Learning Global Production Networks—Implications for Northern Nigeria

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Outline

- Evolution of Nigerian economy and the labor market
- The role of structural change
- The role of Industrial Policy in development
- How to apply it to Nigeria

Nigerian economy and labor market

- Strong growth during period of high oil prices from 2005 to 2011 was driven by non-oil economy, but failed to bring about structural transformation characterized by increased shares of higher productivity.
- Employment creation dominated by low-productivity jobs in the informal urban and rural sectors.
- Unemployment low. Problem is quality of employment and underemployment

THE ROLE OF STRUCTURAL CHANGE

Major features of Structural Change

Kuznets identified four features of modern economic growth:

- There is a change in the sectoral composition of the economy as the share of the non-agricultural sectors increases and that of the agricultural sector decreases.
- This sectoral shift is mirrored in the pattern of employment. i.e. the proportion of the labor force employed in the non-agricultural sectors rises, while that in the agricultural decreases.
- There is redistribution of the population between the rural and urban areas.
- There is an increase in the relative size of the capital-labor ratio.

Major conclusion: “Some structural change, not only in economic but also in social institutions and beliefs, are required without which economic growth would be impossible.” (Kuznets, 1971).

HOW TO BRING ABOUT STRUCTURAL CHANGE: THE ROLE OF INDUSTRIAL POLICY

Most Industrial Policies failed

- Most governments in the developing world used industrial policies but failed. The reason was:
  - Attempt to develop industries that were too far advanced compared to their of development and went against their comparative advantages
  - The firms were non-viable in competitive markets and required government policy supports for their initial investment and continuous operations. This led to rent-seeking, corruption, and political capture.

Country	Industry	Time	Main producer at Time	Real GDP pc Latecomer Country	Real GDP pc Leading Country	Income Ratio Follower versus Leader
China	Automobile	1950s	USA	577	10,897	5%
DRC	Automobile	1970s	USA	761	16,284	5%
Egypt	Iron, Steel, Chemicals	1950s	USA	885	10,897	8%
India	Automobile	1950s	USA	676	10,897	6%
Indonesia	Ships	1960s	Netherlands	983	9,798	10%
Senegal	Trucks	1960s	USA	1,511	13,419	11%
Turkey	Automobile	1950s	USA	2,093	10,897	19%
Zambia	Automobile	1970s	USA	1,041	16,284	6%

Source: Author's calculations based on data from Maddison (1995).

“Aim before you fire”

- The key lesson, from the experience of successful countries, is that for an industrial policy to be successful, it should target sectors that conform to the economy’s latent comparative advantage.

- But how to do it?

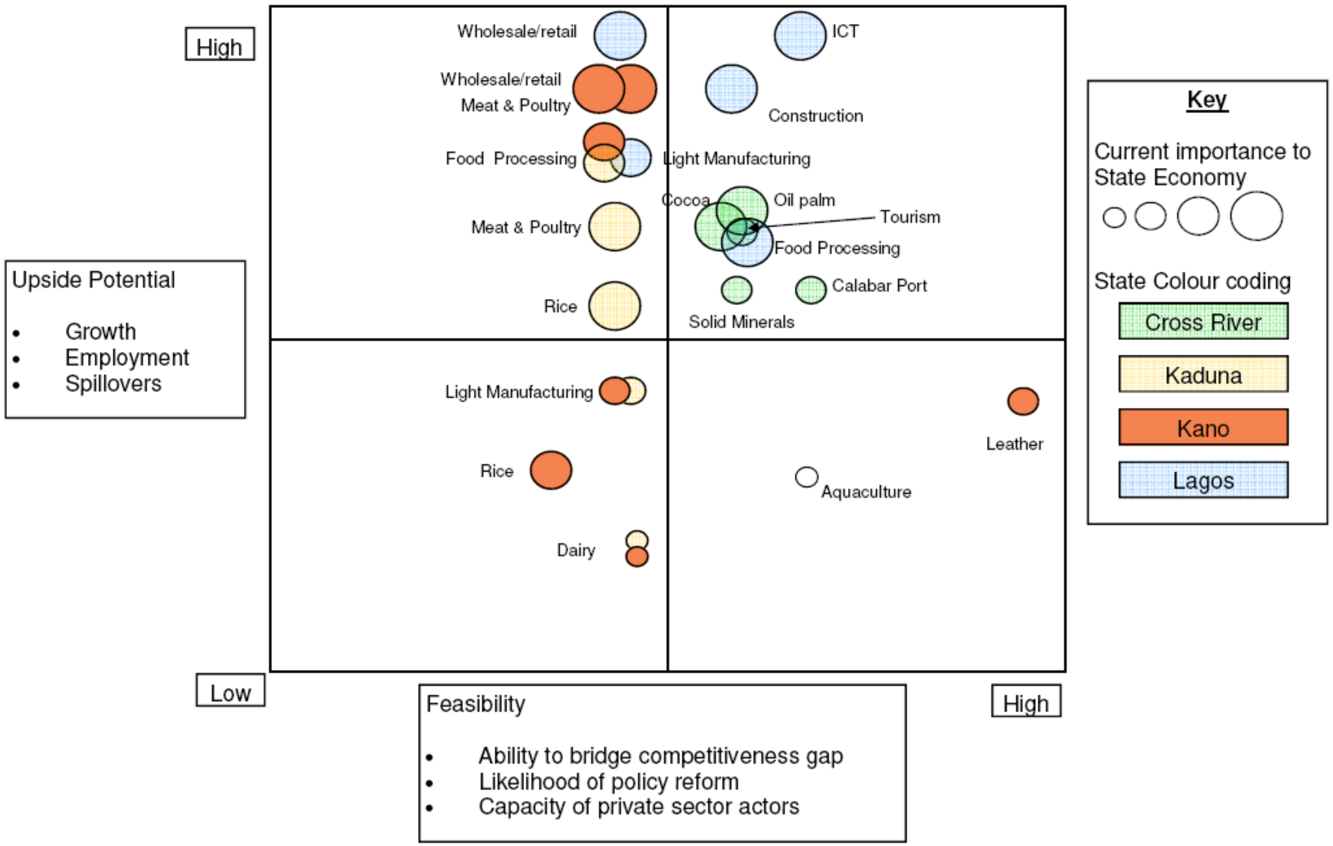
Facilitating State and Industrial Policy

- Industrial policy is a useful tool for the state to play the facilitating role:
  - Need to define the sectors that correspond to the latent comparative advantage (factor endowment; availability of supply chains)
  - Type of coordination will be different, depending on industries.
  - The government's resources and capacity are limited. The government needs to use them strategically.
  - To facilitate formation of clusters and obtain agglomeration effects.

Which sectors and where ?

- Sectors with the highest employment potential are light manufacturing, consumer electronics, construction, ICT, wholesale/retail, meat and poultry, food processing, oil palm and cocoa.
- Feasibility of accomplishing growth in these sectors varies widely by geographical area. For example, in Kano, ICT, construction, leather/shoe manufacturing and food processing is higher.
- Agricultural reforms need to continue, but will need to focus on productivity improvements, that’s why employment potential may be limited.

Prioritisation of Value Chains for further investigation



Binding constraints

- **Physical infrastructure—**Cluster-based growth to address power shortages -- IPP
- **Logistics—**Reform of transport markets
- **Investment Climate—**Reform of key approvals and of government agencies in charge of quality control
- **Skills mismatch—**Targeted skills development in key growth areas
- **Import bans and high tariffs—**Removal of most import bans and replacement by low tariffs

Basic principles

- Non-separability of reforms
- Most good reforms will only work if combined with other measures
- Measures should emanate from dialogue with the private sector.
- Monitoring and Evaluation mechanism necessary to allow for swift correction of intervention

Opportunities from Asia

- China, Turkey and other emerging markets are keen in investing in labor-intensive manufacturing in Africa because of the eroding wage competitiveness in their own countries
- Ethiopia, Rwanda and Senegal have benefited from Chinese SEZ's at this juncture.
- Key role of commitment from political and technical level.

Conclusion

- State has key role to play in facilitating industrial growth.
- Companies can improve their performance to a certain extent, but this cannot drive the development of the entire economy
- Addressing binding constraints to growth at the sectoral level is crucial
- Manufacturing growth at a large scale can be a reality and drive job creation and poverty reduction