterprises (SOEs) and streamlining the regulatory framework. Structural adjustment identified trade liberalization as an important tool for industrial policy. The idea was that by reducing tariff rates and removing quantitative restrictions on trade, domestic producers particularly in the manufacturing sector would become more competitive.

Instead of producing for the domestic market, countries implementing structural adjustment adopted export-led industrialisation. The focus of domestic firms was shifted from producing the domestic market to producing for the global market. Success in industrialisation therefore came to be defined in terms of how much domestic firms are able to export. Here again the pendulum switched radically from producing exclusively for the domestic market to producing almost exclusively for exports. In the process, domestic firms lost their share of the domestic market without necessarily securing any significant share of the export market. Privatisation of state-owned enterprises was another key industrial policy focus of structural adjustment. This strategy was intended to stop the large subsidies that were going to loss-making SOEs and to generally improve the environment for the private sector to lead the industrialization agenda. The reform measures also included sanitizing the regulatory environment for businesses. Consequently, the indigenisation policies of the 1970s were discontinued. A new investment code was enacted to encourage foreign direct private investment. In general, industrial policies focused almost exclusively on addressing the price distortions through liberalization in the belief that industrial performance was determined exclusively by the nature of exchange rate and trade regimes. The assumption was that protectionist trade policies had been the source of inefficiency and once competition was introduced through liberalization industry will become efficient and flourish.

Like Ghana, Nigeria implemented the SAP in 1986*.* Prior to that, the military rulers had enacted a Stabilisation Act that sought to arrest the worsening economic situation of the country in the early 1980s. The Act actually tightened the very measures that had contributed to the economic difficulties the country was facing. These measures included further tightening of import controls, imposition of exchange restrictions in current international transactions, increases in tariffs, introduction of advance import deposit scheme and ceilings on total central bank foreign exchange disbursements. But there were further improvements in fiscal and monetary management. In June 1986, Nigeria adopted a comprehensive structural adjustment program (SAP) that signalled a radical departure from previous reform efforts*.* It emphasized reliance on market forces and the private sector in dealing with the fundamental problems of the economy. The SAP was originally intended to last for two years, but was extended when it was realized that implementing many of the reforms required more time. The industrial strategy was similar to what was implemented in Ghana. The state-owned enterprises were privatized and the private sector became officially designated as the engine of growth and industrial development. Trade was radically liberalized placing the nascent domestic industry that had just been rescued from onerous regulations in competition with foreign firms. Foreign firms were allowed free entry into all sectors of the economy. Industrialisation was to be achieved by expanding the country's share of the global export market.

4. Content Analysis of Industrial Policies

4.1 Ghana

As far back as 1919, the Gold Coast (Ghana) had put in place a comprehensive development plan – the Guggisberg Plan (1919-1927). This was aimed at building a model economy and "translate a scheme of vision (…) directly essential to the progress of the people" (Guggisberg Plan, 1919-1927). The vision was anchored on the expansion of the mono-crop economy to benefit a large number of indigenous people of the Gold Coast. Its strategy involved large investments in infrastructure, agricultural diversification through training, health and education. The plan invested over 70 percent of total expenditure in building transportation networks including the railways. The Guggisberg Plan laid the foundation for Ghana’s future development. It significantly expanded the economy as a result of new and expanded capital investments.

The Guggisberg Plan was, followed by the Nkrumah’s seven-year Development Plan (1963/64-1969/70). The goal of this plan was to foster African Unity, transform and diversify the economy, while raising and equalizing economic opportunities and benefits through socialism. The plan had multiple objectives encompassing political, economic and social. These goals were more of a political, economic and social in nature. The strategy for achieving these goals was modernization through industrialisation. The central focus was import substitution industrialisation. It is instructive to note that even before the formal adoption of this plan, Nkrumah’s government had in the 1950s established an Industrial Development Corporation – Ghana Investment Holding Company (GIHOC) – which set up several publicly owned commercial enterprises. These large-scale industries were set up to produce basic products for the domestic market instead of importing such products from abroad.

In the midst of this grandiose state entrepreneurship, Nkrumah accepted the need and even the importance of developing an indigenous entrepreneurial base. In 1958, the government set up a committee to explore the ‘best means of assisting Ghanaian businessmen to overcome their difficulties’. At the same time Nkrumah grew increasingly disillusioned about the prospects of fostering domestic entrepreneurial class that is capable of industrializing the country the desired pace. Out of this disillusionment Nkrumah declared in the National Assembly in 1962 that, “the domestic policy of my government is the complete ownership of the economy by the state”[5]From this point on, the Import Substitution Industrialisation became the dominant industrial policy of the country. The policy was pursued with vigour until the early 1980s when a combination of domestic and external shocks eventual brought a new reality on the country compelling it to abandon the policy and all that it entails. In the aftermath of the implementation of structural adjustment policies, Ghana like most countries in West Africa identified the need to adopt and implement industrial policy. In 2010, the country elaborated an industrial policy with an accompanying implementation plan. The development objective of Ghana’s Industrial Policy is to promote increased competitiveness and enhanced industrial production, with increased employment and prosperity for all Ghanaians. It will also provide a broader range of fair-priced, better quality products for the domestic and international markets.

[5]National Assembly Debates, 2 October, 1962.

The key development objectives of the Industrial Policy are:

1. To expand productive employment in the manufacturing sector
2. To expand technological capacity in the manufacturing sector
3. To promote agro-based industrial development
4. To promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities

The Ghana industrial policy seeks to expand productive employment in the manufacturing sector, expand technological capacity in the manufacturing sector, promote agro-based industrial development and promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities. The following policy areas are identified by Ghana's industrial policy;

- Industrial Manpower Development and Training
- Financing Industrialization
- Land and Infrastructure for Industrial Development
- Industrial Subcontracting
- Marketing and Distribution of Industrial Products
- Standards for Industrial Development
- Technology, Innovation, Research and Development for Industry
- ICT for Industrial Development
- Intellectual Property Right for Industrial Development
- Incentives for Industrial Development
- Industrial Legislation and Regulation
- Labour and Industrial Relations
- Spatial Distribution
- Quality Health in Industrial Development
- Environmental Sustainability
- Industrial Data and Information
- Gender in Industry

An important part of the policy is the consultative approach that gave birth to the policy. Nearly all the important stakeholders were represented in the design stage. The effectiveness of the participation is not easy to access. However, the economic philosophy and the underlying the principles suggest the local determination of the policy might have been compromised; the market dogma that has guided economic policy in Ghana in the last three decades pervades the entire document. The policy is very vague when it comes to the role of government. Consistent with the market doctrine, government is reduced to a facilitator and a provider of the so-called 'enabling environment'. When in reality many of the challenges enumerated in the policy required government involvement one way another to address. Additionally, the policy set in the usual timid mode of developing industries that are close to the country's comparative advantage.

The industrial policy rightly identifies several non-industrial factors that have implications for industrial development in Ghana. These include issues related to agricultural and human resource development. These issues including issues at the core of industrial development in Ghana could be best addressed in a broader national development framework that draws the linkages and put forward a coherent framework for national development including industrial development. Such a framework is lacking in Ghana.

4.2 Nigeria's Industrialization Policies, 1960-2007

Since Nigeria's independence in 1960 different administrations have introduced policies targeted at diversifying the country's economy while making industry the engine of economic growth. Some of these policies have included the import substitution approach and the indigenization programme (described in the previous section).

At independence, economic policy in Nigeria did not differ significantly from economic policy under colonialism. Economic policy continued the export of raw materials and almost totally discouraged domestic manufacturing (Iwuagwu, 2011). And as was the case in most countries in Sub-Saharan Africa, colonial economic policy assigned Nigeria the task of supplying raw materials and in return, received manufactured products from the colonial masters. As colonialism drew to a close, the policy changed with the introduction of some light processing. 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.

The first National Development Plan (1962–1968) built on this as it introduced the Import Substitution Industrialisation strategy or the so-called Resource-based strategy. The strategy also entailed imports of capital goods including machinery, tools and spare parts to aid domestic assembly and processing. Capital imports were attracted no custom duties. Manufactured consumer goods, however, faced higher custom duties as part of measures to protect "infant industries". The policy was clear in terms of using the state/government to stimulate the establishment and growth of industries while at the same time enabling Nigerians to participate in the process of industrialisation.

As part of the policy package to achieve the set targets, 13 percent of the budget of public investment programme was devoted to trade and industry. The objective was to establish an integrated iron and steel complex, establish an oil refinery, enhance domestic participation in industry, and the setting up of a Development Bank. These policy packages were successful especially with the support of the regions/states. The period was described as the 'Golden Age' of industrialisation in Nigeria. The share of manufacturing in Gross Domestic Product (GDP) increased from 5 percent to 6 percent, two years after independence (Ikpeze, 2004). There was explosion in the number of medium and large-scale industrial plants from 150 to 380 by the close of 1965 as the Import Substitution strategy was intensified. Firms of various kinds emerged producing for the home market products that used to be imported. However, manufacturing still occurred in low technology light industries (Dare-Ajayi, 2007).

However, it is fair to say that the First National Development Plan did not achieve much by way industrialisation. Some of the most important objectives of the plan were not implemented. For example, industrial estates, which formed key components of the plan, were not strictly developed; few of the estates were developed. The cottage industries concept failed to materialised as few industries were established. At the same time, the modest achievements made under the plan were seriously undermined by Nigeria's civil war, which started in 1967. Much of the national attention moved in the direction of prosecuting a war to ensure Nigeria's unity.

Many of the criticisms directed at the First National Development Plan are often wrapped up in the general criticisms against Import Substitution Industrialisation. That the plan led to increases in the import bills, arising out of high custom duties. The administrative bottlenecks disrupted badly needed supplies leading to rising costs for domestic manufacturing enterprises. Thus, the import made domestic firms even uncompetitive on the domestic market. Rising import bills combined with uncompetitive domestic manufactures caused frequent balance difficulties thereby defeating one of the important goals of import substitution: correcting balance of payment disequilibrium. These problems were exacerbated by the over-reliance on imported inputs, the extremely high tendency to produce consumer goods for domestic consumption. The over-dependence on protection for both domestic and external competition distorted market signals, bred inefficiencies and led to a situation where firms became perpetually infants. These firms became trapped in secondary-level processing that was completely divorced from economic activities occurring in other sectors of the economy. Forward and backward linkages envisaged under the plan could not be achieved.

As we have already alluded to, while import substitution around which Nigeria's First National Development Plan was woven, failed to significantly industrialise and change the structure of Nigeria's economy, the problem had very little to do with import substitution as a development strategy. According to the Federal Government, the failure of the plan resulted mainly from the failure to follow through the plan (Federal Ministry of industry & Technology, 1992). Changes in the politics in particular, the outbreak of war led to abandonment of important aspects of the plan. In some cases some of the machinery imported were never used (Iwuagwu, 2011).

But as we have seen Nigeria was not alone in this spectacular failure. This was the case with several other developing countries that adopted the import substitution strategy including many of the countries in West Africa. What distinguished Nigeria from the other developing countries that adopted import substitution was, the huge revenues the country made from the oil boom of the 1970s. That changed the political as well as economic incentives in a manner that led to the total neglect of industry. Economic policy became too focused on the large rents popping up from the oil sector. Public investments went into grandiose projects including heavy industries that ended up as white elephants. Policies became conflicting and poorly implemented.

The war came to an end in 1970. National effort was geared towards reconciliation, rehabilitation and reconstruction. A Second National Development Plan (1970-1974) was adopted. The primary objective was to promote even development and fair distribution of industries in all parts of the country. There was also the objective of rapid expansion and diversification of the industrial base of the economy, increasing incomes from manufacturing and creation of employment. While the second the development plan made reference to the need to export in order to earn foreign exchange, it at the same time continued with the policy of import substitution industrialisation.

The second development plan benefited from large amounts of state revenues from the oil boom. The government had sufficient resources to be invested in all sectors of the economy including industry. The period of the implementation of the plan also coincided with prolong military rule lasting the entire decade of the 1970s. Thus, despite having petro-dollars of magnificent proportions, the second development plan was dogged by persistent poor planning, lack of transparency and accountability in the use of national resources. With improved resource base, government asserted itself by capturing the commanding heights of the economy. The industrial programmes of this period were characterized by investment in heavy industries including oil refineries, petrochemicals, liquefied natural gas, fertilizer, machine tools, aluminium smelting, textiles, iron and steel, and motor assembly (Iwuagwu, 2011).

The national enthusiasm to ensure even distribution of industries led to a situation where siting of industries in some parts of the country defied the logic of viability. And this became part of the reasons why promising industries failed to flourish and gain competitiveness. While import substitution was maintained, import restrictions were relaxed leading to floods of imports of finished consumer goods (Ikpeze, 2004). And as oil prices suffered a sudden drop, the economy faced difficulties. The economy gradually began accumulation of debts. New policies were introduced intermittently in a futile attempt to manage the situation. The most significant of the policies of the period was the indigenization introduced by the Nigerian Enterprises Promotion Decree of 1972. The policy reserved certain categories of industrial activity, mostly services and manufacturing, for Nigerians (Ikpeze, 2004). 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. Public acquisitions by the federal government, statutory corporations or state governments formed important parts of the indigenisation programme. (Kirk-Green, 1981).

However, despite acquiring majority stakes in large number of companies, control over these companies and indeed control over the economy did not change in any significant way. The assumption, that, majority equity ownership could confer control of businesses, turned out to be a mirage (Adejugbe, 2004). In most cases board chairmanship was given to Nigerians with very little executive and administrative responsibility. The actual control of the companies and for that matter the economy remained in foreign hands.

The sudden collapse of oil price affected Nigeria's economy, in particular industries. Industry itself was too dependent on imported raw materials making it difficult of it to stand on its feet when the foreign exchange constraint hit. The failure of industry to produce for the domestic market led to rising import bills as the country survived on imports, making the current account situation more and more precarious. Government shifted its focus away from industries as it attempted to ration scarce foreign exchange (Iwuagwu, 2011). Many of the industries that were in existence were forced to operate below capacity as they could secure vital imports. The abuse of the import-licensing regime affected industry. And corruption became rampant. The national debt stock was mounting, investment rate was falling, and trade and exchange controls have failed to achieve their intended purpose.

Structural Adjustment Policy (SAP) was adopted in 1986 to address these challenges. Structural adjustment policies encouraged the development and use of local raw materials and intermediate inputs as opposed to complete reliance on imported raw materials. Consistent with the neo-liberal ideology, SAP shifted the emphasis of economic policy away from producing for the domestic economy to production for exports. Again, SAP de-emphasizes the role of the state, exalted markets and held up the private sector as the engine of economic growth. In the name of creating "enabling environment" the new approach to policy focused on removing rigidities that hamper industrial development. Efforts were made to build and rehabilitate infrastructure, human resources as well as addressing administrative inefficiencies. The new policy focus also entailed liberalization of trade and external payment regimes as well as investment rules. The efforts to retrench the state in economic activities included mass privatisation of state-owned enterprises. The import-licensing regime was scrapped as liberalisation of the economy took hold.

Two years after the adoption of Structural Adjustment Programme, government came out with a separate industrial policy. It was 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[6]. The policy sought to ensure that industry provides employment opportunities by increasing the local content of industrial activities. As has been the case with previous industrial policies, the 1988 industrial policy objective include increasing exports of manufactured exports, greater dispersion of industries, improve industrial technology and capabilities, and increase the participation rate of the private sector. The strategies for the attainment of the new industrial policy objectives were, however, not new. They followed the in neo-liberal tradition introduced by structural adjustment. It included increasing the participation of the private sector, privatisation and commercialisation, and providing the so-called "enabling environment". Government, however, retained a role in establishing new core industries. The new policy also called for harmonisation of industrial policies at the federal, state and local government levels (Iwuagwu, 2011). Clearly, the new industrial policy was designed and indeed operated within the general economic framework provided for by structural adjustment. To some extent, structural adjustment and all the policies that went with it, chalked some initial successes. For instance, capacity utilisation in industry increased from 30 percent at the end of 1986 to 36.7 by mid-1987 and then to 42 percent in 1991 (Dare-Ajayi, 2007).

The initial success was to be expected: raw materials had become available to industry.

But the initial successes tend out to be ephemeral. Structural adjustment actually consummated the de-industrialisation of Nigeria as it did de-industrialise much of Sub-Saharan Africa. The over-liberalisation of the financial sector including external payment led to high interest rates. This had two mutually reinforcing effects. First, it eroded purchasing power of the ordinary Nigeria leading to the collapse of domestic demand. Second, the high interest rates made domestic manufacturers uncompetitive even on the domestic market. Indeed, domestic industry was in its infancy and could not compete because of the many domestic constraints it faced. The overnight dismantling of protective tariff wall in the face of binding domestic constraints made it difficult for the nascent industries to compete and opened the floodgate for the influx of finished products of all kinds. Industry was compelled to shed capacity resulting in labour redundancies. Some industries were converted into warehouses as firms switched to the importation of products they had set out to produce. Other firms went into the packaging of imported items (Ishiola, 2004). In the end, structural adjustment led to low rate of investment in industry and n some cases disinvestment. Imports took over the domestic market and wiped domestic manufacturing.

The 1990s saw a change in strategy. The government adopted National Rolling Plans, the first of which (1990-1992) was devoted to the identification of major constraints facing industry. The first plan included the Industrial Master Plan (IMP), which promoted the development of an efficient industrial system by determining and defining all aspects of the industrial system. The Master Plan also included the preparation of an action plan to achieve set objectives and targets.

The Rolling Plans also included privatisation of public enterprises including enterprises in the industrial sector. A special committee, the Technical Committee on Privatisation and Commercialisation (TCPC) was set up for purposes of privatisation state-owned enterprises. Special attention was given to small-scale enterprises in the Rolling Plans. The plans also sought to make the entire country attractive to investors. Major programmes undertaken in this regard included industrial layouts and development of craft villages. State governments were also to be assisted with matching grants to enable them establish industrial estates. Government equally promoted the Entrepreneurial Development Programme (EDP), Working-for-Yourself Programmes (WFYP) and Train the Trainers Scheme. The aim was to develop a

[6]This objective is no different from those set out in previous industrial policies that the country has pursued since independence.

cadre of entrepreneurs needed for successful implementation of the small-scale industrialization strategy (Federal Ministry of Industry & Technology, 1992).

In 2003, the Federal Ministry of Industry introduced another industrial policy (Iwuagwu, 2011). The primary objective of the new policy was to increase the pace of industrial development by moving up the value chain. The new policy sought to ensure that Nigeria's raw materials were no longer exported in their raw state. The policy placed emphasis on raining Total Factor Productivity through the pursuit of knowledge and skill intensive production methods. And like its predecessor policies, the new policy was based on encouraging backward and forward linkages.

In the short term, the objective of the policy was to increase capacity utilisation in the manufacturing sector, create opportunities for the development of the small scale sector, create employment, and attract new investments in medium and large-scale industries. The medium-term objective was to strengthen competitiveness of Nigeria's manufacturing through access to technology and industrial best practices. The medium term objective also included developing Nigeria's natural resources including human resources, maximize linkages between small-scale firms and medium and large enterprises. And in line with the neo-liberal order, the long-term goal was to ensure that Nigeria's enterprises export 100 percent of their products (Iwuagwu, 2011). Government demonstrated commitment towards achieving the policy objectives by renewing its partnership with the private sector. Commitments came in the form of avalanche of neo-liberal policies of intensive deregulation, privatization and commercialization. Industry was afforded to access to credit at cheaper with the establishment of the Bank of Industry (BOI). The BOI 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).

The period also saw the setting up of the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB). Its mandate included facilitating availability of primary industrial inputs by providing medium to long-term funding for firms in the agriculture sector and agro-allied industries. As an additional measure, the government working through the central bank managed to get the commercial banks to allocate 10 percent of their annual profits as equity funds to support SMEs under the Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

Other initiatives to boost industrial development in this period included 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.

In spite of all the initiatives stated above, the state of Nigeria's industry is nothing to write home about. Like the rest of West Africa, industrial development in Nigeria has been in reverse gear in the last three decades. The industrial development landscape is characterised by low capacity utilisation. Manufacturing firms remain uncompetitive even on the domestic market. Imported finished products have taken over the domestic market. The poor industrial performance has been the result of internal and external factors. Internally, industry faces poor and unstable infrastructure especially poor power supply, bad roads and poor telecommunication infrastructure. Firms are faced with high costs of capital and the virtual absence of long-term credit. These have increased the costs of doing business for domestic firms. Externally, the over-liberalised trade regime in the face mounting domestic challenges have resulted in a situation where domestic firms are pitched against firms that are highly matured with excellent infrastructure at their disposal. At the same time, most of the foreign products that have flooded the Nigerian market are also highly subsidized. All these combined to bring industry's contribution to National GDP to just a little over 4 percent. Expectedly, some manufacturing companies even shut down, while others migrated to neighbouring countries where the business environment was considered friendlier (Iwuagwu, 2011). In 2007, government of Nigeria merged the former Federal Ministry of Commerce and the Federal Ministry of Industry to form the Federal Ministry of Commerce and Industry. In that same year (2007) government adopted the Cluster Concept, as proposed by the Federal Ministry of Commerce and Industry as Nigeria's new Industrial Development Strategy. Among other things, the Cluster Concept was meant to refocus the country's industry policy implementation to achieve rapid industrial take-off and survival of industrial enterprises. The government was convinced that attracting major investments into Nigeria required the fixing of deficiencies in infrastructure and in the regulatory framework. The strategy was, therefore, to address, the active steps, which Nigeria needed to take to grow its economy on the back 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 the year 2020.

The idea behind Cluster Concept was the creation community of businesses located together in which businesses would seek enhanced environmental, social and corporate performance towards effective global trade competitiveness. The concept was to allow government to concentrate infrastructure and other amenities necessary for the smooth operation of businesses in identified locations (Federal Ministry of Commerce & Industry, 2007). Clustering was to permit greater focusing of public resources as infrastructural facilities were to 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 take-off. 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.

The Cluster Concept was to be operated in five distinct areas: Free Trade Zones; Industrial Parks; Industrial Clusters; Enterprise Zones; and, Incubators. Free Trade Zones were to be exempted from the usual custom duties and regulations. The plan objective was for government to establish more of such zones in all parts of the country to augment the existing ones. The zones had special incentives to attract Foreign Direct Investments (FDI). Industrial parks covered areas of not less than 30–50 square kilometres and they were reserved for large manufacturing companies with high value addition in the value chain. The objective of the policy was to locate at least one park in each of the six geo-political zones. The parks were to focus on processing of products in which the locality of the park has both comparative and competitive advantages. Industrial Clusters covered areas between 100 and 1,000 hectares. The clusters were microcosm of the parks. The idea was for the states to establish the clusters. The Enterprise Zones were defined as platforms of 5–30 hectares, targeted at supporting businesses in the informal sector to make the transition to the formal sector. The platform allowed for special attention in tackling some of the challenges that faced businesses in the informal economy. The target was to locate at least one of these specialized zones in every state capital, local government and major cities. At the base of the cluster concept were the incubators described essentially as start-up centres for new and less experienced entrepreneurs including graduates from the tertiary institutions, investors and persons with vocational training. These centres offered prospective start-up companies entrepreneurial skills and other programmes that nurture and nourish them into maturity. The incubators were supposed to be attached to higher institutions and research institutions (Federal Ministry of Commerce & Industry, 2007).

As has been stated earlier, the cluster concept was not entirely new to Nigeria. However, and in line with the neo-liberal ideology, the implementation of the concept was based on almost exclusively on Public-Private Partnership (PPP) arrangement. Government's role was limited to the identification and development of the clusters including the provision of infrastructure and incentives. The private sector was to follow government's lead by locating their businesses within the clusters so developed.

In some respects the new industrial development strategy marked a radical departure from previous industrial policies. While previous policies were situated within overall national policies, the new industrial strategy was sharply focused on solving the multiplicity of constraints that faced Nigeria's industry. Again, the strategy attempted to zero in on the challenges of the informal economy as exemplified by the establishment of the Enterprise Zones, which was to assist in the transition from informality to formality. The Enterprise Zones did not only facilitate the provision of common infrastructure for the development and growth of businesses, it at the same time greatly assisted the coordination of overall national to small enterprises in the informal economy. A major constraint to industrial development in Nigeria has been the dearth of political commitment to full implementation of policies. In some cases there is clear lack of political will especially when vested interests are to be confronted. In some other cases, change in government comes with new policies with the result that previous policies are abandoned without any assessment of their objectives and what they achieved. Once the administration that introduced a given policy was out of office, such a policy was usually cast into the political dustbin. Besides, most Nigerians (and indeed most West Africans), appear to fancy the introduction of new policies and programmes. Beyond the fanfare that often herald the introduction of such policies, they are hardly subjected to any critical analysis in terms of their ambitions vis a vis, the challenges and implementation capacity of the various public sector and private sector agencies. So often, policies are either poorly designed or are poorly implemented.

A shining example is the establishment of free trade zones, which has been an on-going policy of government. The announcement of the concept was followed with the setting up of several free trade zones by the states throughout the country. As at 2011, the country had about twenty-three (23) free trade zones that aimed to attract Foreign Direct Investments. In practical terms, however, only five (5) of the zones are fully operational.

Chapter 2

Overview of Economic Structures in West Africa

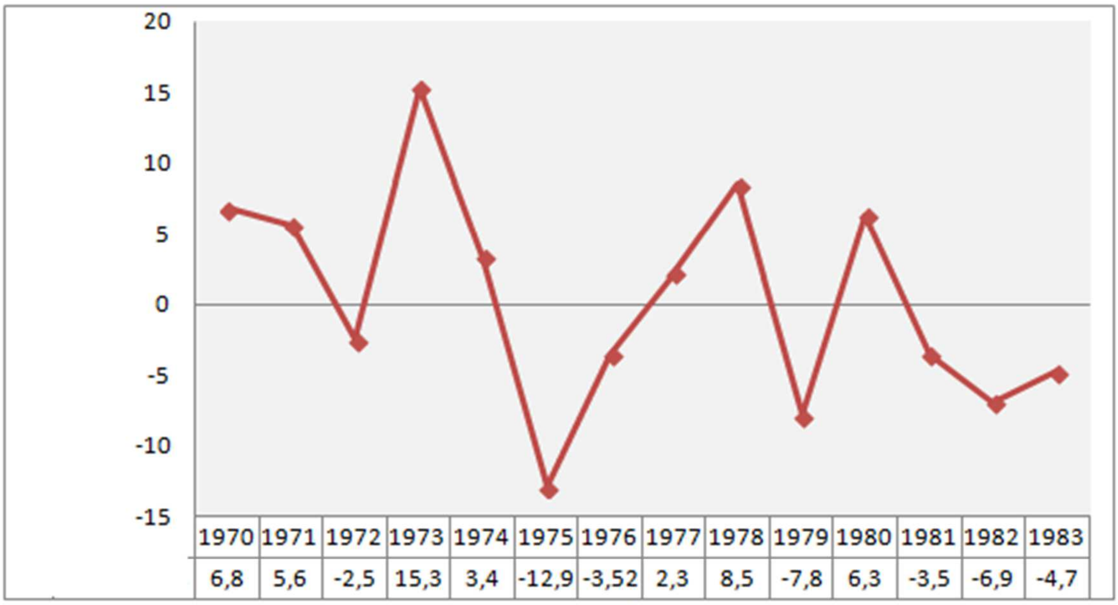
1. Introduction

This chapter focuses on the structure of the Ghanaian and Nigerian economies during the period of structural adjustment. Ghana has been described as the success story of economic reforms in a region where reforms have not been given a chance. Ghana also presents a unique case for its recent discovery and oil production. Nigeria flirted with reforms in the mid-1980s and 1990s. But the country's commitment to reforms particularly market-based reforms has been limited reflecting in timid reforms and policy reversals. Its size and resources (human and material) made several observers bestowed several privileges on the country. It faces virtually no foreign exchange constraints. Its potential for growth and prosperity is almost limitless. Its dominant position could be leverage to accelerate growth and development in the West Africa sub-region.

2. Review of Economic Performance in West Africa

As we have already alluded to economic growth performance in the two decades after independence was very weak. Overall economic growth was just around 1.4 percent for the period between 1965 and 1980. Economic growth was paltry 0.5 percent in 1980. Nigeria's growth record for the same period was much better at 6.9 percent. The reforms introduced by structural adjustment in the mid-1980s brought back growth. Between 1984 and 2000 economic growth in Ghana averaged some 4.5 percent. Growth picked up significantly after 2000 reaching over 6 percent after 2006. In 2008, economic growth was 7.3 percent. Again, compared to Ghana, Nigeria experienced accelerated growth after 1980. Its economy grew by 8.2 percent in 1990. By 2000s annual economic growth was in excess of 10 percent. For the period 2000 to 2009 economic growth averaged 6.1 percent (ADI, 2011). The growth rates were impressive compared to the matured economies but also compared to historical growth record of these countries themselves. However, despite the resumption of economic growth Ghana and Nigeria continue to experience underdevelopment. The structure of their respective economies has remained virtually unchanged. For both countries economic growth has been made possible by intensive exploitation of natural resources. The boom in the global prices of commodities has been further strengthened the prospect for economic growth. Manufacturing has virtually collapsed in the two countries. The export drive as enshrined in the export-led industrialisation strategy has been based on the continued export of raw materials. Imports of manufactures have taken over the domestic markets in the two economies.

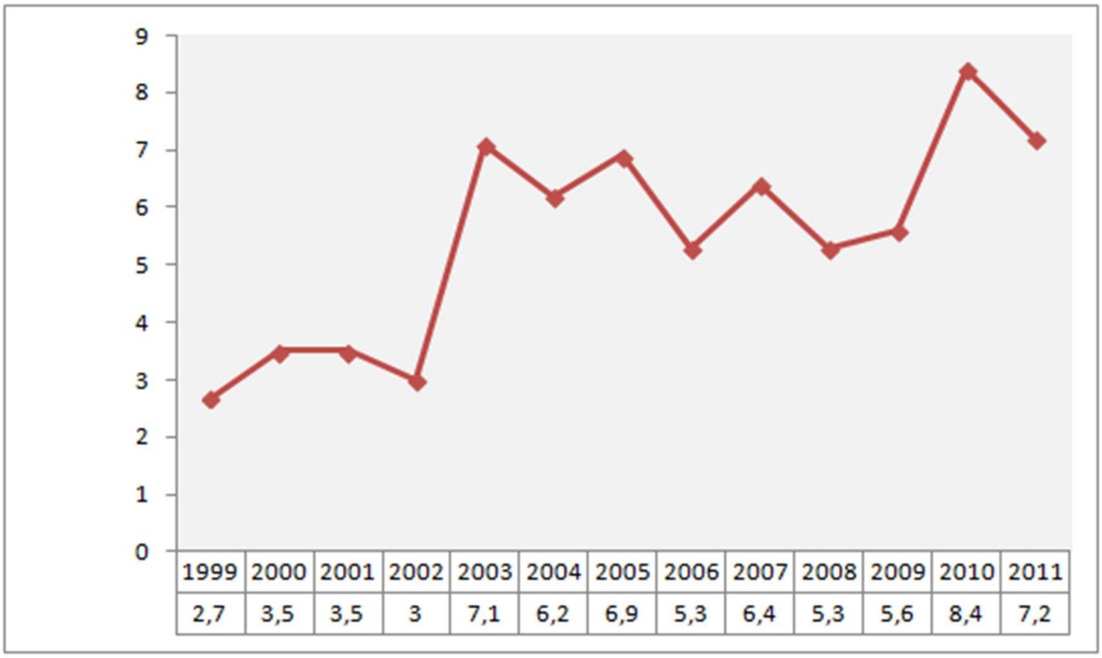
Figure 1: Ghana's GDP Growth Rates (1970-1983)



1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
6,8	5,6	-2,5	15,3	3,4	-12,9	-3,52	2,3	8,5	-7,8	6,3	-3,5	-6,9	-4,7

Source: ISSER (2000); GSS (1990)

Figure 2: Nigeria's GDP Growth Rate (1999-2011)

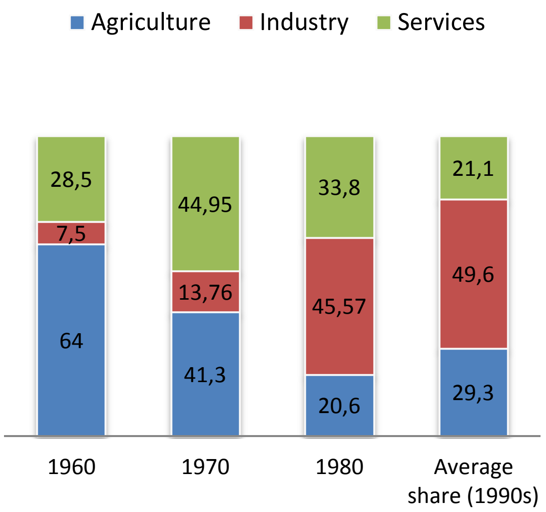


1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
2,7	3,5	3,5	3	7,1	6,2	6,9	5,3	6,4	5,3	5,6	8,4	7,2

Source: IMF database, 2013

The objective reality is that countries stacked in such deep levels of under-development required much more growth for it to have impacts than was achieved in those years. Beside, the source of growth and how it was shared are also important considerations in accounting for its benefits. For the most part growth was based on the intensive exploitation of natural resources, which had become enclaves. At the same time, too many people were excluded from both the growth generating processes and their outcomes.

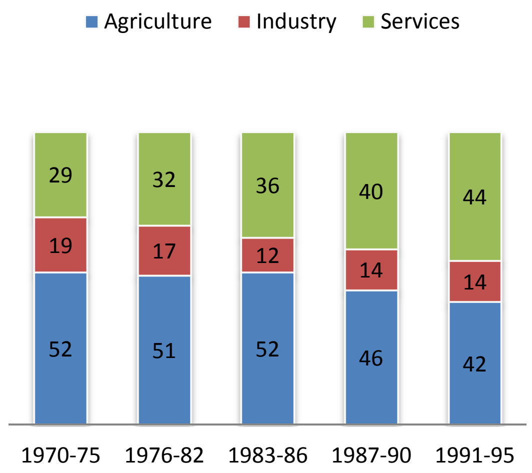
Figure 3: Composition of GDP in Nigeria



Source: Iyoha&Oriakhli (2002); USAID (2003)

In both countries, economic growth has resulted in a perverse change in the structure of production. In 1960, nearly two-thirds (64%) of Nigeria's GDP emanated from the agricultural sector. By the end of the 1990s, agriculture's share has declined to 29 percent. Industry became the largest contributor to GDP moving from about 8 percent in 1960 to nearly 50 percent at the end of the 1990s. The large jump in the contribution of industry was accounted for by the crude oil production and export. The discovery and subsequent production of oil clearly marked the onset of the Dutch Disease; the decline in agricultural production was remarkable (see figure 3). It is important to state that in the 1970s when oil production reached its peak and the contribution of petroleum to the Nigeria's economy became pronounced, manufacturing as a share of GDP also picked up. For the decade (1970-79), manufacturing as a share of GDP rose from 3.7 percent to 8.8 percent. The relative share of industrial output in GDP achieved a high of 45.57 percent in 1980 and a low of 26 percent in 1986. For the decade of the1980s, the relative share of industrial production in total output averaged 33.7 percent. In Nigeria as in many other African countries, SAP set in motion a painful process of deindustrialization and rising unemployment (ILO, 1996). The figures in terms of the composition of GDP show that SAP triggered a shrinking of the manufacturing sector in Nigeria. In 1980, manufacturing accounted for 8.4 percent of GDP. This relative share rose to 9.9 percent in 1983, and was still 8.7 percent in 1986. However, with the adoption of SAP, the manufacturing sector's relative share in output began to fall and reached a low of 5.29 percent in 1989. By 1993, the share of manufacturing to total output dropped significantly to 4 percent even as industrial output reached a peak of 58.7 percent further reflecting the natural resource intensity of economic growth.

Figure 4: Composition of GDP in Ghana (1970-1995)

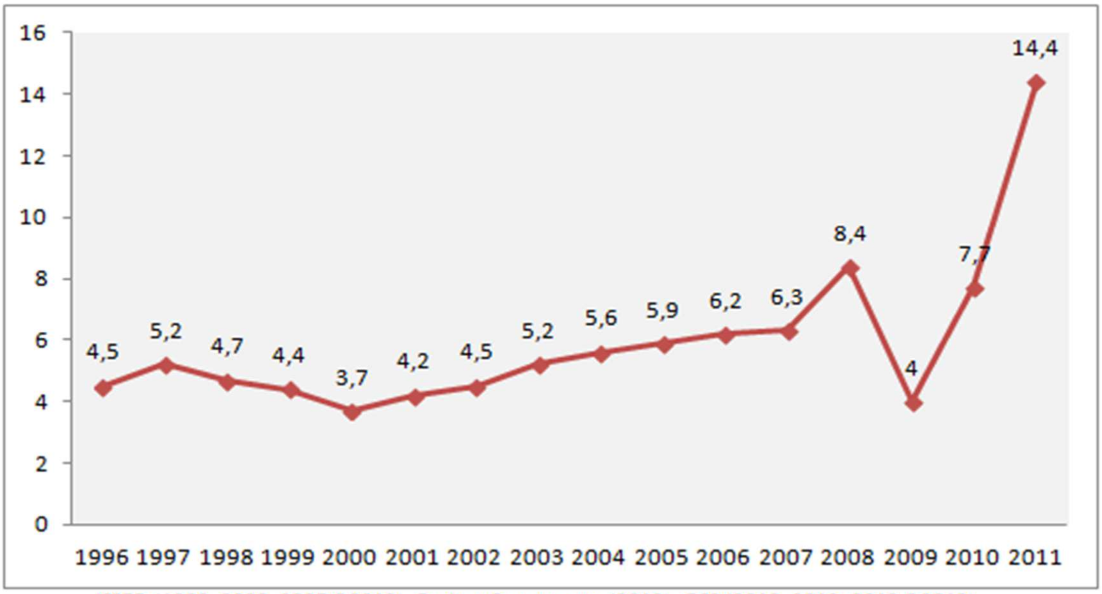


Source: GSS (2000), ISSER (1995&2000), Budget Statement (1998, 1999,2000)

The structure of Ghana's GDP has followed the same pattern as that of Nigeria and the rest of West Africa. For the period 1970-75, agriculture accounted for more than half (52%) to GDP. Agriculture's contribution has declined over the period to 42 percent in the 1990s. Between 1970 and 1995, the contribution of industry declined from 19 percent to 14 percent. Therefore, for the period of the structural adjustment, industry's contribution to GDP only saw a decline. The decline in the manufacturing sector was even more pronounced; its share of GDP fell from 12.3 percent in the period 1971-1979 to 8.7 percent for the period 1984-1995. The services sector expanded so dramatically over the period (see figure 4). Generally, the shares of manufacturing GDP and industrial GDP in total GDP are significantly lower for the post-SAP period as their growth rates lagged behind that of the overall GDP growth rates.

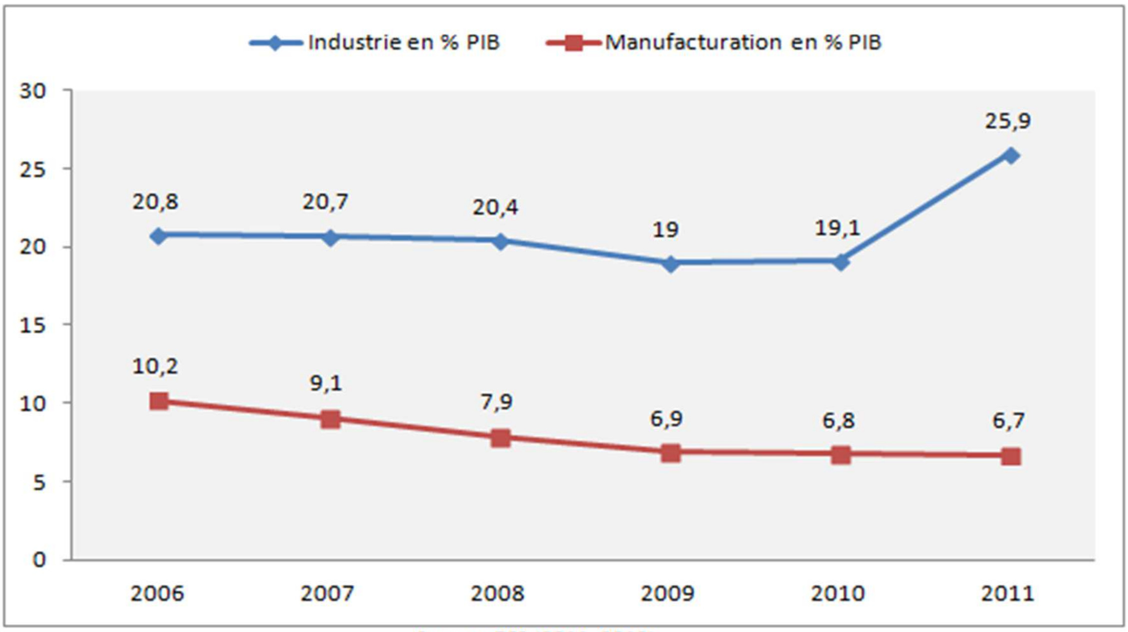
The decline in the growth of real manufacturing GDP went against the price incentives that accompanied structural adjustment and which were thought to be sufficient in resuscitating the manufacturing subsector. Clearly, trade and macroeconomic policies are not enough in sustaining improvements in the performance of industry and in particular manufacturing. Other factors may be critical in enhancing the performance of industry. Asante (1995) identified some of these factors to include the difficulty of obtaining credit, the high cost of credit and the high level of taxes. In the last decade, Ghana's industrial sector has rebounded. The share of industry to GDP has increased from 20.8 percent in 2006 to 25.9 percent in 2011 (ISSER, 2012). For the period 2007 to 2011, industrial sector averaged 14.74 percent compared to average GDP growth rate of 8.26 percent. The higher average growth of the industrial sector is attributed to the start of commercial oil production in Ghana. In 2011, the industrial sector grew by 41.1 percent. The manufacturing subsector managed an overall average growth rate of 4.4 percent for the period 2007-2011. Consequently, the share of manufacturing reduced from 10.2 percent in 2006 to 6.7 percent in 2011. Thus, Ghana's industrial expansion has been achieved on the back of natural resource extraction. In both Ghana and Nigeria, economic growth performance compares favourably with the trend in Africa. Both countries fared better in terms of growth at the height of the global financial and economic crisis in 2009 compared to the African average. Since then economic growth in the two countries recovered faster than in the rest of Sub-Saharan Africa region (see figure 6).

Figure 5: GDP growth rates in Ghana (1996-2011)



ISSER (1998, 2000, 2005 &2012), Budget Statements (2013), GSS (2010, 2012, 2012 &2013)

Figure 6: Industry Share of GDP – Ghana (2006-2011)

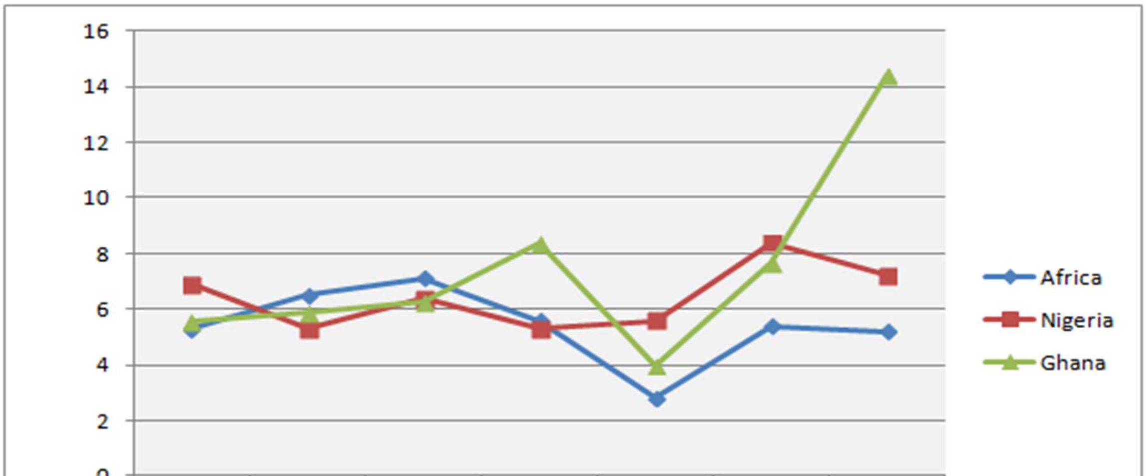


Source: GSS (2011, 2013)

The challenge with the economic in Ghana and Nigeria and indeed in the rest of Africa is that the structural shift that has taken over the last three decades has been perverse at best. Ghana has experienced a shift from low productivity agriculture to low productivity services. The services sector is now the largest contributor to GDP, accounting for 48.5 percent. The industry sector is now the second largest contributor to GDP. Industry is dominated by natural resources including oil and gold production and exports. The industrial dominance in the GDP of Nigeria is explained by the increasing exploitation and export of crude oil and natural gas. In both countries, structural shift has been associated with systematic decline of manufacturing.

The situation of the two countries reflects the general trend in the ECOWAS sub-region where the modest growth that has been recorded has been made possible by the intensive exploitation of natural resources. About 17 of the 20 most important export items of ECOWAS are primary commodities and resource-based semi-manufactures. On average, world trade in these products has been growing much less rapidly than manufactures. In fact, world trade in other primary commodities that account for an important proportion of total exports of ECOWAS such as coffee, cocoa, cotton and sugar, has been sluggish, with the average growth of trade in such products in the past two decades barely reaching one-third of the growth rate of world trade in all products (UNCTAD, 2003).

Figure 7: Trends in Real GDP Growth Rate of Africa (2005-2011)

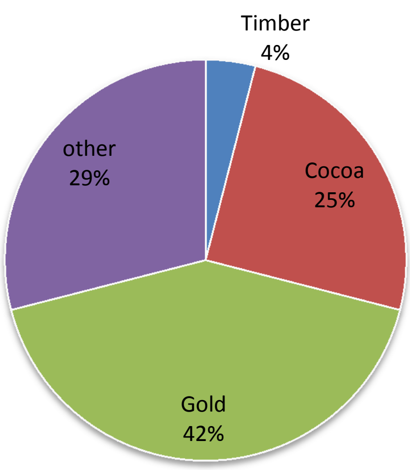


	2005	2006	2007	2008	2009	2010	2011
Africa	5,3	6,5	7,1	5,6	2,8	5,4	5,2
Nigeria	6,9	5,3	6,4	5,3	5,6	8,4	7,2
Ghana	5,6	5,9	6,3	8,4	4	7,7	14,4

Source: AEO (2012 & 2013)

In most of the countries agricultural products are the most important exports products. In Benin, Burkina Faso and Mali, cotton is one of the principal exports; both Burkina Faso and Mali export livestock; Côte d'Ivoire exports cocoa and coffee; and in Senegal the main exports are fish and groundnuts. In Niger and Togo the most important exports are mineral ores (uranium and phosphates) while the second most important exports are agricultural products. Ghana's export is still very much dominated by primary products of cocoa, gold and timber (see figure 7). Together these products (cocoa, gold and timber) make up more than two-thirds (71%) of national export revenues (BOG, 2008). Non-traditional export remain low but are still overwhelmingly agricultural (fish, shea-butter) with virtually no processing.

Figure 8: Composition of Ghana's Exports (2009)



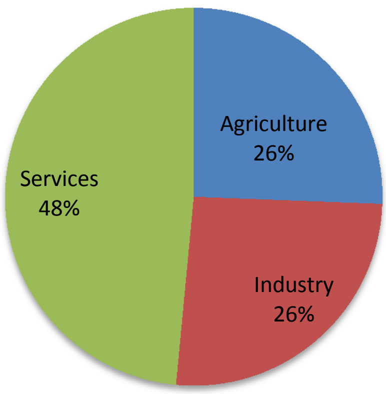
Source: BOG (2010)

The result of this lopsided structural change is West African economies have experienced very little diversification. The export basket has few products with virtually no processing. For this and many more reasons, the sub-region continues to lose its share in global merchandise trade. ECOWAS share of global merchandise exports for instance fell from 2 percent in 1980 to 0.5 percent in 2008, while its share of total developing-country merchandise exports marginally increased from almost 1.3 percent to 1.8 percent over the same period. Similarly, its share in global manufactures trade increased twofold, reaching 0.075 percent in 2000.

Comparatively, the value of East Asia's total exports recorded 7 percent average annual growth over the same period as against a meagre 0.6 per cent for ECOWAS (UNCTAD, 2003). World price has also not been favorable to most commodities exported from the continent. For instance, world prices for many of the commodities that Africa exports declined between 1990 and 2000: Cocoa, Cotton, sugar and copper by over 25 percent, coffee by 9 percent and minerals overall declined by 14 percent (WTO, 2001).

The failure to achieve positive structural transformation has meant that sustained economic growth – however modest – has had very little real impact on the people of the sub-region. While agricultural sector continue to decline in terms of its share of GDP, large proportion of the workforce is stuck in the sector. Across West Africa, about two-thirds of the active workforce is employed in the agricultural sector. In Nigeria, about 70 percent of the workforce is employed in the agricultural sector even though the sector contributes less than a quarter to GDP (Manggoel, 2012). As at 2010, about 42 percent of Ghanaians of working age is employed in the agricultural sector (Census report, 2010). This clearly reflects low productivity in the agricultural sector.

Figure 9: Sector Composition of GDP (%), 2011 - Ghana

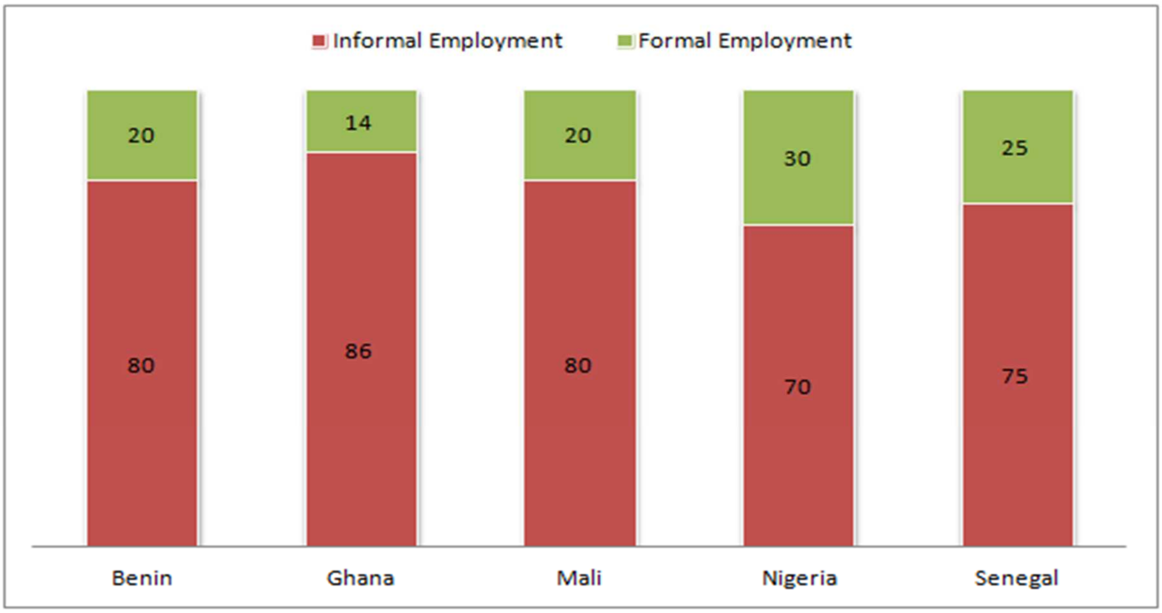


Source: GSS (2013)

Majority of the workforce of the sub-region is employed in the informal economy where productivity and incomes are low and continues to fall. According to a 2007 World Bank Study, the informal sector in West Africa represents 60 percent of global value added and is of great socioeconomic importance in the region.

Informal employment accounts for 86 percent of total employment in Ghana while Nigeria about 70 percent of the workforce is trapped in informal employment. Thus economic growth and the structural shift in the relative importance of the economic sectors have coincided with a decline in formal employment and the rapid expansion of the informal sector. Consequently, the West African sub-region continues to be mired in poverty despite sustaining growth of 5 percent over nearly three decades. Growth has failed to create sustainable decent employment. The reforms that heralded the current growth episode have also significantly reduced the importance of the public sector as sources of employment. The sweeping liberalisation of imports combined the huge constraints in the domestic economy have also inhibited the ability of the private sector grow and to create the needed decent employment. In the absence of formal safety nets in the form of social protection, and the continued weakening of the traditional family support system many people joined the informal economy. Productivity in the informal economy is low and so are earnings. Many citizens working full time are therefore not earning enough to enable them and their families to escape poverty. The 1998 United Nations Human Development Report declares that 48 percent of Nigeria's population lives below the poverty line.

Figure 10: Informal/Formal Employment in West Africa (2008)



Source: ILO 2012

According to the Report (UNDP, 1998):

> The bitter reality of the Nigerian situation is not just that the poverty level is getting worse by the day but more than four in 10 Nigerians live in conditions of extreme poverty of less than N320 per capita per month, which barely provides for a quarter of the nutritional requirements of healthy living. This is approximately US$8.2 per month or US27 cents per day.

And true to the predictions of the UNDP, the ranks of the poor in Nigeria keep growing despite economic growth. By 2004, the proportion of Nigerians subsisting below the poverty line rose to 54.7 percent. The proportion living below the US$2.00 a day poverty line in 2004 was estimated at 83.9 percent (WDI, 2011). In 2008, more than two-thirds (68) of the population was living below US$1.25 poverty line. Other poverty indices have only recorded marginal gains over the period. Life expectancy remains at 52.3 increasing by 6.8 years between 1980 (45.5) and 2012 (see table 12). Average years of schooling remains at 5.2 years.

Ghana poverty situation is much better compared to Nigeria even though the country has a long way to go in alleviating human misery. Nationally, 28.5 percent of the population is classified as poor. This means close over 6 million Ghanaians are living in poverty. Over the period 1991/1992 to 2005/2006, over one million Ghanaians were lifted out of poverty. The analysis shows that just about 68,000 poor Ghanaians are lifted out of poverty annually despite the relatively high economic growth. Between 1980 and 2012, Ghana's life expectancy at birth increased by 11.5 years.

Table 1: Multidimensional Poverty Across Sub-National Regions in Nigeria

Region	Percentage of Population	Multidimensional Poverty Index (MPI = H x A)	Incidence of Poverty (H)	Average Intensity Across the Poor (A)	Percentage of Population Vulnerable to Poverty	Percentage of Population in Severe Poverty
North Central	14.6%	0..319	59.6%	53.4%	19.1%	33.8%
North East	13.5%	0.561	86.3%	64.9%	8.2%	67.2%
North West	28.8%	0.497	79.5%	62.5%	10.9%	60.0%
South East	11.6%	0.127	28.0%	45.2%	24.3%	9.3%
South South	14.8%	0.154	34.3%	45.0%	23.8%	11.6%
South West	19.7%	0.120	25.8%	46.5%	23.8%	9.4%

Source: HDI, 2012.

Table 2: Nigeria's HDI trends

	Life expectancy at Birth	Expected years of schooling	Mean years of schooling	GNI per capita (2005 PPP$)	HDI Value
1980	45.5	6.6		1,571	
1985	45.9	8.4		1,202	
1990	45.6	6.5		1,274	
1995	45.1	6.5		1,303	
2000	46.3	7.9		1,285	
2005	49	9	5	1,540	0.434
2010	51.4	9	5.2	1,928	0.462
2011	51.9	9	5.2	2,017	0.467
2012	52.3	9.0	5.2	2,102	0.471

Source: HDI, 2013

Chapter 3

New Industrial Policies in West Africa

"The logic that died with the Berlin Wall was that it is better to have an inefficient manufacturing sector than not to have a manufacturing sector at all"

Erik S. Reinert, 2007

1.3

1. Introduction

West Africa like the rest of Sub-Saharan Africa (SSA) is not new to Industrial Planning and for that matter Industrial Policies. Countries in the sub-region have had initiated and implemented a number of industrial development programmes. Ghana, the first country in the region to gained political independence had a development plan – the Guggisberg Plan (1919-1927) – long before independence was achieved in 1957. At the independence most countries in West Africa pursued industrial development strategies based on the Import Substitution Industrialisation. This strategy was abandoned in the 1980s when it became apparent that much-sought industrial development had become a mirage. Equally important was the general economic decline that followed or accompanied the implementation of import substitution industrialisation.

In this section, we examine the existing industrial policies in West Africa. The section explains the resurgence of interests in Industrial Policies after close three decades of neo-liberal policies underlined by the deployment of market forces. The section also draws contrast between the New Industrial Policies and the old ones. It also looks at the role of the International Development Establishment – the International Financial Institutions and western governments – in the design the current industrial policies.

2. Explaining the Resurgence of Interest in Industrial Policies

Again, indicated in the introduction, countries in the sub-region have at all times since independence regarded industrialisation as the quickest route to economic development. The idea of 'catching up' with the industrialized countries was simply beguiling. It exerted a pre-eminent influence on the thinking of the political elites not just in West Africa but also across the entire continent. In pursuit of these noble objectives countries in the sub-region formulated and implemented industrial policies of various kinds. It was clear to the political elites that the structure of their economies at independence could only altered in any significant positive by using the state apparatus. Countries in the West African sub-region are, therefore, not new to the development and implementation of industrial policy(s). Without exception, countries in the West African sub-region like those their counterparts in the rest of Africa adopted and implemented industrial policies based on the Import Substitution Industrialisation. The strategy involved using the state machinery to lead the industrialisation of efforts of the countries. Once the political establishment had determined the industrialisation was the best way to transform the economy and improve the living conditions of the people, that project becomes too important to be left in the hands of private individuals. In any case and as we have seen, the entrepreneurial base of most of the economies at independence was too weak as to engender any prospects that it could be relied upon to industrialise the country as rapidly as the political elites wanted. Therefore the state assumed the role of an entrepreneur, culminating in the establishment large-scale state enterprises. These enterprises were primarily to produce for the domestic market what used to be imported, hence the phrase *import substitution.* The establishment of these state-owned industries did not, however, preclude the existence of some privately-owned firms. An important component of Import Substitution Industrialisation is the massive state intervention in the economy and markets on behalf of domestic enterprises be they public or private. This entailed endless protection for domestic firms. Among other measures, the state erected tariff barriers and in some cases completely shut out imports to shield domestic firms from competition. Interest rates ceilings were applied as a way of reducing cost of borrowing and hence cost of production.

The principal arguments in favour of import substitution industrialisation policies ran as follows: due to resource constraints balanced expansion of the domestic economy was impractical. At the pursuit of unbalanced growth strategy would require winning additional markets, domestic or foreign for the expected surplus outputs. Moreover, expanding outputs would require the importation of capital goods and of intermediate inputs. This also requires the availability of additional foreign exchange. The question that confronted policymakers at the time was whether their economies stand a better chance of winning more of the domestic market or world market. Attempts to win more of the slice of the world markets meant that the country begins exporting additional products – non-traditional exports – or expanding the exports of the products that the country had traditional exported. Developing non-traditional exports meant essentially industrial products. And such an option was not viable because countries in the sub-region and in the rest of Africa did not have the comparative advantage in the production of such goods. Added to this was the problem of incipient protectionism by the developed countries. Expanding exports of the countries, therefore, came down to expanding production of the primary products that the country had traditionally. The countries in the sub-region had comparative advantage in the production of such product, an advantage conferred on them by their endowment of natural resources. Such strategy had worked in the past for some countries including the United States. But this was in the booming world trade of then prior to 1914. However, there were reasons for arguing that the same strategy was unlikely to offer the same advantages in the post-war conditions. First, global had remained subdued after 1914. Second, export of primary products in most developing countries including countries in West Africa had led to enclave pattern of development. Additional income from traditional exports had accrued largely to limited class of people – the worse being foreigners – who have very narrow interests in investing outside the enclave. For the most part the additional incomes had spent on conspicuous consumptions of imports rather than domestic manufactures. And finally, it was argued that, expanding exports of primary products would ultimately turn the terms against the exporting country. Given that primary products are subject to diminishing returns, countries specializing in the production and exports of such products lack market power and are unable to influence market price. Indeed, the evidence is that there is a historical tendency for the terms for trade of primary products exporting countries to deteriorate as a result of supply outstripping demand.

On the basis of these arguments, the only viable option it seems was to produce for the domestic market by substituting domestic production for imported products. This option, no doubt, had short-run costs. But the infant industry argument provided a rationale for accepting some level of short-run costs in return for the future benefits of establishing dynamic industrial sector.

Above all else, import substitution industrialisation had the emotive appeal of home-grown policies that are 'rightly' designed to help colonized people escape from their roles imposed by the colonizers as hewers of and drawers of water. And so, developing countries tripped over one another in pursuing a policy that to all intent and purposes was meant to change the status-quo by rapidly industrializing their economies. The early results of the import substitution approach looked promising particularly in Asia and Latin America. It spurred African governments on to continue to expand the frontiers of state capitalism. The state took commanding heights of the economy. Public ownership of industry and productive factors became widespread. Governments established marketing boards to guarantee markets for farmers. Governments created Industrial Development Banks to provide foreign exchange loans for imported capital goods and direct loans.

The exact developmental impacts of the policy of import substitution industrialisation remain controversial. But few will dare challenge the view that import substitution as an Industrial

Policy failed to achieve its stated objective of rapidly industrializing the economies of the countries that pursued it. And the failure of the policy is most exemplified in Sub-Saharan Africa particular in West Africa. After more than two decades of implementation, no country in West Africa and for that matter Africa managed to create industries that can be said to be internationally competitive. While capital accumulation was rapid, the industry that was developed was so grossly inefficient that total factor productivity was low.

In the early 1980s, most countries in the West African sub-region found themselves difficult economic situation (see the introduction). In their desperate attempts to survive the third-world debt crisis of 1982, most African countries became heavily indebted to the World Bank and its sister organisation, the International Monetary Fund. Their loans came with a lot of strings attached. The borrower countries were made to cut government spending, privatise their state-owned enterprises, deregulate their financial markets, and liberalise international trade and foreign investment. The countries in the sub-region accepted or were forced to accept the adoption of the Washington Consensus Policies. At the heart of these policies is a belief that state-led approach to economic development is sub-optimal and was never going to deliver the industrialisation we seek. The state was identified as agent for distortion and a principal actor in the economic decay in which the country found itself. A key aspect of the policy package to remedy the situation was to rollback the state; confined it to a watchman's role. In its place the market was deployed as it was thought to be an efficient allocator of resources and have a far better development performance. Industrial policy became a casualty of this new approach to development.

The reasoning behind these policies was that big and intrusive governments were the main causes of poor economic performances of the West African countries. Once you lift the "dead hand" of the state, it was expected; private sector entrepreneurs would burst out and revive their economies. The expectation was, to put it mildly, unmet. In most African countries, there was no private sector that could rush in to fill the vacuum left behind by the shrinking state. Even in countries where the private sector was reasonably developed, it could not thrive in an environment of vastly heightened import competition and collapsing public investments in infrastructure, education and skills. As a result, between 1980 and 2000, per capita income in sub-Saharan Africa fell by 9 percent. This was a highly embarrassing record for the advocates of the Washington consensus, as the interventionist policies – whose mistakes their policies were supposed to be correcting –

had raised it by 37 percent in the preceding two decades.

Fortunately, economic growth has come back to Africa in the new century, making the 2000s the region's fastest-growing decade ever. However, this has not come about because the Washington policies suddenly started working. It has been mainly driven by, the primary commodity price boom, fuelled by the rapid growth in resource-hungry China (with the end of civil war in some countries lending a helping hand).

Yet, despite the return of economic growth, per capita income in Africa today is barely 10 percent higher than it was in 1980 and even lower than in 1970. At the same time there still remain serious questions about the sustainability of the recent economic growth spurts. There is a limit to the extent to which growth can be sustained when it has been based on the expansion of natural resource extraction and on price boom. Leaving things to the market, following the Washington orthodoxy, countries in the sub-region have failed to convert their recent resource bonanza into a more sustainable industrial base. Worryingly, over the past decade many of the countries have increased, rather than reduced, their reliance on primary commodities, whose notoriously large price fluctuations make sustained growth difficult. This is the economic devastation wreaked by the Washington consensus policies in the 1980s and the 1990s.

These failures have prompted a rethink of not only industrial development strategies but equally importantly development strategies in general. Hence the growing interest among the West African countries in industrial development through more active industrial policy – similar to what happened in the East Asian "miracle" economies, like Japan and Korea, between the 1950s and the 1980s. This interest is even further encouraged by the fact that the main source of Africa's recent economic recovery itself – the Chinese economic boom – has been generated by such policy. Moreover, there is an increasing recognition that, contrary to the prevailing myth, most western countries, including Britain and the United States, aggressively used industrial policy in the earlier stages of their developments.

There are also changes in global politics that encourage the abandonment of the Washington orthodoxy. For many West African countries, China is now a major trading partner and aid donor. This means that deviation from the Washington consensus policies is less costly in terms of aid flows and trade preferences. Added to this, in the past several years, many other developing countries – especially the Latin American ones – have also moved away from the Washington orthodoxy, providing a certain degree of "safety in numbers" for countries that want to defy the orthodoxy. Last but not least, the bankruptcy of free-market policies in the core capitalist countries revealed by the 2008 global financial crisis is making it more difficult for local free-market economists to defend the Washington orthodoxy.

Therefore, many countries have resorted to the development and implementation of industrial policy. Most countries appear to have concluded for themselves that they would be better off in the long-run with a more activist development strategy than sticking policies and programmes that only seek to accentuate their status as the hewers of wood and drawers of water. The developments of the past half-century may appear to be guiding countries in both their design and implementation of industrial policies. And so many countries are now implementing – or are in the process of developing 'New Industrial Policies'.

3. What is new in the 'New Industrial Policies'?

Countries in the sub-region appear to have now regained consciousness of the need to pursue industrialisation. They have demonstrated renewed commitment to industrialisation for purposes of diversifying their economies, developing productive capacity for higher and sustained economic growth, employment creation for real poverty reduction that can be sustained into the future. Part of the renewed commitment comes from the overarching imperative to build resistance against systemic shocks and to insulate their economies from intermittent disruptions to the global disruptions.

In 2011, Liberia adopted a new industrial policy titled "Industry for Liberia's Future". Ghana adopted a 'new' Industrial Policy in 2010. In 2003, Nigeria adopted the National Economic Empowerment and Development Strategy (NEEDS, 2003-2007). Among other things the NEEDS strategy was intended to accelerate the pace of industrial development by increasing value added at every stage of the value chain. In 2007, the country adopted the National Integrated Industrial Development (NIID) blueprint. In 2004, Sierra Leone adopted the "Post Conflict SME Support Programme" for Industrial Development and Poverty Alleviation. The Gambia has no policy on industrialisation; in fact the country is still implementing poverty reduction strategy (2007-2011).

Countries are adopting and in some cases implementing 'new' industrial policies. Guided by a sense of history of the past half century, countries appear to be searching for new approaches that help them skip the mistakes of the past. At the same time and just as in the past, consensus on what should be the elements of a new industrial policy remains elusive. Nevertheless, views are converging on some key issues. The convergence is coming from the way industrial policy itself is defined. Increasingly, the view that building a robust manufacturing base should be the emphasis of industrial development appears uncontested. Secondly, given the weight of obstacles that confront countries in the sub-region in their efforts to industrialise government action is needed to overcome some of the constraints. This implies a certain affirmation that markets on their own cannot deliver the aspiration of building competitive industries. Even so questions remain of what government action is benign to industrial growth and how that action should be exercised.

An important part of the emerging consensus is the view that industrial policy should be part of a broader productive development strategy (ECA, 2011). That strategy should emphasize both capital accumulation and knowledge accumulation. There is also a consensus that industrial policies should be context-specific; given that one-size-fits-all policies have failed to produce results. Context incorporates both country circumstances and time-specificities. This implies that policies are closely monitored and fine-tuned to reflect changing times and circumstances. A universalistic approach to industrial policymaking should be avoided. Instead policies should build on initial conditions. Policies must be deliberately targeted at removing specific country level constraints that impede industrial advancement.

The design of an industrial policy must be based on a thorough examination of the country's existing industrial capabilities. Attempting to start from the scratch and pretending that nothing exist will be an exercise in futility. It is important that existing industrial base or manufacturing activities are not abandoned in favour flamboyant activities and projects. Goals must be set, priorities are picked and strategies defined taking into account the stage of development (including political development), endowment structures, and country and population size including their characteristics. Context analysis should also be not overlooking the international environment within which countries are seeking to industrialise. This would mean, for example, that industrial policies and strategies are aligned with trade policies.

An important innovation in the 'new' industrial policies that have been adopted in West Africa is that both governments and market forces have respective roles to play in the industrial upgrading of the economy. Liberia's industrial policy clearly sets out the rational for government intervention but recognizes the importance of allowing market forces to operate. The policy states that "(…) there are few successful cases of industrialisation where government did not actively promote industry" Ministry of Commerce and Industry, 2011).

However, unlike in the early periods of industrial policies based on import substitution, recent industrial policies have generally refrained establishing publicly owned industries. In the new approach to industrialise, the state and its agent – government – is increasingly regarded as a facilitator who must work in certain way to promote private sector, which is regarded as the 'engine' of economic and industrial growth. The primary goal of NEEDS strategy of Nigeria was to "build a private sector that can take advantage of the opportunities in the domestic, regional and global markets" (NNPC, 2004). And an important component of the strategy was to "redefine the role of government as a facilitator and promoter in the economy, recognizing that market failures in developing economies require targeted incentives and interventions in specific areas to promote specific sectors and industries" (NNPC, 2004). The success of Ghana's Industry Policy is made contingent upon how to "empower the private sector (…) to expand and create opportunities" Ghana Industrial Policy, 2010).

Finally, the new class of industrial policies in the sub-region have emphasized production for exports contrary to inward-looking policies of that characterized the immediate post-independence industrial policies. The shift in emphasis from the domestic market to exports is explained by the notion that the domestic market is too small in size to allow for economies of scale in production. The framers of Ghana's Industrial Policy premised its success on the extent to which the policy "increased export of manufactured goods, in view of the relatively small size of the domestic market" (Ghana Industrial Policy, 2010). In many ways the focus on export reflects the policy orientation of the last 30 years, which was premised on export-led growth. Export penetration was identified as an important ingredient of successful development.

4. The Role of the International Development Establishment in the Design and Implementation of Contemporary Industrial Policies

The International Development Establishment refers to the international financial institutions –comprising the World Bank and the International Monetary Fund (IMF) and the developed western countries. In the last thirty years, the World Bank and the IMF supported by countries of the North, have shown increased abhorrence for anything planning. They have resisted industrial policies on ideological grounds. They have promoted the idea that governments are inefficient in directing the allocation of resources and that markets left to their own devices will generate growth and provide good quality jobs. These institutions did not extol the virtues of markets but equally they denounced the state and its interventions in the economy as unwarranted and having been the prime of the economic decline experienced by the countries.

After more than, 30 years of implementation of Structural Adjustment and its successor policies and its failure to achieve most of what they promised, these institutions are coming around, albeit, slowly. The promise of high economic and sustained has failed to materialize. And across the board faith in the ability of markets to deliver diversification and industrial catch up is evaporating. The recent global financial and economic crisis in which unregulated financial markets catapulted the entire global economy into the deepest recession in 80 years has hastened the transition away from market-only policies. Governments are increasingly being called upon to take a more active role in directing the economic affairs of their countries.

But as we have stated earlier, governments of developing countries around the world have grown increasingly worry of their industrial performance over the few years. They are sceptical of achieving industrialisation on the backs of market-based policies. The shifting of geo-political and economic influence away from the west to the east embodied in the economic influence of China continues to weaken the influence of the World Bank and the IMF over developing country policy choices. And so developing countries including those in West Africa are gradually regaining sovereign control over development policymaking in their respective countries. They are moving away from free market dogma; and they are adopting and implementing industrial policies that do not always conform to the dictates of the Washington Consensus. The idea of industrial policy still remains offensive to the international development establishment.

But as always these institutions never allow countries to design their own policies. They remain sceptical but if they cannot stop the countries from adopting the policy why not influence the nature of the policy they adopt. The Bank and the Fund have re-organized themselves into industrial policy experts institutions purporting to support countries develop industrial policies. By providing funding and technical advice, they remain in the background but they are able to influence the key policies that are finally adopted.

For example, nearly all the industrial policies that have been reviewed as part of this report retain the idea that countries that exported have fared better. The Liberian industrial policy is premised on the notion that “sustained growth should be built upon producing goods for exports” (Ministry of Commerce and Industry, 2011). The policy asserts that the “resulting competition with other countries’ manufactures will ensure efficiency and provide access to new technologies that will result in productivity growth". The West African Common Industrial Policy (WACIP) developed by member states of the Economic Community of West African States (ECOWAS), seeks among other things this is a carry-over idea from the era of structural adjustment whose fundamental premise was that debt-ridden African countries will grow their economies and improve their competitiveness through investments targeted at export-oriented industries (Jauch, 2009). Inherent in that premise was the fundamental condition that debtor countries needed to repay their debts, which are denominated in foreign currencies, especially the dollar. However, this idea has retained a privileged position in all emerging industrial policies.

It is hard to argue against a policy that seeks to expand the access of domestic producers to the world market. The problem is when that policy appears to eliminate the domestic market from the 'world market'. As we have seen a key aspect of new industrial policy is their ability to identify and build on existing capacities and opportunities. The history of successful industrialisation in the past century have shown that countries that have succeeded have built national champions that recorded resounding successes in capturing a significant proportion of the domestic market. In fact, the successful industries used the domestic markets as a launch-pad for a successful launch into the international marketplace.

Structural Adjustment forced countries in West Africa in particular into a regime of economic policy making that was geared almost exclusively towards increasing the levels of their exports. The result was a dramatic shift in production from, meeting local needs towards export-oriented industries. Production systems were modified in ways that allow countries to produce what they do not need themselves. For what they need, the centre-piece of the structural adjustment programme – trade liberalisation – ensured that there was steady flow of imports of all kinds of consumer goods at prices that remove all incentives for local production of these products. And for the next 30 years, countries became hooked on export mainly of raw materials. Export-led industrialisation has become the cornerstone of the national drive for development in almost all the countries. The perceived wisdom is that the only way to industrialise and develop is to increase the levels of exports and it has become almost heretical to argue otherwise.

As has been stated earlier, it would be difficult and almost impossible to deny the importance of exports in the economic growth process and in particular in the industrialisation efforts. At the same time, it is equally difficult to understand a growth strategy that seeks to build firms that are competitive on the fiercely competitive global export market even when those firms have no grounding in the domestic market. We would submit that part of the growth menu should be to secure, by whatever means possible, a sizeable proportion of the domestic market for domestic firms. This should be the obvious starting point in the national efforts to build globally competitive firms.

Another important dimension of new industrial policy for which World Bank and IMF ideologies cannot escape blame is the idea that countries would be better off in building resilient industrial base by promoting industries that are close their comparative advantage. The view is that an industrial structure of an economy is endogenous to the economy's resource endowment structure. Therefore, for countries to be successful at upgrading their industrial structure they must their endowment structures. Thiscan be done by, increasing the relative share of capital in the total endowment. And in the view of the Senior Vice President and Chief Economist of the World (Justin Yifu Lin) "the best way to do this is for developing countries to develop industries and adopt technology that is consistent with their comparative advantage…" (Justin, 2009).This is because when firms choose their industries and technologies according to the comparative advantages determined by the country's factor endowments, the economy is most competitive. This idea has found their way into industrial policies in West Africa, making them timid in what they seek to achieve. Most of the IPs reviewed for this report has been formulated on the basis on assumption that countries of the sub-region have comparative advantage in agriculture and natural resources. Therefore industrial policies have over-flogged the imperative for agro-processing. The general development directions of Liberia's Industrial Policy emphasized that"Liberia's comparative advantage lies in agro-based industries, in particular agro-processing, horticulture, furniture and other down-stream wood products and down-stream rubber products" (Ministry of Commerce and Industry, 2011). The West African Common Industrial Policy (WACIP) developed by the sub-regional body, Economic Community of West African States (ECOWAS), "is based on a global vision to benefit from the comparative advantages of member states…" (WACIP, 2010).

In general the idea fits well the proposition that industrial policy should build on existing capacities and opportunities. The problem is when the policy orientation is to have countries perpetually engaged in activities that almost to their natural competitive advantage and denying them the opportunities to move into other dynamic sectors. And historically, successful industrialisation has depended on policies that moved countries away from their natural comparative advantage into areas of relative comparative disadvantage.

Another area where World Bank and IMF influence has been noticeable in the design of industrial policies has been in the role of government in the industrialisation process. As we have already alluded, the new wave of industrial policies has generally excluded the establishment of large-scale public enterprises. This has significantly limited the role of government in the industrialisation process. At the same time, the role of government in the new industrial policies has been confined to one of a facilitator. In all the new policies the private sector is designated as the 'engine' of growth. Governments are essentially to maintain 'enabling environment' for a competitive private sector (NEEDS, 2003) to deliver on the goal of industrialisation. This policy stands has meant that countries have continued to privatize existing public enterprises in the name of increasing the share of the private sector in economic production. A key policy trust of the NEEDS strategy of the Nigeria's government was to "rapidly privatize key infrastructure services to ensure effective service provision" (NNPC, 2004). This fits well into the neo-liberal market-driven approach to industrialisation and economic development.

However, given the many developmental challenges that confront the private sector, the back-stage role that has been assigned to the public sector has not helped. The potential for market failures in developing countries is large. This means that the state is expected to play an activist role at least in support of the private sector.

5. What are the Strengths of Existing Industrial Policies?

Against the backdrop, that both ISI and SAP have failed to industrialize and offer the needed structural transformation policymakers in many countries in the sub-region have begun to reappraise their development strategies with a view to avoiding some of the mistakes made in the ISI and SAP phases. In the process many have adopted industrial policies or are on the path of having an Industrial Policy in future. Countries have also initiated several industrial programmes. These in themselves are commendable given that formidable hostility to policies, programmes and initiatives that deliberately target industrialisation. Existing policies have rightly targeted manufacturing as a key component of any industrialisation programme. The West African Common Industrial Policy seeks among other objectives to "progressively increase the manufacturing industry's contribution to the regional GDP (...) to an average of over 20 percent in 2030" (WACIP, 2010). Policymakers in nearly all the countries identified their continued exports of raw materials as a challenge that has to be overcome. They propose to do this by ensuring that going forward, significant proportion of raw materials is processed. The NEEDS strategy in Nigeria calls for an end to the squandering of the country's natural resources by selling them as crude products. Liberia's industrial policy emphasize the point that "the emergence of a dynamic manufacturing sector has typically marked a country's transition from low to intermediate income levels" Ministry of Commerce and Industry, 2011).

In addition, existing industrial policies and programmes appear to target not only the global market but more importantly the regional market as export destinations. Contrary to the ISI, which focused heavily on the domestic market and SAP which ignored the regional markets, newest attempt at industrialisation in the subregion identified the regional as untapped markets. In the NEEDS strategy, Nigeria seeks to "take advantage of opportunities offered by (...) preferential and differential trade arrangements and concessions under the economic community of West African States" (NNPC, 2004). The shift in focus to the regional market is an appropriate one given the many hurdles countries of the sub-region face as they seek to enter global markets. Production costs in the sub-region are still very high making manufactures from the regional relatively costly and uncompetitive. At the same time rules of the international trade system have been skewed against products from developing countries.

Thirdly, exiting industrialisation policies and programmes have rightly recognised the complementary roles of governments and markets in the industrialisation process. Policies have moved away from the era in which it was either state or markets to an era where policies are seeking to blend the institutional efficiency of the state with the discipline of the market. This shift also entails the idea that the private sector is the real engine of economic growth and structural transformation. Admittedly, the tasks of defining the appropriately roles of the state, the markets and private sector is a work in progress. A careful reading of existing policies and programmes convey the impression that policymakers are struggling to get the balance right. They appear to be caught up in the past approaches to industrialisation - the ISI and SAP phases.

Fourthly, the political economy of design of existing industrial policies appears to have achieved broad-based consultation of the important stakeholders. The development of Ghana's industrial policy involved extensive consultations with "Government Ministries, Public Sector Implementing Agencies, Private Sector, Educational Institutions, Research Institutions and Civil Society" including trade unions.

Indeed, the fact of formulating an industrial policy or programme is an admission that the state has a fundamental role to play in the national efforts to industrialise. At the same, certain key economic precepts that underpinned structural adjustment policies have not only found their way to existing policies but more importantly have been become the guiding principles of industrialisation policies. These precepts include the views that have consigned governments to a role of providing an "enabling environment".

It also includes tasking an already overburdened private sector reeling under domestic and external constraints to undertake many responsibilities many of which they do not the incentives to undertake no matter the generosity of external incentives. Some of these general principles of market fundamentalism have also disenabled governments from performing even the limited roles they have been confined to. For example, tax policies have not permitted governments to obtain the needed revenues required to provide productive and social infrastructure for business to thrive.

Additionally, while existing policies appear to have recognised the multi-dimensionality of the development and indeed the industrialisation challenge, they continue to remain isolated from and not properly aligned with the broad national development plan of the various countries. For the most part, countries in the West African sub-region do not have national development plans. Ghana has elaborated an industrial policy at a time the development of a long-term national development plan has been stalled since 2008. Liberia's industrial policy makes reference to "coherence with the Government's development strategy post-2011" (Ministry of Commerce and Industrial, 2011). In the same breath the policy state that "the government is currently working towards setting a vision for the country for the year 2030" (Ministry of Commerce and Industry, 2011). Furthermore, several other sectoral policies that have a bearing on industrial performance have not been fully developed and hence cannot be aligned. Few countries (Ghana) have trade policy for example. The industrial policies (Nigeria, Liberia and Sierra Leone) talk about building human resources but they show no comprehensive programme to achieve that.

The policies reviewed downplay the role of external factors in explaining the poor performance of the industrial sector, particularly the manufacturing sub-sector. The deep and extensive trade liberalisation policy that has been pursued over the last 25 years has not only constraint the ability of the domestic private sector to expand and create employment, but it has also hindered foreign direct investment into manufacturing.

In addition to the many domestic/internal constraints that stand in the way of domestic industries, those have been over-exposed to unsustainable competition from highly matured industries that have access to very reliable infrastructure and are also heavily subsidised. Developing industries behind "high protective barriers" is itself a prominent part of the international experiences of industrialisation that have been referred to throughout most of the policy documents. The problem is when domestic industry is suddenly exposed to international competition while domestic constraints remain largely binding. Unfortunately, existing policies appear to take the external environment as given and for that matter countries have sought to design their industrial strategies in the context of existing framework.

Finally, the reviewed policies draw heavily on historical experiences of countries that have significantly improved their industrial sector. The desire to emulate these countries particularly those in East Asia is clear and appears quite understandable. However, it is important that we recognise a few points. First, times and global conditions have changed significantly. Second, it is important we recognise that socially and politically and even climatically, we are different from say the Koreans or the Chinese.

Once this is understood, we must realise that what worked well for Korea or Malaysia might not necessarily work well for Ghana, Nigeria or Sierra Leone. It is also important to note that there are various versions (official and unofficial) of what actually went into the rapid industrial expansion of the East Asian countries. We should therefore, be careful of the stories we imbibe. The industrial development policies should be anchored on where countries in the sub-region have some unique comparative advantage and attempt to create a **"Nigerian or Ghanaian Experience"** rather than what appears to a wholesale attempt to emulate others.

It is important therefore, that external constraints to the growth of domestic industry are recognised and strategies are formulated to deal with them. A section on external constraints to industrial sector growth is therefore proposed.

6. What roles can the regional grouping – ECOWAS – play?

The Economic Community of West African States (ECOWAS) was formed in 1975, to secure the economic integration of member states' economies. With a population of close 300 million, the community offers important markets among member countries. However, for a greater portion of its existence, the community has been balked down in resolving political conflicts within and between countries. This has considerably detracted from its economic objectives of ensuring the rapid integration and development of the regional economy. This notwithstanding, the ECOWAS has taken several initiatives in the areas of promoting consultations and synergies among members countries in the design and implementation of their respective development programmes. Admittedly, ECOWAS's initiatives in the area of industrial policies have rather been limited. As we have seen, individual member countries have implemented national industrial policies with very limited consultations at the regional level. In the main, these policies have been supported and also influenced by powerful actors in the international community. These actors have come with their own brand of policies ostensibly to help the industrialisation drive of the individual countries. This has proved to be inefficient. Countries with similar natural resource endowments have sought to implement policies with similar objectives and strategies.

The consequence has been the creation of similar and competitive production units in the sub-region – breweries, cement factories oil mills and agro-processed products generally. Thus the idea that countries of the sub-region produced similar products, which limits the potential for trade amongst them is being carried over into the emerging limited industrial base. Countries have also gone down similar lane of heavy dependence on imported inputs including raw materials, capital goods including human capital. For these and many other reasons, some of which have been enumerated above, the industrial performance of countries in the sub-region has been severely hampered. The regions' manufacturing industry is dominated by agro-processing. Manufacturing accounts for 7.36 percent of its GDP in 2006. More than four-fifth (80%) of the regions Manufacturing Value Added (MVA) is obtained from Nigeria (39.7%), Cote d'Ivoire (23.4%), Ghana (10.0%) and Senegal (9.3%).

These challenges require a collective approach to address them. The internal markets of the respective countries place a limit on the development of industries on a large-scale. The regional markets offer a buffer. At the same time, the constraints that international governance places on countries whether in the area of trade or investment rules require that countries of the sub-region come together to fashion a collective response.

All these call for a stronger role for the ECOWAS in the regional development processes. Luckily, ECOWAS itself does only recognize the challenge but equally importantly, it is taken steps to assist member countries. In 2007, ECOWAS elaborated a common industrial policy for the sub-region. The West Africa Common Industrial Policy (WACIP) – vision 2020 – has been adopted by, Heads of States and Governments of the sub-region. It aims to transform the "ECOWAS of States" into "ECOWAS of the people" by 2020.

The WACIP is anchored on a vision to "maintain a solid industrial structure which is globally competitive, environment-friendly and capable of significantly improving the living standards of people by 2030" (WACIP, 2010). The underlying objective is to accelerate the industrialisation of West Africa transforming domestically produced raw materials. The policy also seeks to develop and diversify productive capacity, strengthen regional integration and the exports of manufactures.

The WACIP provides a regional industrial policy framework into which member countries can tap in developing country-specific policies. The policy provides avenue for countries to harmonize their policies in several areas of industrial policies. These include investment policy, trade policy, macroeconomic policy, competition policy. By assisting member countries to coordinate their policies ECOWAS would be saving them from costly policy mistakes and avoid a situation where members engaged unnecessary policy competitions including a race to the bottom.

ECOWAS can assist member countries to gain better and affordable access to the regional markets by deepening the integration process. This can be accomplished in a number of ways: facilitating the adoption and speedy implementation of the ECOWAS Common External Tariff (CET) – part of the policy coordination efforts -, the implementation of existing protocols on the movements of persons and goods and the building of regional infrastructure networks. This will also entail building a stronger community of interests among member countries with which to fight for fairer rules in the global economic governance system while shielding countries from unsustainable pressures on to them to adopt policies that do not favour industrialisation.

Above all, ECOWAS would be required to continue its efforts in secure peace and security in the sub-region without which industrialisation aspirations of the region will forever be a mirage.

Chapter 4

A Model Industrial Policy: What should be the Key Elements?

1. Introduction

The propensity towards the adoption and implementation of industrial policy is growing by leaps and bounds in the developing world including in West Africa, despite strong opposition from development partners. As it seems, the question of whether or not countries should implement industrial policies is belated. The intellectual and nationalist push for industrial development strategy could not be stopped. And countries have either adopted or implementing or are seeking to do so. The debate has moved on to one of what kind of industrial policies work; what should be the underlying economic policies and what are or should be the political considerations.

In this section we rehash some of the key points of the debates and followed it up with we think should be key elements of an industrial policy for countries of the West African sub-region.

2. Economic Foundation of Industrial Policy

There are schools of thoughts regarding the economic policies that should guide industrial policies. The first view is that successful industrial policies are those that seek to promote specific industries that conform to countries comparative advantage (Lin, 2009, Busser, 2010). Typically, these view of industrial policy is summarized as a need for government to provide a better 'enabling environment' for businesses. It considerably restrains governments from interfering in business decisions regarding which sectors or industries to be promoted. The assumption is that private individuals and entities pursuing their self-interests know better than government sectors or industries that have the potential to grow or that are viable. In this view government's role is limited to policies targeting infrastructure development, provision of education and in particular vocational training, creating or enhancing access to finance, policies to attract Foreign Direct Investments and creating the conditions for research and development.

This essentially is referred to as the 'horizontal' approach to industrial policies. The central view is that successful growth strategy are often rooted in and builds on what a country already does best – comparative advantage.

The second view is characterized as the 'vertical' approach to industrial policies and strategies. This approach does not discount the 'horizontal' approach; it only goes much further in the belief that the state's role in the industrialisation goes beyond merely providing so-called 'enabling environment'. While not discounting the value and indeed the wisdom in building on a countries comparative advantage, it time pushes for measures that target specific sectors and industries at the same which are not directly in line with a countries natural comparative advantage. In other words, developing countries must venture into areas where they are considered to be comparatively disadvantaged.

The 'vertical' approach to industrialisation takes a cue from history. That many developing countries which have struggled to develop and industrialise through expansion of agricultural exports, exploitation of mineral resources or developing low value added manufactures – agro-processing – have had very limited success in changing their economic structures or upgrading their industrial capabilities. Often and as we have seen throughout this report, such countries have been persuaded to concentrate on expanding activities that their natural endowments allow them. For the most part, these countries have been led to specialize in economic activities characterized by diminishing returns and very limited linkages with the rest of the economy. Such specialization is akin to specializing in being poor as countries that gone through this have also experienced high levels of poverty and minimal improvements in living standards (Busser, 2010).

On the contrary, countries (including those in East and Southeast Asia) that ventured into areas and activities not necessarily dictated by their natural competitive advantage did better. They achieved considerable success in changing the economic structure and building sustaining industries. They succeeded not merely by providing an 'enabling environment', they went beyond that. They established state-owned enterprises and offered them effective protection just as countries in West Africa did. But they went further than that. With an iron determination to move the location of economic further up the value chain they subjected domestic firms to both internal and external market discipline. They supported domestic industry actively as opposed to the passive or blank check support that countries in the sub-region offered to domestic industry that pampered them to their eventual demise.

The central message is therefore that efficient industrial policies normally include some mix of functional, horizontal and vertical elements. What is required for successful industrial policy and industrial is an active state that is able to direct the flow of economic capital to sectors and industries that are considered viable and with a potential to prop up other sectors. The state must only support specific industries (vertical policy) but more importantly it must exact performance from them. This would mean setting targets with and for them and holding them to their words. It would also mean subjecting supported industries to basic rudiments of market discipline. This entails that functionally government intervenes in markets to improve their operations, in particular factor markets. Examples would be interventions to prevent collusion and facilitate entry by entrepreneurs into markets, or measures to reduce the transaction costs of doing business. This implies that markets matter as well in the design of industrial strategies, except that the market must be governed (Wade).

Successful industrial policies have often involved a combination of "leading the market" and "following the market". In the former case, government encourages investment decisions that private actors would not make, whilst in the latter, the government supports some of the investments and innovation of private firms to encourage a marginal extension of the production frontier in specific areas of production. Leading the market seeks to anticipate the future, in which existing comparative advantages in natural resource based and cheap labour are used up, and also seeks to create comparative advantages in particular products and sectors by building technological capabilities at the firm level and clusters of activity. In such cases, the government not only exploits current comparative advantage but also, in certain sectors, seeks to "defy" current comparative advantage at a particular moment in time in order to ensure that gradually, over time, its comparative advantage is extended and upgraded (see debate between Lin and Chang, 2009). There are other important dimensions and issues that a robust industrial policy should incorporate or adhere to. These are discussed below.

3. Coherence

An important aspect of a new industrial policy is that it should be part of a broader productive development strategy, which is concerned with enhancing capital accumulation and knowledge accumulation. There is growing recognition that industrial development encompasses than previous thought. At least we have seen it goes beyond establishing industries. It requires building capacities in technology development and adaptation, trade policy and human resource development among others. This enjoins countries to adopt a holistic approach to the development industrial policies and programmes.

Industrial policy objectives and strategies must be aligned with the broader development framework. It is almost impossible to build sustainable industrial capacity in the absence of a supportive trade policy that shields domestic infant industry from competition that is not healthy and unsustainable. At the same time, the policy of industrial upgrading requires the build-up of human capital in many disciplines. In fact, it is impossible to add value to raw materials like gold and oil if we cannot add value to our human natural resources. Thus, the new industrial policy framework must be situated in a national development plan. This is to ensure that adjoining policies and programmes cohere with another. Adopting an industrial policy when there is no national development plan and purporting to address important issues such as education and health within the industrial policy is not an optimal approach.

Among the many possible policies that could have a bearing on the success or otherwise of industrial policy, trade policy is isolated for special consideration. In the past industrialisation efforts of countries, industrial development imperatives were associated with protectionism and import substitution. The orientation has shifted towards liberalisation of external trade. The industrialisation agenda has therefore shifted to open-economy industrial policy. The mainstream economic view is that increasing integration into the global economy by way of trade liberalisation would spur growth and diversification. Such trade integration would equally enhance industrial upgrading and competitiveness (UNECA, 2010). The argument goes this way: “industrialisation and economic development is strongly correlated with the openness to trade”

But the history of successful industrialisation is replete with massive examples of successfully industrialized have turned this arguments over its head. Indeed, countries that adhered least to the ***cannons*** of free trade during the crucial moments of their development have turned out to be world’s industrial countries. In fact, in the past a period of protecting manufactures was mandatory for all countries that industrialized. In recent some form of Protection of infant industry has been used by the Newly Industrialized Countries. Protect was always for a period, and beneficiary sectors and industries were subject to market disciplines as they navigate the learning curve.

But it is also recognized that the process of liberalization should be gradual and it should be accompanied by a strategy of industrial restructuring and upgrading in order to allow firms to prepare for the challenges arising from liberalization. That said, African countries should pay attention to export promotion because there is some evidence that exporting increases firm productivity in the region (Van Biesebroeck, 2005a).

4. Nationally Determined and Owned

As cliché goes, “Nigeria cannot [be] only developed by Nigeria”. West Africa cannot also only be developed by West Africa. A prime of the development tragedy of the sub-region is that too often national policies and programmes have emanated from non-citizens armed with concocted knowledge and experience of what has worked somewhere. The sub-region has grown used to the phrase that policies are not nationally-owned. Even when, domestic experts are called to design industrial policies they are beguiled by the success of other countries and only to recreate what others have done. Often times they overlook domestic potential, constraints and what countries can do to create their unique models of industrial development.

Based on international benchmarking framework, it is important that industrial policies are rooted in each country's relative position in order to define an industrial strategy that covers manufacturing capacity upgrading, diversification and deepening issues. From an economic perspective, it makes more sense to carefully select benchmarks that more closely resemble their country. At same time the prospects of exploring unique models should be considered. There is growing understanding that industrial policy should be tailored to the needs and challenges facing each country. A one-size-fits-all approach will be counterproductive and unlikely to achieve desirable outcomes. Country- and context-specific measures are necessary, and policymakers should be mindful of this fact in the design and implementation of industrial policy. Copying the policies and strategies used by other countries without regard for the differences in structure, endowments, political situation and global environments will lead to poor outcomes. The content of policy needs to be calibrated to the industrialization path chosen, resource requirements and availability, geography, and domestic political realities (Rodrik, 2008). To be successful, the ancillary or adjoining policies whether in the area of education (human resources), natural resources, trade, fiscal and monetary policies must be nationally determined and owned. These are important policy issues that have implications for success or otherwise of industrial development. They have to be supportive of the sets of industrial strategies adopted. National determination of these policy levers will be part of efforts to ensure that whatever industrial strategy that is adopted is in line with the broad development framework of the country.

5. Incorporates Appropriate Incentives for Key Actors

Changing the structure of any economy is remarkably a complex process involving many actors and interests groups. When government policy or measures deliberately target sectors of industries as industrial policies seek to do, it is likely to create a situation of winners and losers. Elements within society that currently profits from the status are likely to mount opposition. And for the most part such groups with interests in maintaining existing pariah structures are more resourceful with better ethnic/clan or political clouts in particular in the countryside. The easiest thing is to either ignore such groups or descend on them to whip them in line.

It is important for industrial policymakers and indeed the political establishment to recognize the importance of rallying all sections of society behind the industrial development programmes. This recognition also means that at the highest of political governance, losers and winners are clearly identified at the onset or in the course of implementation and accommodation is sought with. Losers or likely losers need to be incentivized through comprehensive and transparent compensatory mechanisms. This can be done through fair taxation of winners.

Successful industrialisation in West Africa would also require building internal or domestic consensus on the key issues and strategies for the pursuit of industrialisation. West African societies are polarized along ethnic lines and lately on partisan party lines. The two are intertwined in some ways. For the most part ethnic groups, be they minorities or majority, face the possibility of losing out in the envisaged transformation. With significant political and ethnic base they can and do often mobilized against initiatives, however beneficial they may be for the country at large. Success in industrialisation programming has not been made by crushing such groups but by conscious process of dialogue that allays fears – perceived or real – and builds a stronger domestic coalition for reforms that matter for industrialisation and development.

6. Embedded in Pragmatism and not Welded to Ideology

As we have already stated, industrial development is a complex process. It has been a dynamic process and not simply linear. In the past, industrial development in West Africa has been too wedded to ideology whether political or economically. Countries have moved from dominant ideologies of state-led industrialisation in which it was believed that state entrepreneurship was the key to rapid industrialisation and modernization of society.

That strategy failed at least as far as industrialisation of the sub-region is concerned. Then countries moved to the other extreme end of the ideological pendulum in which the supremacy of markets was emphasized. In this phase, the virtues of markets were promoted, the state was made to beat a radical retreat, in the belief it (state) is part of the problem and that markets have innate the ability to generate growth, industrial diversification and greater prosperity. This other ideological strategy has failed to industrialise West Africa as well.

As we have noted elsewhere in this paper, countries that have successfully industrialized and transformed their economies have done so by defying the existing dominant economic or political ideologies of their times. But it was not just a rejection of dominant ideologies. A lot more happened in such countries. Key among them was the realization that the process of industrializing is an extremely complex and dynamic. It is, therefore unwise to stick to one dominant ideology including policies in addressing what is essentially complex and dynamic. To be sure industrialisation policies and indeed development policies generally should recognize these dynamics and anticipate future changes whether in the domestic economy or in the international economy. The industrial development plan or strategy should incorporate enough flexibilities to address issues that planners could not have reasonable anticipated.

This point is particularly important in the current era of globalisation where changes both in the domestic economy or the international economy are occurring almost on a daily basis. In such situations policies must not only be context-specific but equally importantly they must be time-specific. And it is for this reason that having a set of ten principles that have been codified into a kind of international development framework – Washington Consensus – has failed to transform any economy thirty after their promulgation. It is for this same reason that the Chinese, despite their remarkable economic success in the last thirty, which has inspired many developing countries, have refused to subscribe to the characterization of their development as the ***Beijing Consensus***. No single sets of policies, programmes or even ideology are adequate in addressing the underlying complexities and anticipated (or unanticipated) changes. Policy flexibilities would be required. But it's only possible when planners and policymakers refrained from sticking to ideologies.

7. Institutions and Governance

An important constraint on effective industrial policy in West Africa is the weaknesses in governance capacities. Going forward, any programme of industrial development would have to confront this challenge to give a chance of success. Experience from East Asia has suggested two critical institutional ingredients for success. The first was the existence of an effective, dedicated and capable bureaucracy. The second was that state institutions operated in a situation of embedded autonomy in the sense that they were closely collaborating with the private sector to formulate and implement policy, but at the same time they were not influenced to favour particular interests.

In West Africa, state capacities for development policy formulation and implementation have been severely eroded and after years of neglect, ministries of industry are often weak. The open hostility towards the state under structural adjustment and successor neo-liberal policies have left most states in the sub-region completely deformed. Against this background, some have argued that however desirable an industrial policy might be in West Africa, it will only lead to huge societal costs owing to government failure. While it is important to be cognizant of the governance challenge of industrial policy, it is too pessimistic to argue that it is impossible. Firstly, it is clear from the East Asian success story that there was a deliberate strategy to build up a few strategically important agencies rather than to improve government effectiveness across the board. Also the capabilities of bureaucracies were built up over time.

All this suggests that future industrial development policies should incorporate comprehensive sets of policies and programmes to rehabilitate the state left deformed by constant bastardization and neglect. It is absolutely crucial to significantly enhance the capacity of the state to manage the industrial development process. In addition, since industrial policy by its nature implies some form of government intervention, there is a need to take into account the government capabilities in making decisions on the scope of intervention in an economy. In this regard, and given their limited capacity, West African governments should not attempt the kind of pervasive interventions used in the past in the newly industrialized countries. They should be pragmatic and give priority to improving government capabilities for industrial diagnosis and strategy design, as well as policy formulation, implementation, monitoring and evaluation.

Conclusion and Recommendations

Industrialisation has been pursued aggressively by nearly all the countries in West Africa at least since they attained political independence. Countries have pursued industrialisation in the knowledge that industrialisation development has been the hallmark of all the countries that are designated as developed. In addition, such industrialized countries enjoy a higher standard of living than their peers.

West African government at independence attempted to close industrial gap between them and the rich countries of the North by using the state machinery to develop their industrial base. The emphasis was catching up, and closing the gap by merely establishing industries. There were no serious attempts at developing industrial and technological capacities, which were and have at all times been at the heart of industrialisation. Support to domestic industrial was extensive and endless but they were largely passive with very little accountability mechanisms by of holding recipients' of state support to minimum targets and standards. Countries in the sub-region failed to this.

Countries also failed to articulate long term national development plans within which any programme of industrialisation must optimally be based. This meant that important adjunct policies to industrial policies were not properly aligned to each other. Additionally, state interventions went too far given the nature of national bureaucracies that were available to oversee these interventions. This resulted in rent-seeking instead of profit-seeking.

The failures of the state-led approach to industrialisation led countries to adopt market-based approach to industrialisation and development. This approach turned out to be market-only approach. In this approach, the state was identified as a major obstacle to development and was made to withdraw from economic activities. The market was heavily deployed including in areas and activities where markets do not exist. The belief was that markets without state interventions have superior growth performance. After three decades of implementing market fundamentalist policies the verdict has been the considerable de-industrialisation of the West African Sub-region. The little industrial base that countries managed to build under the state-led industrialisation phase, however inefficient they were, have been systematically wiped out. West African economies have become net-importers of nearly everything except natural raw materials.

Countries have realised the mistakes of the two main paths to industrialisation they have pursued. They rethinking of the vehicle for industrial development have longed began. Countries have either adopted, implementing or are actively discussing industrial polices. In these policies, countries have rediscovered the wisdom in bringing back the state without discounting the value that market forces bring to the industrialisation process.

But they are caught in the controversy over what should be the appropriate roles of the state and those of the market. The controversy is muddied by the sorry state of states in West Africa. Most of the states in the sub-region are so thoroughly deformed to the extent that confidence in them has waned. Their ability to lead and managed the development process is hugely suspects. In view that, industrial policies that have been adopted so including at the continental level continue to emphasize the supremacy markets. Their underlying economic policies are neo-liberal in nature. The state has been confined to a limited sets of issues broadly described as providing an "enabling environment" for private actors to pursue their self-interests in a free markets.

The adoption of industrial policy presupposes that markets and indeed private agents pursuing their interests do not have incentives to invest in certain sectors or industries that are deemed critical to national development. Such sectors or industrials might be social (eg., education and health) or in the realm of the key economic sub-sectors whose development could spur investments in other important sectors. Government action direct and indirect would be required in those sectors. Therefore, instead of using the existing capacities of governments in the West Africa to deny its rightful and strategic roles in the industrial development process countries would far in upgrading their industries and industrial capabilities by rehabilitating the state and government and get them to do what states and governments have historical do in all the successful cases of industrialisation that the world has produced.

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Theory and practice of industrial policy. Evidence from the Latin American experience
Economic development in Africa report 2011- Fostering industrial development in Africa in the new Global environment.

The study is based on the conviction that industrialisation should form an important part of any development strategy that is focused on changing economic structure and alleviating poverty on a sustainable basis.

The Friedrich Ebert Stiftung (FES) shares this conviction and in consequence has taken keen interest in the discourse around industrial policy and industrial development programmes in the West African sub-region. By commissioning this study, the FES seeks to make a contribution on the reflection of the implementation of industrial policies.

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