

**INDUSTRIALISATION  
STRATEGIES IN NIGERIA: SOME  
LESSONS FROM THE "EAST  
ASIAN ECONOMIC MIRACLE"**

**AN INAUGURAL LECTURE**



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The Sole Administrator, Major General Kontagora (rtd),  
Other Principal Officers,  
Chairman and Members of the Organised Lectures  
Committee,  
Professional Colleagues,  
Distinguished Ladies and Gentlemen.

I accepted the invitation to deliver this inaugural lecture for three main reasons. First, I strongly endorse the institutionalization of inaugural lectures at ABU. Second, the freedom to speak on any subject of his choice offers the lecturer the opportunity to address issues of current research interest. And, third, the subject of my address - *Industrialisation Strategies in Nigeria: Some Lessons from the "East Asian Economic Miracle"* - is of immense interest to every Nigerian since our well-being as a nation depends largely on our pace of industrialisation.

## **1. INTRODUCTION**

Nigeria's effort at industrialisation dates back to the late 1940s. It began, essentially, with the promulgation of a Ten-year Development Plan: 1946-1955, which actually did not envisage any industrialisation beyond rural arts and crafts. Indeed, the recourse to industrialisation was inspired by the need to fill the import gap in some goods distributed by the major colonial trading companies whose supplies were made more difficult by the Post-World War II shortages in

Europe.

Even so, it was not the official policy of the colonial administration to turn Nigeria into an industrial country. The thrust of official policy was to secure and preserve the Nigerian market for British-made goods. As Joseph Chamberlain, Britain's Prime Minister in the early part of the 20th century succinctly put it: "The Foreign Office and the Colonial Office are chiefly engaged in finding new markets and defending old ones." The same sentiment was re-echoed by Lord Lugard when he said: "A Government would not be wise to hasten the advent of the factory in Africa" (Carl Liedholm, 1970). Unquestionably, an industrialized colony would be a contradiction in the colonial and imperial economic history. It was for this reason that the Ricardian and neo-Ricardian theory of comparative advantage was propounded, adopted and made an integral part of classical and neo-classical orthodoxy (Okigbo, 1980). Thus, even by 1950, manufacturing still accounted for only 0.45% of Nigeria's GDP.

Today, after more than thirty-seven years of post-independence growth, the Nigerian industrial structure is still lop-sided and inappropriate. It is more dependent on external trade than is warranted, hence the need for a fundamental restructuring of that sector, if Nigeria is to get out of the trap set for it by a rigid adherence to the import-substituting industrialisation (ISI) policy. Although the policy partially reduced the dependence on imports of consumer goods, the structure of industrialisation that evolved had fastened on the Nigerian economy a dependency syndrome that grew worse with time. We have been importing not only raw materials, intermediate products, equipment and capital goods and spare parts, but also consumer goods of all types to satisfy the rising and insatiable tastes of Nigerians. Besides, the pattern of industrialisation that emerged grew totally independent of the agricultural sector with minimal direct

linkage in an input-output relationship.

Thus, consequent upon its past inappropriate policies, Nigeria has remained at the early phase of industrialisation after more than three and half decades of independence. It is stuck in that phase and has found great difficulty in graduating to the middle stage where the industrial dynamic can, as in the case of the East Asian success stories, propel it to the advanced stage.

By the East Asian success stories, I am specifically referring to the seemingly miraculous growth in just eight economies: Japan, the "Four Tigers" - Hong Kong, South Korea, Singapore and Taiwan - and the three newly industrializing economies (NIEs) of Indonesia, Malaysia and Thailand. These eight high-performing Asian economies (HPAEs) are the reference subject of this lecture. In a sense, selecting any set of economies and attempting to understand the origins of their successful growth are necessarily arbitrary processes. For example, Botswana, Egypt, Gabon, and Lesotho in Sub-Saharan Africa have also been among the world's top 20 growth performers in the past two decades, as have such diverse economies as Brazil, Cyprus, Greece and Portugal. Why focus on eight economies in East Asia? The answer simply is that the eight economies under reference share some economic characteristics that set them apart from most other developing economies.

Since 1960, the HPAEs have grown more than twice as fast as the rest of East Asia, roughly three times as fast as Latin America and South Asia, and twenty-five times faster than Sub-Saharan Africa (World Bank, 1993). They also significantly outperformed the industrial economies and the oil-rich Middle East-North Africa region. Between 1960 and 1985, real income per capita increased more than four times in Japan and the Four Tigers; and more than doubled in the Southeast Asian NIEs. At the same time they have been unusually successful at sharing the fruits of growth. Indeed,

they are the only economies that have high growth and declining inequality. The net effect of their rapid, shared growth has been a dramatic improvement in human welfare and a drastic fall in absolute poverty. The proportion of people living in absolute poverty, lacking such basic necessities as clean water, food, and shelter, dropped - for example - from 58% in 1960 to 17% in 1990 in Indonesia, and from 37% to less than 5% in Malaysia during the same period. Above all, the HPAEs have clearly demonstrated the centrality of sound macroeconomic management and broadly based educational systems in a development process.

The Nigerian sluggish industrialisation process when contrasted with the "Asian Economic Miracle" raises the questions I want to address in this inaugural lecture. What factors have militated against the accelerated industrialisation of Nigeria? What lessons are there to be learnt from the Asian success stories, including their current economic crises? What development strategies and policy actions are available to Nigeria as the way forward? What new structures need to be put in place? In addressing these and related issues, the rest of this discourse is structured in five sections. Section II looks at the conceptual framework; Section III discusses the Nigerian industrialisation experience; Section IV takes up the anatomy of the "Asian Economic Miracle"; Section V assesses the replicability of the Asian model in Nigeria; Section VI examines the way forward for Nigeria in the context of the launching of Vision 2010 programme while the last section summarises the address.

## **2. THE CONCEPTUAL FRAMEWORK**

Most of the history of industrialisation in less developed countries (LDCs) of the capitalist world has been examined under two headings: import-substituting industrialisation (ISI) and export-oriented industrialisation (EOI). Some of the most influential authors and policy

advisers have been moving rapidly to a position of treating these experiences as closed chapters of development economics. Their verdict is that ISI has not worked (or only in its early stages) and that EOI under liberal policies has been so successful that LDCs in general should follow this route (Schmitz, 1984). However, the thesis of this lecture is that ISI has indeed led to substantial (static) inefficiency and foreign exchange problems, but that from a dynamic perspective the analyses are still most unsatisfactory - for both conceptual and empirical reasons. Secondly, it is my view that the alleged superiority of EOI is not so much due to the adoption of more "rational" market-oriented policies, but due to a combination of cyclical and historical factors and to substantial discriminatory state intervention (Ezenwe, 1994).

## 2.1 The Dialectics of ISI

The economic rationale for ISI and protection has a long and distinguished history. The policy of ISI gained adherents in the 1950s following the scheme, first, proposed for the then Gold Coast, later Ghana by Arthur Lewis (1953), and later for Latin America by Raul Prebisch (1959) at the time Secretary-General of the Economic Commission for Latin America. According to them the distribution of gains from international trade and technological progress between the centre and the periphery were uneven in favour of the centre. Rapid industrialisation, under at least temporary protection, was seen as the undisputed way out. Indeed, the case for protection can be traced back to Friedrich List's theory of productive forces which he put forward to challenge the doctrine of comparative advantage (List, 1841). To him, developing productive forces meant building up domestic coherent economic circuits; and to achieve this the infant economy had to be protected from the world economy. Furthermore, a strong nation state was thought necessary to achieve a temporary seclusion. In effect, the political

argument for ISI is summed up in the desire for greater self-sufficiency and independence.

Even so, it seems that much of the initial ISI was not fuelled by the economic or political rationale. The common viewpoint in the literature is that early ISI did not result from consciously adopted policies but was externally enforced (Hirschman, 1968; Ballance et al, 1982). The two world wars and an interim depression made continued importation of industrial goods difficult, if not impossible, because earnings from exporting primary commodities fell, and, at the same, the nations at war were unable to supply industrial goods. While this account is plausible, it is equally true that import-substitution achieved from the 1950s onwards was more a result of deliberate economic policies than other influences (Ezenwe, 1982). The key device used was the restriction of imports of manufactured goods in the form of tariffs, quotas and multiple exchange rates. Admittedly their use was not always aimed at industrialisation as such, but was often a response to balance of payments difficulties.

An evaluation of the measures adopted and the results achieved, particularly for the decades of the 1950s and 1960s, showed that considerable advances were made in the degree of industrialisation; the share of manufacturing in GDP increased and the share of imports in total domestic supply decreased significantly. Despite this, the overwhelming conclusion was one of disenchantment, even among the main advocates (Prebisch, Tavares: 1964). But by far the most influential attack on ISI came from a comparative study by Little, Scitovsky and Scott (1970). Their main argument is that protection was overdone and led to an inefficient allocation of resources due to distortions in factor and product markets. More specifically, over protection led to, among other things, excessive government interference leading to bureaucratisation and corruption, export-pessimism, bias against agriculture, under-utilization of



installed industrial capacity, increased import-dependency and diminishing ISI possibilities. Most LDCs, including Nigeria, experience these phenomena in varying degrees.

The policy implications drawn from this analysis were that government interference should be reduced, the free play of market forces should be encouraged, tariffs and quotas should be lowered substantially and the exchange rates should be devalued. Such policies would bring a given country's productive structure in line with its comparative advantage. This in a nutshell is the neo-classical position on ISI (Schmitz, 1984). While most observers can agree with most of the empirical findings of Little and Associates, opinions diverge on their policy prescriptions. The different stance on policy emanates from an analysis which endogenises the state and sees the distorted and inefficient production structure as a result of the colonial heritage and of social class formation and economic control mechanisms which emerged in the neo-colonial period. This reasoning, which is associated with the dependency school, supports not less but more state intervention of a fundamental kind (Sunkel, 1973; Vaitos, 1974; Thomas, 1974) because ISI encouraged transnational integration and national disintegration of the economy and society.

Evidently, the solution to the problem cannot lie in a greater reliance on market forces, but in more radical promotion of national and regional industrial policies, which include greater control of foreign enterprises, greater scrutiny over imports of technology, reform of the tax and incentive system and redistribution of income. However, although the policy conclusions emerging from these critiques are very different, the analyses themselves are to some extent complementary. Surely, as noted by Nixon (1982), most of the empirical findings of the neo-classical critique could be incorporated into a broadly based dependency view. Nevertheless, it is clear that there has been a state of

widespread disillusionment with ISI right across the ideological and analytical spectrum. Yet the opportunities for learning-by-doing and the development of externalities and linkages which ISI had engendered in its wake must have laid the foundation for the apparent success of exports. Naturally, breathing-in precedes breathing-out.

## **2.2 The Success of Export-oriented Industrialisation Strategy**

Conceivably, the verdict of the failure of ISI gained force when an alternative strategy emerged which demonstrated all the signs of success. Those countries, which had switched emphasis during the 1960s to export-oriented industrialization, achieved the most remarkable rates of economic growth. They soon came to be called the Newly Industrialised Countries (NICs) and their enviable record of performance had dominated industrialisation debate over the last two and half decades. The NICs usually include South Korea, Taiwan, Hong Kong, Singapore, Brazil and Mexico. Together these six countries accounted for 62% of LDC manufactured exports in 1975. The first five, the leading NICs, achieved annual growth rates of GDP (at constant prices) of between 8 and 11% over the period 1965-78. Their yearly increases in manufactured exports stood at between 20 and 40% (UNCTAD, 1982).

The performance of these NICs is impressive by any standards. The question is what factors account for their success. The dominant explanation (emanating from mainstream economics) is that these countries adopted the "right" policies, by liberalising imports, adopting "realistic" exchange rates and providing incentives. More importantly, they managed to get factor prices right so that their economies could expand in line with their comparative advantage. In other terms, reliance on market forces and integration into the world economy yield results superior to

protection and dissociation from the world economy (Balassa, Bhagwati, Krueger: 78). For example, Tyler (1976) attributes Brazil's boom to "a general tendency to rationalise, i.e. liberalise economic policy around the price system." In the same vein, Westphal (1978) concludes that "Korea provides almost classical example of an economy following its comparative advantage and reaping the gains predicted by conventional economic policy." In an assessment of the Asian NICs and of the possibilities of emulation, Little (1981) reached a similar conclusion when he said: "The major lesson is that labour-intensive export-oriented policies, which amounted to almost free trade conditions for exporters, were the prime cause of an extremely rapid and labour-intensive industrialisation...."

This simplistic interpretation of the rise of the NICs has come under pungent attack by Bienefeld (1982). Merely characterising the NICs as the "embodiment of the neo-classical parable" totally ignores a set of internal and external factors which created the observed rapid industrialisation. Unquestionably, certain external circumstances produced relatively favourable access to markets of advanced countries; dramatically increased access to international finance and increasing relocation of production by transnational corporations (TNCs) to the periphery (Ezenwe, 1994).

However, while these factors aided the emergence of the NICs, they did not determine which countries would or would not seize the opportunities. A range of internal factors made the difference, including location and geo-political significance, a strong (repressive) internationally reliable regime, the existence of infrastructure resulting from earlier import-substituting policies. Also, State control over industrial development is held to be extensive and decisive in bringing about the acclaimed dynamic growth. These factors, which will be elaborated more fully in Section 4, provide a better explanation of the rapid rise of the NICs rather than

mere adherence to the free play of market forces.

## **3. THE NIGERIAN INDUSTRIALISATION EXPERIENCE**

### **3.1 General**

As noted earlier, the colonial administration had no plan to make Nigeria a strong industrial country. On assumption of power it was up to the Nigerian leaders to define the objectives to be achieved by, and the paths to be followed towards, a process of industrialisation. Two such objectives stood out, among others. The first was geared to maximizing employment opportunities; and the second objective was to reduce the dependence on imports of consumer goods.

The pattern of industrialisation that emerged had no direct linkage with the agricultural sector; value added and local inputs in manufacturing were low, and the technology has always been imported. It has been difficult to domesticate the technology of manufacturing without a local viable engineering industry as no room is created for adaptations, innovations or imitations in the design and fabrications of industrial equipment. In spite of the existence of some capital-intensive enterprises established by the Federal Government over the years to produce basic inputs for downstream industries, the level of import-substitution of technological capability has been minimal. Such projects comprise the oil refineries and petrochemical plants, liquified natural gas projects, fertilizer, steel, paper and sugar plants, integrated aluminum smelter, machine tools, marble and cement industries. Some of these projects are hardly viable. Construction work and equipment installation at the first phase of the Ajaokuta Steel Company, designed to produce 1.3 million tonnes of liquid steel based on the conventional blast furnace, remained stalled at the 98% level of completion achieved since 1994 (CBN, 1996). The poorly

maintained refineries operate at below capacity thereby forcing Nigeria to import what it produces. The LNG project is scheduled to start its first export shipment by 1st July, 1999. It is thus difficult to industrialise without a viable local capital goods sector.

Opportunities existed in the past to reverse the current emphasis on import substitution of final consumer goods to import substitution of capital goods, given the position of some government officials during the mid-1970s that their problem was not with money but how to spend it. In countries where a degree of technological import substitution has been achieved, their pace of industrialisation has been faster. China, India and Brazil (in that order) have achieved domestic supply ratios which are in the order of 75 to over 90% and similar to those of the advanced industrial nations. But in the majority of LDCs, such as Nigeria, less than a third of capital goods has a domestic origin (UNCTAD, 1982).

### **3.2 The Manufacturing Industry**

In some developing countries the manufacturing sector often serves as the linchpin on which rapid economic development or lack of it revolves. As in the case of the "East Asian Tigers" it propels the tempo of economic activity, determining not only the pace but also the direction of advance. The Nigerian experience however has been mixed. The country's manufacturing production index declined steadily between 1991 and 1995, averaging 4.1% a year and made only an insignificant 1% recovery in 1996. This unsatisfactory performance is traceable to the structural problems of the sub-sector which have to be addressed if its potentials are to be fully exploited. Some of the more important features can be highlighted.

#### **3.2.1 Small Size**

The Nigerian manufacturing sub-sector is very small.

Its share of GDP stood at only 6.5% in 1996 while it has persistently accounted for only about 1% of the country's total exports. The relative share of manufactured exports for sub-Saharan Africa was 6.2% in 1990, an average of 72.5% for Asian countries, 94% for Korea and 96% for Hong Kong (Afeikhena et al, 1995).

Admittedly, Nigeria's tiny export share represents only 4.7% of its recorded manufacturing output. The implication here is that, except for the unrecorded portion of manufactured exports, the output of the manufacturing sector is largely for domestic consumption. Furthermore, the contribution of manufacturing to value added at current prices average just 6.5 % from 1990 through 1994. Based on these statistically insignificant contributions of manufacturing to the Nigerian economy, one may be tempted to play down the critical role of the external trade sector in a development process. Debate on the role of exports in economic growth has a long history and it has often been asserted that export is the engine of economic growth. This postulate has provoked numerous investigations under differing assumptions and methodologies over the years and literature on the subject is still growing. However, as the 1991 World Bank Report concludes, most of the studies found a positive relationship between GDP growth and openness. It follows therefore that the exports of manufactures provide a dynamic source of demand-induced growth which generates jobs and incomes directly, and help to pay for larger import requirements for future growth (Ezenwe, 1982).

### **3.2.2 Low Capacity Utilization**

Capacity utilization in the Nigerian manufacturing sector is quite low. As can be gleaned from Table 1, the sector's capacity utilization has persistently declined from 45.3% in 1980 to less than 30% as at end of June 1997, with the notable exception of the 1981-83 period. Despite, the

establishment of the Nigerian Export Promotion Council (NEPC) in 1976 with the specific mandate to handle the promotion of exports and allied activities and the introduction of a plethora of export incentive schemes. serious excess capacity has been an important feature of Nigerian manufacturing. It is difficult to see how a sizeable exportable surplus will exist in a country where capacity utilization in manufacturing is as low as 30%. Undoubtedly, the existing level of exports is the outcome of deliberate export promotion drive rather than excess production over domestic consumption. The truth is that the sector can hardly satisfy the domestic market at its present level of capacity utilization. Indeed, there is no single manufacturing group in Nigeria which has experienced an appreciable glut for want of an export market in the past.

The causes of underutilization of existing industrial capacity are well-known. The manufacturers' pessimism centres primarily on high costs of production as a result of high cost of foreign exchange, sluggish demand, incessant power disruption, water shortage, insufficient raw materials supply, inadequate working capital and frequent machine breakdown. Needless to say that such other matters like policy inconsistency and instability, the general decay of infrastructure, poor communication and political uncertainties have also taken their toll on manufacturing. The removal of these constraints will increase capacity utilization which will invariably increase manufacturing output without necessarily requiring new capital investments. In other words, initial growth in manufacturing would come from mere increases in the current low levels of capacity utilization.

### **3.2.3 Weak Infrastructural Base**

Good infrastructure is a critical element for export-led industrialisation. International competitiveness in manufacturing industries, services and also in commodity

markets is mainly dependent on high-quality power, international air and sea links, and telecommunication systems. The rapid growth of horticulture exports, for example, in Chile, Kenya, and Colombia would not have been possible in their absence.

Nigeria needs to fully appreciate the inter-linkages between the energy, transport and telecommunication systems. Commercial activities requiring transport from one part of the country to another are obstructed and made more expensive due to frequent petrol shortages. Industrial output and employment are limited and made more expensive because of frequent power shortages and the substitution of on-site diesel generators. Poor telephone performance induces many firms to either travel by road for information, thus adding to the road congestion, or to establish expensive alternatives such as radio networks.

The unreliability of publicly-available infrastructure services increases the cost of establishing and operating an enterprise and may hamper the competitive position of Nigerian industry. Most establishments have undertaken investments in power plants, telecommunications, transportation, water supply, waste disposal and storm drainage. Unquestionably, these investments absorb resources that could be used for the expansion of plant and equipment, and are often sub-optimal in scale and utilization. Of the 179 firms of all sizes surveyed in 1988 by the World Bank, all but 8% had their own electricity generators (World Bank, 1996). The impact of public infrastructure inadequacies consequently falls most heavily on small scale enterprises that cannot afford to provide their own services. Sure, the elimination of these weak links in an otherwise potentially strong economy represents major growth opportunities. What emerges from the foregoing is that the Nigerian industrialization process appears virtually stalled due partly to its chosen form of ISI and the resultant effects



and partly due to a cluster of problems verging on weak infrastructural base, limping manufacturing sector, inappropriate macroeconomic policies, policy inconsistency and instability, supply constraints and rent-seeking activities. A new direction is therefore required to propel the economy to the desired growth-promoting path.

#### **4 ANATOMY OF THE "ASIAN ECONOMIC MIRACLE"**

In recent times, it has become common to make references to the "Asian Economic Miracle" when discussing the eight economies selected for this study (i.e. Japan, Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia and Thailand). One can therefore ask: Is there an Asian economic miracle? Is there any single East Asian model? The East Asia's extraordinary growth is due to superior accumulation of physical and human capital. These economies were also better able than most to allocate physical and human resources to highly productive investment and to acquire and master technology. In this sense, there is nothing "miraculous" about the East Asian economies' success. Each of them simply managed to get the fundamentals right.

Similarly, there is no single or unique Asian model of industrial and export development. There are as many models as there are countries. In other terms, although these economies have pursued export-driven industrialisation, they have gone about it in different ways. For example, state intervention was relatively strong in Korea and Taiwan while laissez faire featured in Hong Kong; small and medium-scale industries were common in Taiwan but export processing zones played a key role in Malaysia. However, there are some common threads among the high-performing East Asian economies. The application of market-friendly economic policies was a common trait which gave the private sector considerable leeway. In effect, as noted earlier, a combination of external and internal factors accounted for the rapid

export-driven industrialisation of the HPAEs.

#### **4.1 The Influence of External Factors**

Several external factors created an enabling environment on which internal efforts made their impact. Firstly, there was an increased relocation of factories from the centre to the periphery from the mid-1960s onwards as a result of various factors, namely: declining profitability in advanced countries; increasing competition between them (especially with the emergence of Japan as a major competitor on world markets); rising wages in Europe and North America; and increasing difficulties in maintaining control over labour. Simultaneously a number of LDCs, most notably the NICs offered a docile, cheap labour force and generous incentives in the form of tax exemption or subsidised infrastructure, culminating in a growing number of Export Processing Zones. Under these conditions the relocation of production, which was facilitated by advances made in transport and communication technology, became an irresistible, in some cases unavoidable move for producers in the advanced countries (Blenefeld et al. 1977).

Consequently, a significant proportion of the increased LDCs' exports came to be carried out by foreign subsidiaries or by local producers which were subcontracted by foreign manufacturers or trading houses. The share of Transnational Corporations in the exports of the "Asian Tigers" were: Hong Kong, 10% (1972); South Korea, 15% (1971); Taiwan, 20% (1971); and Singapore, 70% (1970). By 1974 it had risen to 31% in South Korea and 84% in Singapore in 1975 (Lall, 1980; Nayyar, 1978). Generally, the foreign subsidiaries concentrated on the exports of machinery, electric and electronic equipment where their share accounted for over 60% of total.

Secondly, external market conditions for export

promotion policies were favourable during the 1960s and 1970s. Manufactured exports were allowed into Europe and North American markets without major obstacles, since these economies were still in their post-war boom (which was soon to come to an end). The growth rates of international trade peaked to an exceptional 18% per year between 1967 and 1973. Not surprisingly, these were exactly the years in which the HPAEs scored their highest successes (Schmitz, 1984).

Thirdly, the NICs enjoyed a relatively easy access to international finance. A buoyant transnational banking market developed over the 1960s and 1970s, especially in borrowing and lending of currencies outside the country of issue, commonly known as the "Euro-dollar" market. In the 1960s the currency supply was fuelled mainly by US balance of payments deficits (caused principally by massive military and related expenditure abroad during the Vietnam War) and in the 1970s by the surpluses of the oil-exporting countries. The private transnational banks became the main conduit for recycling these "petrol-dollars". Between 1966 and 1978 credit from these banks expanded over 50 times; and by the end of the 1970s over 50% of the loans had gone to LDCs. South Korea was among the largest borrowers (Griffith-Jones, 1982). Lastly, access to this private capital market allowed countries which obtained large volumes of credit to avoid the dreaded influence of IMF conditionality on economic policy (Ezenwe, 1993). Besides, they were able to sustain levels of imports well above their export-based capacity to import.

#### **4.2 Role of Internal Factors**

The favourable external context is only a part of the East Asian success stories. Amongst the internal factors, the role of the state has been crucial. With the notable exception of Hong Kong and, to a lesser extent, Singapore, the HPAEs were not the liberal, market-oriented economies they appeared to be. Common to them is their governments'

adoption of interventionist industrialisation strategies of import substitution and export-promotion - either successively or concurrently, that provided inducements to local and foreign firms to invest in the manufacturing industry .

The earliest industrialisers, among the Tigers - Korea and Taiwan - began protecting domestic manufacturers in the early 1950s, then shifted to export promotion in the latter part of the decade. Malaysia and Thailand embarked on import substitution in the late 1950s, redirecting their strategies to export promotion a decade later. Indonesia did not adopt export-led industrialisation until the 1980s after a decade of increasingly inward-directed policies. In the South Korean case, the government directly or indirectly controlled the allocation of more than two-thirds of the investible resources through a two-pronged import policy: liberal towards inputs for export manufacturing and highly restrictive towards the domestic market (Datta-Chanduri, 1981). In contrast, the more indiscriminate import protection in Indonesia, Malaysia and Thailand encouraged many existing firms in textiles/garments and electronics industries to remain fixed on the domestic market. But, when these countries opted for export promotion, in combination with laws to stimulate foreign investment - given low labour costs and good infrastructure and the assurance of political and macroeconomic stability, they succeeded in attracting new entrants into these industries.

Another important internal factor turns on education. In nearly all the rapidly growing East Asian economies, the growth and transformation of systems of education and training during the past three decades has been dramatic (Table 2). By 1965, Hong Kong, South Korea and Singapore had achieved universal primary education, while Indonesia with its huge population already had a primary enrollment rate of above 70%. Today, the cognitive skill levels of

secondary school graduates in some East Asian economies are comparable to, or higher than, those of graduates in high-income countries. Aside from their relative emphasis on training of engineers, technologists and technicians in massive numbers, labour productivity is outstandingly high as a result of per capita increases in physical and human capital. For example, between 1970 and 1989, real expenditures per pupil at the primary level rose by 355% in Korea. A comparable figure for Nigeria is unlikely to be positive. Today, Nigeria's formal education system includes 42 universities, 37 polytechnics, 64 colleges of education, about 6,000 secondary schools and 36,000 primary schools (World Bank, 1996). Although these resources are substantial, accounting for more than 50% of all educational institutions in the African continent, the future of Nigeria's education system is threatened with possible collapse. Abysmally poor funding and visionless leadership have militated against the existence of a viable development-oriented education system.

Investment in human capital is the most productive form of investment. In 1950, South Korea was industrially, as backward as, if not more so than Nigeria, certainly less educated and certainly more corrupt (Okigbo, 1987). But by 1975, South Korea had become the industrial showpiece of South-East Asia. In sharp contrast to the Korean situation, Nigeria's GNP per capita declined steadily from US \$1,160 in 1980 to US \$260 in 1995 to "graduate" as one of the 20 poorest countries of the world (World Bank, 1996, UNDP, 1996).

One more internal factor aided the rapid industrial expansion of the HPAEs. This was socio-economic infrastructure. An adequate infrastructure of transport and communication, in the case of Korea, was inherited from the Japanese. Even though the Korean war led to considerable destruction, it did not destroy the accumulated industrial experience, technical skills and entrepreneurship which

developed between the 1920s and 1940s. To a lesser extent, perhaps, Taiwan and Hong Kong benefited from a considerable influx of people with technical and entrepreneurial abilities from mainland China while Singapore relied heavily on foreign capital. Internally, therefore, although certain non-economic factors, including culture, politics and history may have played a role in the East Asian success story, there is no doubt that any meaningful explanation of the HPAEs will incorporate the role of the state, broad-based education systems and adequate infrastructure.

#### **4.3 The Price of Success**

The crises that erupted in mid-1997 in Thailand and later spread to other Asian economies can be tied to four elements.

First, there is the issue of cost of success. The HPAEs grew at an exceptional pace in the early 1960s. Moderate inflation, modest fiscal imbalances, and outward-oriented growth strategies attracted investor interest. But the sheer strength of these economies paradoxically obscured potential problems. Huge capital inflows taxed the countries' ability to use them productively and to ensure their prudent intermediation. In Korea, for example, the country's powerful bureaucrats essentially ordered banks to lend vast sums of money to the giant conglomerates which cannot be easily recovered now due to gluts in the conglomerates' markets. Short-term flows presented the greatest challenge, particularly in Thailand, Indonesia, Korea and Malaysia.

Second, there were some unfavourable external developments. In the early to mid-1990s, unusually low interest rates in the industrial countries spurred capital inflows into the region, and the depreciation of the US dollar improved the competitiveness of those currencies of the region formally or informally tied to it. Subsequent reversals

in these trends - notably a strengthening dollar - began to undercut competitiveness. A dramatic drop in export revenues in 1996 served to further erode the region's trade position.

Third, problems arose in the area of macroeconomic and exchange rate policy management. Declining competitiveness, especially in steel, ship-building, autos and electronics industries; growing current account deficits, asset price inflation, and sharply increased private sector credit (much of it from foreign sources) suggested the need for macroeconomic policy adjustments but, with the exception of Korea, inflexible exchange rates greatly limited the available policy options.

Lastly, the Asian crises brought to the fore financial sector weaknesses and other structural problems. The resilience of economies with strong financial sectors - such as Hong Kong and Singapore - underscores the constructive role that strong financial sectors can play in avoiding poor quality or excessive investment. In some countries in the region, inadequate regulation and supervision of financial institutions - as well as limited experience among the financial institutions in the pricing and managing of risk, lack of commercial orientation, poor corporate governance, and lax internal controls - had contributed to imprudent lending. When the region's fortunes changed, the scale of nonperforming loans helped to turn unfavourable domestic and external developments into full-fledged liquidity and solvency crises.

#### **4.4 Impact and Solution of the Asian Crises**

The immediate consequence of the East Asian crises is a sharp loss of investor confidence in the economies of those countries whose financial systems are on the verge of failure; and letting that to happen would trigger off unpalatable world-wide repercussions. Consider the case of Korea. It is

running out of "hard" currencies that are needed to pay off foreign creditors. Meanwhile, the South Korean economy is the world's eleventh largest. If it were to collapse, the effects would be devastating for companies and banks the world over that have either lent money to the country or sell goods there. Korea's close neighbour, Japan, would probably be affected most. And if Japan's giant economy were to weaken further, the United States and Europe might suffer serious damage as well, with unpredictable effects on economic growth and job creation on a global scale.

Nigerian and African countries will also be affected, directly or indirectly, by these developments in South East Asia. The liquidity crisis will affect African depositors and creditors directly like anybody else. Besides, the currency devaluations in Thailand, Malaysia, Indonesia, Japan and Korea would, all things being equal, increase Nigerian and other African imports from these countries. Furthermore, depending on Nigeria's elasticity of demand for imports from, and the elasticity of supply of exports of these countries to Nigeria, the terms of trade between Nigeria and the group might work against the latter with its implications for balance of payments (Ezenwe, 1981).

There is tremendous interest in finding a solution to the East Asian financial crises, particularly the South Korean case. With 37,000 American troops on the ground in South Korea and the proximity to the fourth largest army in the world, the United States is deeply involved in the largest financial-rescue package ever negotiated under the aegis of the International Monetary Fund. Even so, the record US \$60 billion international bailout falls short of South Korea's total short-term debts of US \$100 billion; and its acknowledged cash reserves had dwindled to US \$6 billion (Washington Post: 12/11/97).

The IMF has insisted on some very stringent terms for its loan. Nine of Korea's 30 merchant banks appear likely to



close, and some of the big commercial banks may be forced to undergo major downsizing or mergers. IMF programmes are notorious for their conditionality but the strong negotiating position of the Asian countries appears to have paid off. While trying to make the economies more market-oriented and allow market forces to operate, the IMF reform programmes appear to be more human-centred than usual. For instance, in the Indonesian and Thai programmes, spending on health, education and social programmes have been expressly protected from any financial consolidation, and where possible efforts to target spending on the poorest segments of the society have been intensified. In Korea, the programme commits the government to strengthening the labour insurance system (Financial Times: 5/2/98).

One important lesson to be learnt by Nigeria from the Asian financial crises is that IMF programmes can be country-specific and that long-term national interests should not be compromised under any circumstances in the name of IMF conditionality. Indonesia and South Korea, the two countries worst hit by the credit squeeze, are cooperating with the IMF without mortgaging their long-term interests.

#### **5. THE REPLICABILITY OF THE EAST ASIAN MODEL**

Can Nigeria replicate the East Asian model of export-led development strategy? To address this question I briefly rehearse the conditions under which the HPAEs made their impact. As noted in the previous section, the East Asian countries enjoyed a spate of direct foreign investments right from the mid-1960s which flourished under attractive conditions of political and policy stability, good infrastructural facilities and fairly efficient bureaucracy. Similarly, their manufactured exports were allowed free access into the European and North American markets while they obtained international finance easily from the Euro-dollar market and were thus able to avoid the crippling effect

of the IMF-inspired Structural Adjustment Programme (SAP). Furthermore, the East Asian states were resolute in their determination to promote rapid economic development and good education system. The HPAEs also demonstrated the centrality of policy consistency and stability as well as sound macroeconomic management.

Under the current international setting Nigeria cannot rely on massive inflow of foreign direct investment, unfettered access to the European and North American markets under the Uruguay Round Agreements (URA) or on readily available international finance (Ezenwe, 1993, 1998). Admittedly, Nigeria received US \$1.7 billion in foreign direct investment in 1997, the highest in Africa, which accounted for 32% of what went to Africa (Table 3). But the bulk of this went to the enclave oil sector as the oil companies' joint-venture contributions.

While Nigeria cannot do much about the external factors outside its control, there is no excuse for the current appalling state of our education system and socio-economic infrastructure. No rapid industrialisation can take place in a country where the infrastructural basics, like electric power, fuel, water, transport and communication systems are either in short supply, erratic or simply inadequate. To compound it all, official policies have high mortality rate and the economy is heavily import-dependent due to the absence of a viable capital goods sub-sector. Manufacturers, who can hardly make long-term plans, anchor their pessimism on these drawbacks.

I wish to state once more that the alleged East Asian "miracle" is indeed not a miracle. There is even no single or unique Asian model. Although the HPAEs pursued export-driven industrialisation, they did it in different ways. They simply allocated efficiently physical and human resources to highly productive investments, applying superior technology.

Nigeria should chart its own cause taking into account

its own recent history and lessons from the Asian success stories. What the country can strive for is a form of "managed" trade where the "visible hand" of the state will provide the direction, pace and pattern of development and resource allocation. The Nigerian experience under SAP is a pointer to the limits of liberal policies, in a developing environment (Ezenwe, 1990). Although imports have been substantially reduced since 1986 due to sustained massive devaluation of the naira, non-oil exports did not markedly increase because of the inelastic demand and supply of the country's primary export commodities.

Nigeria's economic development malaise was, and has always been, at bottom, problem of leadership rather than resources and models. The replicability of the South-East Asian model in our different socio-politico-economic environment, in my considered judgement, is certainly debatable.

#### 6. THE WAY FORWARD

Nigeria, with an estimated 1996 population of 110 million people, is the most populous nation in Africa and the eleventh in the world. The country is richly endowed with vast human and material resources, including large reserves of oil and gas. Yet after 37 years of independence, she is still sucking her thumb in the economic sense, like a baby. There seems to be a widespread acceptance of this notion; hence the Head of State charged the Vision 2010 Committee at the start of its work:

*The constructively analyse why after more than 36 years of political independence, our development as a nation in many spheres has been relatively unimpressive, especially, in*

By 1950, South Korea was virtually at the same level of economic development with Nigeria. But today, South Korea, proud of its meteoric rise from the ashes of the 1950-53 Korean war, has risen to be the world's eleventh largest economy.

In 1965, Nigeria's GDP was \$5.8 billion, comparedA with \$3.8 billion for Indonesia and \$3.1 billion for Malaysia. Thirty years later, in 1995, Nigeria's GDP had increased to \$26.8 billion (3.6 fold increase), Malaysia's to \$85 billion (27 fold increase) and Indonesia's to \$198 billion (52 fold increase). On the average, Nigerians have a life expectancy of 52 years, compared to 59 years for Ghanaians, 64 years for Indonesians and 71 years for Malaysians. The implication of these statistics is that these countries. The implication of these statistics is that these countries have left Nigeria far behind in terms of productivity, income generation and general economic development.

#### **6.1 Where Do We Go From Here?**

Surely, the present unenviable situation is unacceptable and has to be addressed. The Federal Government felt so concerned about the state of the Nigerian economy that the Head of State, General Sani Abacha on 27th September, 1996 set up the celebrated Vision 2010 Committee to chart a new course and defined new directions of development for Nigeria. The Committee, which reported a year later, came up with a vision statement and broad, sectoral and subsectoral objectives, guidelines and strategies for transforming Nigeria into a middle-income country by the year 2010.

According to the Committee by 2010 Nigeria would have been transformed into a country which is:

*"A united, industrious, caring and God-fearing democratic society, committed to making the basic needs of life affordable for everyone, and creating Africa's leading economy."*

It is also envisaged that during the vision period average growth rate of GDP per annum would be about 10%, inflation less than 5%, and manufacturing accounting for 24% of GDP while per capita income would have risen to about \$1,600 (Table 4). The Committee's targets are as comforting as they are reassuring but they are overly ambitious under our current structural rigidities and constraints. Conscious of its heroic assumptions, the Committee admits that:

*"The achievement of this Vision calls for a paradigm shift in the mindset of all Nigerians to imbibe new core values, norms, and standards that would align with the requirements of the global realities, rapid technological change, globalisation and liberalization. It also requires a change in the things the nation does henceforth and how she does them."*

Evidently, if these conditions are met, the targets could be attained. Historically, the length of time a country takes to double its per capita output has been shortening dramatically. It took Britain 58 years from 1780 to 1838 to double its per capita output; USA 47 years from 1839-1886;

Japan, 34 years from 1885-1919; Turkey, 20 years from 1857-1877; Brazil, 18 years from 1961-1979; South Korea, 11 years from 1966-1977 while it took China only 10 years from 1977-1987 to do so (Table 5). I cannot tell you how long it would take Nigeria. This trend is due mainly to what economists term "the advantages of being a late-comer" in industrialisation. Nobody wants to reinvent the wheel but everybody tries to acquire and apply the latest technology. It is therefore conceivable that by the year 2010 Nigeria would have made some giant strides. The key question is: Can Nigeria be "born again"? Can she - like the Asian Tigers - adopt the right development strategies and show firm commitment to its own policies and programmes henceforth?

## **6.2 Policy Actions for Achieving Export-led Industrialisation**

Based on the stark realities of the Nigerian situation, the lessons from the HPAEs and the increasing trend towards globalisation, attention should be refocused to certain critical areas, including:-

- i. *Massive investment in infrastructure. Existing infrastructural facilities, which are dilapidated and unreliable, cannot support any meaningful industrialisation;*
- ii. *Aggressive rehabilitation of the limping education system since it provides the critical skills for local indigenous technologies and entrepreneurship;*
- iii. *Creation of a neutral status that will enable producers of exports to be on equal footing in all respects with competitors in the world markets;*
- iv. *Adoption of appropriate macroeconomic policies, e.g.*

maintaining a single exchange rate, fiscal and budgetary discipline and the like;

- v. *Reorientation of domestic production to export markets as against occasional banning of some export products;*
- vi. *Increasing the awareness of and encouraging Nigerian exporters to conform with environmental product standards in international markets (Ezenwe, 1997);*
- vii. *Maintenance of policy consistency, stability and predictability;*
- viii. *Raising of real output generally with greater emphasis being placed on manufactured exports rather than primary products;*
- ix. *Creating an enabling environment for foreign direct investment to contribute to export-led industrialisation, as in the case of the Asian Tigers;*
- x. *Expansion of intra-regional trade in the Economic Community of West African State (ECOWAS) and the recently established African Economic Community. Nigeria possesses great potentials for export expansion in these markets both in manufactured and primary products where it enjoys comparative advantage under trade liberalisation (Ezenwe, 1983, 1995, 1996).*
- xi. *Increased investment in capital goods industries to reduce our import-dependency syndrome;*
- xii. *Diversification of exports into faster growing markets*

abroad through the promotion of trade information network;

- xiii. *Provision and strict enforcement of incentives to exporters in form of tariff and tax exemptions, accelerated depreciation allowances, credit subsidies through lower interest rates, and automatic access to bank loans for the working capital needed for all export production;*
- xiv. Existence of honest and disciplined work force and efficient bureaucracy;
- xv. Existence of political stability and industrial peace; and lastly,
- xvi. Existence of a benign, strong and democratic government that is committed to development.

## 7. SUMMARY AND CONCLUSIONS

In order to generate employment, accelerate economic growth, increase foreign exchange earnings and diversify its economy, Nigeria needs to adopt the strategy of export-oriented industrialisation predicated on manufactured exports. It is these types of products that are largely responsive to liberal policies, especially exchange rate policy. They can also sustain the momentum of continued economic growth.

Import-substitution and export promotion are not mutually exclusive policies as they can be pursued successively or concurrently. With the exception of Hong Kong and Singapore, all the other HPAs breathed-in before breathing-out. What is important is to pursue the policy actions suggested above to achieve the real output level required to adopt the chosen path.



Let me repeat two of our success examples here. Japan, at the early phase of its industrialisation, took western artefacts, broke them down, broke down anything made in the west, re-assembled them, improved and adapted them to their environment, bought their licences, stole their secrets, redesigned them and made them their own. Today, Japan has more than mastered and overtaken western technology. South Korea, which in 1950, was industrially at par with Nigeria, rose from the ashes of the 1950-53 Korean war to become the industrial showpiece of South-East Asia. Given our ingenuity (so far exhibited in perverting any known rule, regulation or practice) we can expect that if our talents are turned to productive innovation and adaptation, Nigeria can become a leader in the modification and application of technology for some categories of third World countries.

The Vision 2010 Committee strongly recommended immediate implementation of the bulk of its policy actions and measures but, six months after the acceptance of its report, not much has happened. Our problem - it would appear - is not with our stars but with ourselves.

I thank you for your attention and remain blessed.

Zaria

March 31, 1998

**Table 1: Average Industrial Capacity Utilization in the Nigerian Economy: 1980-1996**

<b>Year</b>	<b>Capacity Utilization (%)</b>
1980	45.3
1981	46.1
1982	53.5
1983	47.8
1984	39.9
1985	12.7
1986	36.4
1987	42.0
1988	44.5
1989	42.4
1990	39.0
1991	39.4
1992	41.8
1993	36.2
1994	30.4
1995	29.3
1996	32.5
1997 (Jan-Jun)	29.35

**Source:** Central Bank of Nigeria, Annual Reports and Statement of Account, various issues and Manufacturers Association of Nigeria's Reports.

**Table 2: Public Expenditure on Education as a percentage of GNP**

ECONOMY/REGION	1960	1989
HPAEs		
Hong Kong	-	2.8
South Korea	2.0	3.6
Singapore	2.8	3.4
Malaysia	2.9	5.6
Thailand	2.9	3.2
Indonesia	2.5	0.9
Average*	2.5	3.7
Other		
Brazil	1.9	3.7
Pakistan	1.1	2.6
Less Developed Countries	1.3	3.1
Sub-Saharan Africa	2.4	4.1

\*average does not include Indonesia

Source: UNDP (1991)

**Table 3: Foreign Direct Investment in Selected African Countries: 1995-97**

COUNTRY	1995	1996	1997
Nigeria	na	\$1.8 billion	\$1.7 billion
Egypt	na	na	\$740 million
South Africa	\$330 million	\$330 million	\$330 million
All Africa (Total)	na	\$4.9 billion	\$5.3 billion

Source: UNCTAD, World Investment Report, 1997 (Geneva).

Table 4: Nigeria: Selected Macroeconomic Indicators: 1991-1997

	1991	1992	1993	1994	1995	1996	1997
Real GDP Growth	4.7	9.9	2.8	1.8	2.2	9.9	9.8
Fiscal Deficit (GDP Ratio)	-11.9	-10.2	-15.4	-7.7	0.1	1.9	-
Inflation Rate	13.0	44.6	57.2	57.0	72.8	29.2	8.5

Source: CBN and WTO, Committee on B/Ps Restrictions, 1997

Table 5: Length of time it took some selected countries to double their per capita output

COUNTRY	PERIOD	NO. OF YEARS
United Kingdom	1780-1838	58
USA	1839-1886	47
Japan	1885-1919	34
Turkey	1857-1877	20
Brazil	1961-1979	18
South Korea	1966-1977	11
China	1977-1987	10
Nigeria	1997-??	??

Source: IMF

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