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DISCUSSION PAPER No. 318

Inconsistent policies or political realities?

NIGERIA'S TRADE AND INDUSTRIAL POLICY IMPERATIVES

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April 2022

Nigeria's position on regional integration can appear inconsistent, despite having ratified the African Continental Free Trade Area and its commitment to achieving a customs union through ECOWAS. For example, in 2019, it unilaterally closed its land borders with neighbouring countries, causing major disruptions to regional trade networks. This in turn negatively affected the trade facilitation efforts promoted by development partners to ensure smooth movement of goods across borders.

This paper examines these seemingly opposing dynamics. It analyses Nigeria's trade and industrial policy choices to show that the border closure, rather than being a sudden event, was a continuation of policy decisions to curb smuggling and among other things, promote industrialisation. Looking at policies in the rice and pharmaceuticals sector shows that while Nigeria has strong ambitions for industrialisation, these are often not translated into effective industrial policies. Moreover, regional trade concerns, especially smuggling, are seen to jeopardise Nigeria's industrialisation potential and efforts by undercutting domestic firms.

Appreciating the context in which policies in these sectors are introduced, rather than looking at the policies by themselves, also provides important insights. It shows that Nigeria perceives greater threat from smuggling through neighbouring countries than benefit of trading with the region. This affects how trade facilitation is viewed, with implications for support programmes. By seeking to address locally-defined 'problems' such as smuggling, trade facilitation interventions (or 'solutions') should simultaneously pursue the objectives of industrialisation and regional integration.

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Acknowledgements

The authors of this paper would like to thank all interviewees for sharing their valuable insights. They are particularly grateful to Efefiom Kofon, who shared valuable insights from his ongoing PhD research on the pharmaceutical sector in Nigeria. The authors thank Kemji Ajoku, Pallavi Roy and others who provided comments on an earlier draft. Bruce Byiers provided significant guidance in framing the discussions. Finally, thanks also to Inna Perova and the ECDPM communications team for the layout and preparation for publication.

This paper is part of a series of analyses made possible with financing from the Netherlands Ministry of Foreign Affairs in the context of the Trade Facilitation West Africa (TFWA) Programme as well as their broader work in the region. The TFWA is a multi-annual programme financed by three different development partners - the Netherlands Ministry of Foreign Affairs, United States Agency for International Development (USAID), and the European Union (EU). Its implementing partners include the World Bank and GIZ, with the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (UEMOA) as well as countries in the region its beneficiaries.

Acronyms

ABP	Anchor Borrowers Programme
API	Active Pharmaceutical Ingredient
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AMRH	African Medicines Regulatory Harmonization
APC	All Progressives Congress
AUDA-NEPAD	African Union Development Agency-New Partnership for Africa's Development
CBN	Central Bank of Nigeria
CET	Common External Tariff
DRPP	Domestic Rice Production Plan
ECDPM	European Centre for Development Policy Management
ECOWAP	ECOWAS Agricultural Policy
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalisation Scheme
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FCFA	French West African Franc (*Franc de la Communauté Financière en Afrique*)
FDA	Foods and Drug Authority
FPMA	Food Price Monitoring and Analysis
GES	Growth Enhancement Support
GMP	Good manufacturing practice
IAT	Import Adjustment Tax
LSE	London School of Economics and Political Science
MoU	Memorandum of understanding
MTNDP	Medium-Term National Development Plan

NAFDAC	National Agency for Food and Drug Administration and Control
NANTS	National Association of Nigerian Traders
NCS	Nigeria Customs Service
NDP	National Development Plan
NDPo	National Drug Policy
NEEDS	National Economic Empowerment and Development Strategy
NIPRD	National Institute of Pharmaceutical Research and Development
NSIA	Nigeria Sovereign Investment Authority
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PFI	Presidential Fertiliser Initiative
PMG-MAN	Pharmaceutical Manufacturers Group of Manufacturers Association of Nigeria
PPE	Personal protective equipment
PSN	Pharmaceutical Society of Nigeria
PWC	PricewaterhouseCoopers
RIFAN	Rice Farmers Association of Nigeria
SAP	Structural Adjustment Programme
TFA	Trade Facilitation Agreement
TFWA	Trade Facilitation West Africa
UEMOA	West African Economic and Monetary Union
US	United States
USAID	United States Agency for International Development
WAHO	West African Health Organisation
WHO	World Health Organization
WTO	World Trade Organization

Preface/Executive Summary

Despite ratifying the African Continental Free Trade Area (AfCFTA), and its commitment to achieving a customs union through ECOWAS, Nigeria's position on regional integration can appear inconsistent. In 2019, it unilaterally closed its land borders with neighbouring countries, causing major disruptions to regional trade networks. The ramifications for other economies in the region were significant, creating diplomatic tensions.

This paper examines these opposing dynamics by analysing Nigeria's trade and industrial policies choices. It shows that rather than being a sudden event, the border closure was a continuation of policy decisions to curb smuggling and, among other things, promote industrialisation. By contextualising Nigeria's industrial policies in two important sectors namely rice and pharmaceuticals, and identifying major shortcomings therein, the paper seeks to understand the ways in which trade facilitation could simultaneously promote regional integration and support industrial policy objectives.

Nigeria has a long history of policies seeking to promote industrialisation. A major weakness, however, is that they are generally in response to economic crises following oil price shocks. They focus on preserving foreign exchange rather than ensuring sustained productivity growth and competitiveness. As a result, they have lacked continuity and generally feature a limited range of policy tools, mostly centred on import restrictions. In the case of rice, it included a complete ban on rice imports through land borders, which can be seen as a prelude to the 2019 border closure. The closure was aimed at countering unabated smuggling which, among other things, was seen to be undermining the development of local industries. Although it led to an increase in rice production, without accompanying measures, domestic productive capabilities throughout the value chain remain limited.

The pursuit of "self-sufficiency" by providing protection for a number of years without effective performance monitoring to ensure learning and upgrading does not lead to sustained progress on economic transformation, and can merely benefit politically connected importers. Neither does the focus on production alone ensure the success of the entire value chain which requires efficient transport, smooth logistics, effective regulations, among many other things. This is seen in the case of pharmaceuticals, where firms producing basic medicines have been unable to upgrade to more complex drugs. In both rice and pharmaceuticals, the lack of strategic coordination is apparent with limited government support beyond boosting production through import restrictions.

What does the Nigeria experience tell us? Firstly, industrialisation imperatives were a major, though admittedly not the only, driver of the border closure, even though the results have been mixed at best. But sector development requires a broader array of industrial policy tools beyond import restrictions, of which border closure can be seen as an extreme case, and calls for credible commitments and strategic coordination to bring about sustained development. Secondly, it is important to better understand the Nigerian government's position on regional integration. While a key proponent of the pan-African vision, the country currently views a greater threat from unabated smuggling through neighbouring countries which is perceived to undermine Nigerian industrialisation efforts, than benefits from imported inputs from, or exporting to the regional market. These factors affect how trade facilitation, which aims to promote smooth movement of goods across borders, in turn is viewed. Indeed, few, if any, references are made to regional economic integration in Nigeria's national development plans and strategies.

This has implications for policymakers and external partners seeking to promote trade facilitation. Firstly, any interventions to support regional integration, including through trade facilitation, should adequately consider national political priorities, notably industrialisation ambitions, and ideally align with industrial policy objectives. Otherwise, Nigeria will likely continue with cycles of protectionism that undo previous trade facilitation measures. The rice and pharmaceuticals cases show the need for additional support in terms of infrastructure, logistics and harmonisation of regulatory frameworks, which would help promote regional integration, including through the creation of regional value chains.

Secondly, given Nigeria's current concerns around regional trade, especially smuggling, trade facilitation interventions and support should take a problem-driven approach to resolve locally-defined issues that also have political support, rather than top-down or solution-driven approach. A sector-specific approach may help identify the precise binding constraints to development. For instance, actors do not in fact perceive a direct threat from regional rice imports. The main concern, rather, is the perceived lack of state capacity to effectively monitor and check the flow of smuggled rice from outside Africa coming into Nigeria through its land borders with neighbours, especially Benin. Trade facilitation aimed at boosting this capacity could also strengthen regional integration. On the other hand, while streamlining customs formalities for pharmaceutical products can promote greater regional trade, the importance of harmonised regulatory systems cannot be overemphasised to ensure the viability of the sector.
Rather than looking at the policies in themselves, this paper also appreciates the context in which these Nigeria's trade and industrial policies in the lead up to the border closures were introduced. This also requires a deeper appreciation of the political dynamics therein. Only by unveiling these, can effective trade facilitation measures be designed that have a higher chance of being implemented, and of being sustained over time.

1. Introduction

African governments are charting a course towards socio economic development and industrialisation through regional integration. The continent provides a vast market that can promote growth and industrial development if trade barriers are removed through liberalisation and other measures. This is the rationale behind the ongoing African Continental Free Trade Area (AfCFTA). Nigeria ratified the AfCFTA in December 2020, signalling its commitment to the ambition of regional integration. This comes on top of commitments to ECOWAS integration through the ECOWAS Trade Liberalisation Scheme (ETLS) and application of the Common External Tariff (CET). These processes have long been supported by development partners, with an important emphasis beyond trade agreements, on trade facilitation.

While Nigerian policy commitment to the AfCFTA exists on paper, its signature and ratification of the AfCFTA was somewhat slow to come, after careful consultations with key stakeholders. Moreover, it comes on the back of another policy decision: on August 20, 2019, the government unilaterally closed its land borders for all trade with neighbouring countries via land borders. The decision had significant ramifications including severe disruptions in regional trade, and creating diplomatic tensions. As West Africa's economic powerhouse, such developments in Nigeria have major implications for the regional economy and regional integration processes. Since implementation of regional commitments happens at the national level, and, as previous research shows, national interests tend to prevail over regional commitments (Byiers et al. 2018) - any progress on regional integration in ECOWAS would require buy-in from Nigeria. It is therefore important to understand the context in which the border closure was announced. Thus rather than focus on the justification of Nigeria's border closure, or the lack thereof,[1] this paper takes a step back to explain Nigeria's policy choices leading up to it.

With this in mind, this paper examines Nigeria's trade and industrial policy stances leading up to the border closure and what they mean for the broader regional integration process, including what they imply for designing effective trade facilitation measures. Specifically, it analyses **what actors and factors explain the Nigerian trade and industrial policy choices and what implications this has for supporting regional integration in ECOWAS, and by extension the AfCFTA, by focusing on the rice and pharmaceutical sector**.

Exploring this question touches on several connected policy debates. While industrialisation is a key policy priority for many countries and industrial policy may include protective measures, firms depend on trade - to export their goods, or import inputs - in order to raise their productivity and competitiveness. As such, regional integration and industrialisation are not opposites. Industrial policies can face several implementation challenges including lack of coordination, political capture (clientelistic politics) and rent-seeking, among other things. Moreover, non-tariff barriers or NTBs (extra checks, certification requirements) may exist as a way to protect the domestic market (Herghelegiu 2017), or grant privilege and distribute rents to politically connected firms in lieu of tariff protection (Rukteschler et al. 2021). Understanding the motivations behind existing industrial policies and trade barriers may shed light on plausible pathways to promote regional integration, including through trade facilitation, in ways that

[1] For some, the land border closure fed other regional governments' and international partners' long-running questioning of the country's commitment towards regional integration, arguing that it displays little leadership in driving the trade integration agenda of the Economic Community of West Africa States (ECOWAS), and instead has focused on import-substitution to develop local industries (Imouokhome 2022). For supporters of the decision, however, the border closure was a harsh but necessary step to disrupt the smuggling networks (an important threat to integration efforts) that were jeopardising the country's industrialisation drive among other things. Tensions between national industrial policies and regional trade commitments have been pointed out in the past (see e.g. Kassa and Zeufack 2020; Woolfrey and Byiers 2019). In fact, in criticising its industrial policies, some argue that it is Nigeria's "protectionist" stance that underpins smuggling in the first place by creating price differentials (see e.g. Kwarkye and Matongbada 2021; Golub et al. 2019).

are also supportive of industrial policy objectives. This however will depend on sector specificities, as the case studies on rice and pharmaceuticals both highlight.

The remainder of the paper is organised as follows: section 2 provides a brief overview of industrial policy and the forms it has taken in Nigeria. Section 3 zooms into the dynamics in the rice sector, while section 4 looks at pharmaceuticals. Based on these dynamics, section 5 lays out some of the implications for regional integration support, and trade facilitation support programmes in particular. The paper is based on several interviews which complement an in-depth desk research, building on academic articles, grey literature as well as media articles.

2. Industrial policies in Nigeria

Nigeria's economic structure is dominated by low productivity agriculture and a heavy reliance on the sector oil for revenue generation. Industrialisation has been at the centre of economic strategies since independence with several objectives in mind - value addition, employment generation, export promotion, and diversification away from oil. But as this section discusses, **in practice industrial policies, often triggered by foreign currency shortages after a drop in oil prices, have in fact largely been based on import restrictions of some kind and are heavily politicised, ultimately feeding into rent-seeking based on state-business relations**.

Industrial policies as a response to crises, focusing on import restrictions

Past industrial policy efforts have rather been a response to the country's economic circumstances at specific moments in time. Usman (2020) argues that there is a **direct link between a reduction in the price of crude oil and Nigerian industrial policy attempts**. As the country grapples with the ensuing foreign exchange crises, there are louder calls for developing local industries and diversification away from oil. Nigeria's most recent attempt to pursue economic diversification under the Muhammado Buhari administration can be understood in this light. With oil prices at historic low, the country's economic growth took a severe hit (decelerating from 6.2% in 2014, to 2.7% in 2015, and -1.5% in 2016) and public finances were in a dire state (PWC 2017).

Because they are a response to foreign exchange crises, the main goal has been to save foreign exchange. Consequently, **industrial policies have relied on import restrictions and exchange controls**, as incentives for domestic production. The country has a long history, dating back to at least the early 1980s, of reinstating such measures in response to crises (LSE 2015). The current administration's response to the fiscal and macroeconomic challenges following the drop in oil prices was also to adopt a restrictive foreign exchange policy (i.e. artificially maintaining the value of the local currency) with multiple exchange rates to limit imports.[2] Within a month of taking office, the number of products on the import restriction list was increased, with restricted access to foreign exchange at the official window for the importers of more than 40 items, including rice (CBN 2015).

Nigeria's industrial policies have focused on "self-sufficiency". However, research by experts shows that many of these policies often lack the necessary groundwork to identify challenges. Consequently, policies lack substance. Moreover, with top-down decisions taken at the central level, those in charge of implementing such decisions are not sufficiently consulted to determine the feasibility of these policies (Adegboye 2022). While these policies state their objectives, they have often failed to provide a concrete way forward through interventions to raise the

[2] To illustrate, the exchange rates in the three major segments as at the close of trading on June 23, 2020 were: Official market - N361/$; Investors & Exporters window - N386.63/$; parallel market - N457.5/$ (Komolafe 2020). Critics warn that this in turn exacerbates Nigeria's currency crisis (Nwanma 2020).

productive capacity within targeted sectors to respond to domestic demand or raise competitiveness to become exporters.

The Backward Integration Policy, adopted in 2002, has been an important institutional framework in the support of manufacturing (Itaman and Wolf 2021a). Aimed at addressing the high import dependence, the policy has been applied to various sectors - from cement and beverages initially, before being expanded to others including sugar, rice, tomato paste, automotive and textiles (Ibid.). Policy incentives mainly operate through tariffs, levies and tax breaks, and are made contingent on demonstrating a commitment to building domestic supply capacity. This policy has proved successful in some cases. For instance, Nigeria went from being a major importer of cement in 2007 to one the second largest cement producers in sub-Saharan Africa (after South Africa), sourcing over 95% (as of 2017) of the material for its cement production domestically (McCulloch et al. 2017). Although the cement success has arguably led to further attempts at industrial policy through import restrictions, the implementation of this policy in other sectors has shown mixed results.[3]

Numerous policies, several shifts

Another feature of industrial policies in Nigeria is the numerous policy and political shifts. While multiple strategies and plans (see below) have been introduced to promote industrialisation in Nigeria since independence, these have failed to translate to actionable and effective industrial policies. There have been **ideological shifts** from a public sector-led industrialisation in the 1970s to a private sector-led industrialisation since the 1990s (Chete et al. 2016). In fact, with the broader policy shift towards market-oriented reforms influenced by the Bretton Woods institutions under the Washington Consensus, industrial policy was largely deprioritised (Said 2021). Instead, new interventions (e.g. promoting competition, liberalisation) under the Structural Adjustment Programmes were geared towards undoing some of the perceived harmful aspects of previous policies (e.g. raising tariff walls to protect domestic industry which reportedly distorted the market). In all these efforts though, insufficient attention was paid to building productive capabilities through learning-by-doing. Moreover, other binding constraints to industrial development in terms of infrastructure (including energy access) and logistics, access to finance, inputs and markets continue to persist as the cases of rice and pharmaceuticals below show.

The heavily politicised nature of policy formulation and execution in Nigeria has profound effects for the kind of support to industrialisation, and its continuity. Nigeria has had numerous different planning instruments in its post-independence history,[4] but these lack continuity and coherence, with changes to instruments, and related policies, depending on the domestic political cycle and the broader policy shifts mentioned above. This directly affects the business environment (Anudu 2020). In other cases, firms like Dangote, in an effort to ensure politcy continuity in an environment of uncertainty, have engaged in a strategy of portraying a certain policy "as a success while co-opting a broader range of political elites and increasing his use of nationalistic language" (Odijie and Onofua 2020) as was observed in the case of cement.

[3] For instance, Itaman and Wolf (2021a) also report "In the sugar sector, following on from the National Sugar Policy of 2003, the National Sugar Master Plan of 2012 specifies gradual increases in duty and a levy on the import of raw and refined sugar. As of 2017, 90% of sugar consumed in Nigeria is refined domestically but 90% of raw sugar is still imported."

[4] These include the National (five year) Development Plans (NDPs) - First NDP (1962), Second NDP (1970-74), Third NDP (1975-80), and Fourth NDP 1981-85. Fifth NDP (1986-90) under the Babagida administration was incorporated in the Structural Adjustment Programme (SAP) (Iheanacho 2014). In 1990-98 a three-year rolling plan was introduced along with a 15–20-year perspective plan (Ukah 2008). Under the Obasanjo democratic administration, the four-year National Economic Directive was adopted, followed by the National Economic Empowerment and Development Strategy (NEEDS 2007-11). Yar'adua's seven-point agenda in the Vision 20 transformation policy was discontinued as the Jonathan administration took office and replaced by the Transformation Agenda 2011-15 (Shuaibu 2020). Finally, the Economic Recovery and Growth Plan (2017-20) under the Buhari administration is now being followed by the Medium-Term National Development Plan (MTNDP) (Olisah 2021a).

The case of agricultural support is a case in point on changing policies. While a policy priority of successive governments, its focus and scope have shifted. The Agricultural Transformation Agenda (AfDB 2013), combined with the Growth Enhancement Support (GES) Scheme, under the Goodluck Johnathan administration supported access through deregulation of agricultural inputs (seeds and fertilisers) as well as an electronic registration system to distribute subsidised inputs to farmers, marketing reforms, new investment frameworks to attract large scale investments, and related subsidies. The Buhari administration introduced the Anchor Borrowers Programme (ABP) in 2015 to improve access to affordable loans especially to smallholder farmers, and the Presidential Fertiliser Initiative (PFI) in December 2016 (Olomola and Nwafor 2018) focused on domestic production of fertilisers.[5] The preliminary findings of an ongoing comparative analysis of fertiliser policies shows that whereas the GES increased farmer access while suffering from severe leakages, the PFI successfully increased domestic urea production and blending even though farmer uptake remains relatively low (ACE 2019).[6] Nevertheless, both governments have **struggled to design and implement policies ensuring uptake and increasing productivity while minimising leakages due to corruption and remaining financially sustainable**.

Serving interest groups

Informal relations and political dynamics (including politics) are as important as the policies themselves. Industrial policies generate rents as they change the distribution of resources among different actors, which are used to incentivise as well as enforce learning for productivity growth (Khan 2013). Much industrial policy focus in Nigeria is on restrictions, generating rents. However, without concomitant accompanying measures to develop infrastructure, or other policy measures like quality control, there has not been sufficient productivity growth as the cases of rice and pharmaceuticals illustrate. In the absence of state capacity to monitor performance and discipline actors, firms have often engaged in unproductive rent-seeking without sufficient focus on raising productivity. Rent-seeking behaviour among politicians and bureaucrats is equally damaging. In fact, given the highly dispersed distribution of power and technological capabilities (or political settlement), industrial policies are often characterised by "high levels of policy inconsistency and reversals, high incidence (and decentralisation) of political and bureaucratic corruption, and short-term horizons enabling significant levels of predatory corruption" (Gaiya 2021).

Subsequent policies can also serve rival groups. For instance, even if policies introduced by the previous administration increased farmer access to improved services,[7] as the rice case below shows, there was significant leakage due to corruption and rent-seeking, especially favouring a few large firms. While some of this was undone by the incoming administration in 2015 with a formal rhetoric around economic diversification by promoting farming activities, informally it served an important constituency of northern supporters, who were mainly farmers.[8] While the ABP empowered them to obtain cheap loans at single digit interest rates, reaching over 3.1 million farmers (Mojeed 2021), there are reports of defaults and low repayment rates, especially in the Northwest,[9] where loans could be treated as grants by supporters, with little expectation of repayment. This can affect the overall sustainability of such schemes going forward. Similarly, while the current government formally created the Nigerian

[5] In addition to continuing the agricultural policy support of the previous administration in sugar and rice, under the current one, the Nigerian Export Promotion Council received a boost. The Export Expansion Grant scheme (suspended in 2013 due to perceived abuse by beneficiaries (Obayomi 2019)) was revived along with other new programmes including among small producers (e.g. Export Expansion Facility Programme of 2021). The government also earmarked N50 billion from the 2017 budget for the development of new Export Processing and Special Economic Zones (Anudu 2016).

[6] More recently Dangote Fertilizer Plant, the second largest in the world, was inaugurated (Shehu 2022).

[7] In 2012 alone, 1.5 million smallholder farmers obtained subsidised seed and fertiliser via their mobile phones (Ogwuda 2013). By 2013, 10 million farmers were registered with identity cards, enabling the government to target them more accurately via their biometric information.

[8] Buhari's Presidential victory is linked, among other things, to the support he enjoys in the Northern states of the country (Malumfashi 2021).

[9] Repayment rates are as low as 50% in Kaduna, and 20% in Kano (Adewale et al. 2021).

Industrial Policy and Competitiveness Advisory Council, bringing together domestic industrialists to drive the industrial agenda (Nairametrics 2017), businesses that were too closely linked with the opposing political party reportedly have been excluded.

Nigeria's views on regional integration and the role of Benin

The **Nigerian government's views on regional integration have also seen shifts over time**, in an apparent contradiction in how the country projects itself. While regional cooperation in the areas of security and political stability has remained un-wavering, the country has changed its stance several times when it comes to economic cooperation and regional integration (Dennis 2017).[10] According to Alayande (2020) Nigeria's foreign economic policy, intertwined with its trade policy, has seen subtle shifts from "hegemonic Afro-centric foreign policy stance of the military era to one of economic diplomacy and then to a pragmatic approach to trade policy". The country's Afrocentric foreign policy is perceived not to have yielded benefits,[11] to some extent explained by the specific power and political dynamics between the (French-speaking) UEMOA and the larger ECOWAS, where the former are seen to "easily get their way" despite contributing much less to ECOWAS (Byiers et al. upcoming; Udo and Ekott 2013). **Past national development plans and strategies make few references to ECOWAS or regional integration in terms of economic development** (barring other areas such as security and political stability). The stance under the current administration is explicitly to "coordinate industrial and trade policies according to the Nigerian economy's trade rules and economic priorities, and reflect these priorities in bilateral, regional, continental and global trade negotiations" (ERGP 2017).

Nigeria's policy choices and actions determine, and are determined by, the role played by its neighbours, especially Benin. As an **entrepot economy**, Benin's (and others like Togo's) economic development strategy is largely based on its relative attractiveness as a trading hub, maintaining low tariff barriers and transhipment costs by improving the functioning of its ports. Regional cross-border trade has therefore played a very important role for these small coastal states (e.g. Golub 2012). For instance, Benin, with a population of 12 million, depends on transit trade with Nigeria, with a population of over 200 million, for upto 20% of its GDP; some 80% of Benin's imports are destined towards Nigeria (Sahel and West Africa Club 2018). Over the years, the country has become a major supplier of re-exported products to Nigeria (Paquet and Savard 2009; Golub et al. 2019).

Over time, Benin's economy has become increasingly informalised, with 80% of the workforce employed in the informal sector according to some estimates (Darame 2019). In the context of dependence on its larger neighbour, Nigeria's protectionist stance on the one hand, and the lack of other productive opportunities in Benin due to several factors on the other, has created a **fledgling smuggling economy**, including in Nigerian protected products like rice (Kassa and Zeufack 2020). Porous land borders have meant that the Nigerian government has limited control on these flows. According to estimates by Benjamin et al. (2013), following Nigeria's ban on imports of used cars to boost domestic production, Benin's per capita car imports reached about $70 in 2007, seven times the ECOWAS average, with most of these imports being further re-exported to Nigeria. A similar story can be seen in cloth imports which reached an average of $100 per capita, compared to an ECOWAS average of $7, along with several other products.

[10] The country's potential to reinforce its influence in the region through soft power (Ogunnubi and Isike 2018), is severely constrained by internal challenges such as macroeconomic management. Similarly, the country is not mindful of the appeal to ECOWAS sentiment (Sinclair 1983) - something reflected manifestly in the decision to close borders. From this perspective, its industrial policy and regional integration do entail a delicate balance (Walter 2021).

[11] Policy actions have at times come at the expense of its own people - one instance being the provision of electricity to neighbouring Benin and Niger, despite Nigeria itself having irregular power supply within its borders (Ogunnubi and Okeke-Uzodike 2016).

The smuggling economy in Benin is characterised by patronage politics with ruling and business elites at the highest level involved in large scale imports or abating it. For instance, Sebastien Ajavon, a Talon-supporter (Benin's current President) now turned rival is also called the "frozen chicken king" as the largest poultry importer, which is then mainly re-exported to Nigeria (Modern Ghana 2017). Similarly, Patrice Talon (once the chief financial backer of the former President Thomas Boni Yayi) himself controlled the port of Cotonou in 2011 which is the main gateway to smuggling into Nigeria.

Moreover, **borders between the two countries are places of thriving informal cross-border trade**. There are several reasons for this. An important one is the **close ethno-cultural affinities** between peoples of these countries with a long history of trading relations and kinship ties (Hoffmann and and Melly 2018) that transcends national boundaries and formal rules. Abiassi (2006) provides some other plausible reasons. The gap in Nigerian domestic production vis-a-vis demand coupled with foreign exchange shortages makes smuggling of rice a viable option. Moreover, re-exports from Benin are often coupled with purchases of domestically manufactured (often low quality) goods from Nigeria which suggests interests on either side of the border to continue with such arrangements.[12]

Informal cross-border trade varies along a broad spectrum ranging from survivalist and small-scale activities, to organised smuggling networks (e.g. see Karkare et al. 2021). While countries like Benin appreciate the importance of this trade for generating livelihoods in the absence of other productive alternatives as well as in the context of centuries old kinship ties, the **Nigerian government tends to view informal cross-border trade as an illegal activity that is jeopardising its industrialisation ambitions**. This is indeed one of the official reasons for the border closure in 2019. While there is some truth in these concerns, it is unlikely that these rather complex issues can be resolved on the basis of prohibitions and bans.

Contextualising the border closure

Smuggling concerns are a rather pressing political issue in a country trying to boost domestic production (which in itself is a response to a larger economic crisis). Rampant smuggling, while reflecting Nigerian incapacity to effectively control borders, also points to the problems in the ETLS and the lack of regional capacity to monitor and safeguard against illicit practices and violation of the rules of origin which hinder the effective functioning of a free trade area. The use of NTBs and burdensome customs procedures in Nigeria can be understood against this background, where the goal is to make it difficult to engage in trade of goods which are deemed protected. This explains the role of the State in trying to regulate, rather than facilitate, cross-border trade.

Although industrial policy in Nigeria has often meant barriers to trade, trade facilitation measures also form an important part of the policy mix adopted by the government. For instance, it agreed to implement the WTO Trade Facilitation Agreement (TFA) in January 2017 (WTO 2017), along with reforms of the Nigeria Customs Service (NCS) to facilitate trade by reducing trading time by 50% (Ships & Ports 2017). Nigeria has also been part of wider ECOWAS initiatives including the Trade Facilitation West Africa Programme. The government had also taken action to reduce smuggling with donations of ten Toyota Hilux vehicles and five Nissan Frontier pick-up vehicles to its counterpart in Niger and Benin in 2014 and 2015 respectively to better monitor the borders. According to some actors, however, there was no impact of these cross-border cooperation actions on smuggling.

It is against this background that the government announced the closure of its land borders with neighbouring Benin, Cameroon, Chad and Niger on August 20, 2019. This drastic measure came after previous efforts to contain

[12] This is pointed out in a declassified publication of the Club du Sahel from 2000. While dated, there is reason to believe that the dynamics continue to this day (OECD 2000).

smuggling were not respected, and in many cases openly flouted, one key example being the smuggling of rice imported from Asia.[13] Some of the official reasons for the border closure given by the government include:

- dealing with the challenge of insecurity by curbing the trade in small arms and light weapons which fuel insurgency (Vangaurd 2017);
- diversifying the economy, away from oil, through industrialisation and raising the competitiveness of the domestic private sector, in turn eroded by smuggled goods (Orjinmo 2019);
- addressing health concerns by curbing the smuggling of illicit drugs and counterfeit medicines (BBC 2020);
- ensuring that member states of ECOWAS engage in the effective implementation of the treaty and trade protocols.[14]

Hameed Ali, Comptroller General of the Nigerian Customs Services, announced the borders would remain closed "until we have total control over what comes in" without giving any timeline for reopening them (Campbell 2019).

It is important to highlight that this is not the first time that the country has taken such drastic measures - **borders with neighbouring countries were also shut in 1984-86 (and briefly in 2003) due to similar concerns** (Library of Congress Country Studies and CIA World Factbook 1991; Olori 2003). In fact, the border closure in 1984-86 took place under the current President back when he was the military ruler of the country, when he overthrew the Second Republic of Nigeria. This makes President Buhari a strong actor behind the border closure.

The government insists that it undertook the necessary due diligence and relied on all extant laws in deciding to shut the borders.[15] For instance, the provisions of Article 41(3) of the revised ECOWAS Treaty (1993) were evoked which allows a Member State to impose quantitative restrictions (QR) when it affects certain aspects of the society.[16] Border closure, however, goes beyond QR.

The ETLS taskforce was put in charge of assessing the situation and reaching an acceptable solution to all parties in order to reopen the borders as soon as possible. While justifying its position, the Nigerian government also highlighted to the taskforce that over the years, several memorandums of understanding (MoUs) with Benin and Niger to collaborate against smuggling and other illegal activities had not been fulfilled.[17] **The taskforce concluded that some countries circumvented the ECOWAS Transit Protocol by not effectively monitoring transit flows** (interview).

The Nigerian government also put in place some conditions to reopen its land borders. For instance, it insisted that goods from outside the region arrive in Nigeria by sea or air so that they have effective checks through electronic

[13] E.g. despite an official ban on rice imports from all neighbours since 2016, smuggling of cheap imported rice (mainly from Asia) continued to flood the domestic market, rendering domestic (i.e. Nigerian) rice uncompetitive (Orjinmo 2019; Kassa and Zeufack 2020).

[14] In general, the poor compliance with, and the implementation of, the ECOWAS Trade Liberalisation Scheme (ETLS) as well as other related protocols like the Inter-State Transit Protocol was among the primary reasons for the border closure (Moore 2019).

[15] This was confirmed by Alhaji Abubakar Aliyu - Director of Trade, Federal Ministry of Industry, Trade and Investment - during an intervention at a webinar organised by the National Association of Nigerian Traders (NANTS) and the GIZ-EU Nigeria Competitiveness in September 2020 (Sahel Standard Magazine 2020)

[16] These include security laws and regulations; the control of arms, ammunition and other war equipment and military items; the protection of human, animal or plant health or life, or the protection of public morality; the control of narcotics, hazardous and toxic wastes, nuclear materials, radioactive products or any other material used in the development or exploitation of nuclear energy, etc. (ECOWAS 1993).

[17] This includes high level MoUs like that between former President Olesugun Obasanjo and President Kerekou of Benin on April 11, 2005, as well as at some institutional level like on July 22-23, 2015 between the Customs Service of Nigeria and Benin. On August 11, 2016, a bilateral meeting between the Comptroller-General of NCS and the counterpart in Benin was also held with another MoU.

scanners, whereas if they arrive by land borders, goods must retain their original packaging. In order to ensure free movement of goods produced in the region, it also called for the application of the ETLS Rules of Origin (Sahel Standard Magazine 2020). Taking these into account, the ECOWAS report identified a 15-point roadmap to reopening the border, including the destruction of warehouses (used for smuggling) along the borders and main transport corridors as well as the organisation of a high-level tripartite meeting of officials of Nigeria, Benin and Niger to implement the already agreed upon MoU's and undertake joint border patrols to contain smuggling.

While Nigeria's unilateral border closure poses a threat to regional integration, **retaliatory actions by Benin further fuels the situation** (Adenubi 2021). In July 2021, the Republic of Benin started imposing a FCFA 9 million duty on Nigeria-bound trucks transiting from their country. This too is in contravention to the agreed upon ECOWAS rules. As of September 2021, there were about 3,700 trucks that were stranded with cargo from countries like Cote d'Ivoire, Ghana and Togo. The ETLS taskforce recently undertook a mission to Ghana to assess the alleged collection of duty on transit goods in Benin, a report is being prepared (interview).

What impact of border closure?

The impact of the border closure was significant, especially on small-scale cross-border traders and farmers, including Nigerians, who sell their produce across the border (see annex 1 for some information). The prices of local foods like tomatoes and pineapples plummeted following the closure. Governments in the region protested against the border closure as a move that violated the ECOWAS protocol (APA News 2019). Others like Ghana lamented the "collateral damage" of closures (Ojeme and Agbakwuru 2019). At the same time, some others benefited from it, notably rice farmers who were struggling to compete against smuggled rice from Asia. Clearly, **the closure affected different actors differently**, pointing to the need to understand their interests which not only vary by sector but also differ depending on the type of actor being referred to as the following section will show.

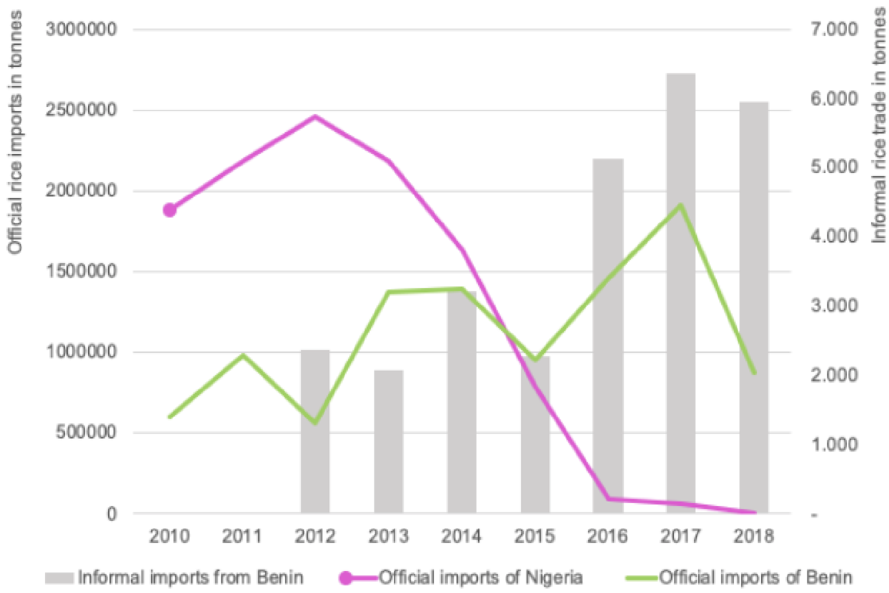
The following section delves into the rice and pharmaceutical sector to further discuss the evolution of Nigeria's industrial policies, where import restrictions and outright bans have often been used. The border closure, though much broader in scope, can be seen as a continuation of this tool. Beyond this though, it paints the broader picture of how policies in these sectors have resulted in some growth in production, but that in the absence of other important measures, development of the entire value chain as such has been limited.

3. Rice - progress with patronage politics

The rice 'problem'

There are good reasons to focus on the development of the rice sector in Nigeria. The country is Africa's largest rice consumer with per capita consumption of 32 kg in 2018 (PWC 2018), with rising demand owing mainly to urbanisation and population growth. Domestic production, however, is not able to satisfy local demand, and imports (e.g. 2 million tonnes in 2018) mainly from Thailand and India are a severe drain on foreign exchange, costing US$5 million daily (Aiyede 2021). Boosting rice production has therefore been a priority of successive governments, not only to relieve the pressure on foreign exchange but also to improve farmer incomes given that millions are involved in farming this crop. Smallholder farmers constitute over 80% of total producers with over two-thirds farming on rain-fed lowland. A common approach to support the sector since independence has been through backward integration and import-substitution (Aremu et al. 2016).

Figure 1: Official vis-a-vis informal rice imports



Source: Tondel et al. 2020

An important bottleneck perceived in the development of the Nigerian rice sector is the large-scale smuggling of imported rice from neighbouring countries, especially Benin. In fact, "most of Benin's rice imports, up to 30,000 truckloads per year, are routed via transit shipments through Niger to the northwest of Nigeria [..] 85% share of Benin imports that are parboiled are bound for Nigeria through the orchestrations of clever traders" (World Grain 2016). Figure 1 shows the high prevalence of informal rice flows from Benin into Nigeria. While there is informal cross-border trading in domestically produced rice,[18] an overwhelming majority is rice imported from outside the region.

Rice enjoys significant political attention in West Africa. Following the 2008 food price crisis, governments in the region put in place policy frameworks to boost domestic cereal production, including rice. The Regional Offensive for the Sustainable Revival of Rice Production in West Africa (or Rice Offensive), was formulated, as part of the ECOWAS Agricultural Policy (ECOWAP), to complement and support national strategies, and in particular, to promote regional trade (Tondel et al. 2020). In addition, the Nigerian government has its own national programmes and policies, just like other member states, to promote development of the rice sector.

Significant formal policy support with informal patronage politics..

Rice has been a priority for government support for several years, even though support programmes and their scope and focus have changed from one administration to the next. Under the Agricultural Transformation Agenda, the government sought to make Nigeria self-sufficient in rice production by 2015 (Odukoya 2020; Ori 2011). Apart from the policies for the agricultural sector overall described in section 2, the New Rice Policy was approved in 2014,

[18] Production in central Benin of parboiled rice is increasing with Nigerian merchants as their main clients, but this is an estimated 800 MT in 2019 (World Bank 2020).

with a differential duty and levy system which allowed investors in the sector to import rice more cheaply (Aremu et al. 2016). This effectively provided them with rents which could be used to raise productivity.[19]

In addition to policies described in section 2, **the current administration also put in place a ban on all imports of rice through land borders in 2016.[20] This ban is seen as an extension of import restrictions, and a prelude to the complete border closure announced in 2019**. In this period, Dangote Group entered rice production with a large outgrower scheme in Jigawa state (Ndadozie 2020). There is increased attention to rice farming with the Government exploring possibilities for direct involvement in rice production. For example, the Central Bank of Nigeria (administering the ABP) recently disclosed a plan to cultivate a minimum of 1 million hectares of rice through partnership with farmers in the Rice Farmers Association of Nigeria (RIFAN), selecting private anchors for each planting season in 2021.[21]

In both administrations, patronage politics has played a dominant role, even though in different ways. There was significant elite capture in the differentiated levy policy - erstwhile importers camouflaged themselves as new investors and reaped disproportionate benefits at the cost of pre-existing players (Aremu et al. 2016). The ruling elites sided with these large-scale players although small-scale farmers and millers had played a more significant role in reducing Nigeria's import dependence. Specifically, the requirement for a minimum existing or planned investment of US$ 10 million to qualify for import quotas crowded out small actors, while favouring large, well-connected rice importers (Tondel et al. 2020; Aremu et al. 2016). Uneven implementation and enforcement of rules (firms receiving quotas without sufficient investments, sale and non-respect of quotas)[22] led to a glut in the market resulting in depressed prices, negatively affecting small-scale producers (Tondel et al. 2020). Thus, vested interests of dominant groups were not effectively mediated to ensure that the investments were effective and led to sector development. While the current administration criticised this policy,[23] it is also not immune to political pressures to respond to the electorate of Northern farmers in some of their own initiatives as mentioned in section 2.

[19] Similar to Nigeria's backward integration policy, a signature policy practised in different sectors (Akinyoade et al. 2016), the differential duty and levy system granted advantages in import licences and quotas to investors. Those with verified Domestic Rice Production Plans (DRPPs) paid a lower levy (20%) compared to pure traders (60%, Aremu et al. 2016). Quotas were allocated to qualifying investors based on the national supply gap, and against predetermined investment criteria - e.g. domestic milling capacity, paddy purchases from local farmers and Paddy Aggregation Centers, etc. In 2014, of the 1.5 million MT of rice supply gap (forecasted for 2015), 1.3 million MT was allocated to 26 existing rice millers and importers with approved DRPPs at the preferential (reduced) levy while the remaining was allocated to importers at normal levy (Ibid.).

[20] The ban was introduced in July 2015, and partially lifted in October 2015 as long as appropriate duties are paid. Since this did not happen the ban was reintroduced in March 2016 (FAO 2016). A ban on rice imports via land borders was also introduced in May 2013 (Agbahey 2021).

[21] The government had already collaborated with RIFAN on an out-grower programme/scheme that involved supporting/training rice farmers in land preparation and good practices for inputs like fertilisers, linking farmers to sources of finance, among other things (interview; Mojeed 2021).

[22] For instance, small and insignificant mills (Mikap Rice), firms with no mills (Dangote and Golden Penny) or defunct mills (BUA) received large import quotas. Even a religious institution, Jama'atu Nasril Islam, was able to obtain an import licence from the Presidency. These import quotas were obtained on false capacity figures, and in many cases, quotas were not adhered to. Companies owned by influential people, including politicians (e.g. Ebony Agro owned by a former Minister of Commerce and Industry, Ashi Foods owned by former governor of Benue State, Labana Rice owned by a former governor of Kebi State) but with limited interest in developing the rice sector in turn sold their quota allocations to importers, including the Elephant Group (Mayah 2015). Not only did investors claim "phantom" milling capacity figures but these figures became the basis for determining quotas. The actual supply gap was possibly much higher than that quoted by the government because of these inflated and unverified estimates. Ultimately, "The real beneficiaries remain the smugglers while the real investors face hard times in boosting local production which is the only objective of the rice policy." (Mayah 2016).

[23] Instead of making Nigeria self-sufficient in rice, the incoming administration in 2015 observed "what we have at hand is a close web of corruption where government cronies stumble over each other to get import licences for rice" (Shehu 2015).

In sum, while rice sector development has been a political priority for successive governments, policies in the sector, while supportive, are geared towards specific, and sometimes rival, interest groups as the administration changes. Neither administration however has managed to bring about sustained growth by raising productive capacity in the sector.

..which led to some progress while many other challenges continued

Policies by successive governments have increased farmer access to improved services. This reportedly resulted in increased paddy production from 4.5 million MT in 2012, to 7.9 million MT in 2013, before peaking at 10.7 million MT in 2014 according to figures by the Federal Ministry of Agriculture and Rural Development.[24] The installed capacity for integrated rice milling also increased from 70,000 MT in 2011 to over 800,000 MT in 2014 (Odukoya 2020) with 24 integrated rice mills in 2014, up from just one in 2011 (Odum 2015). Major investments were announced, some of which are highlighted in Annex 2. Similarly, the ABP and PFI also benefited millions of farmers and increased domestic fertiliser production.

However, **despite the official ban, rice smuggling persisted during this time** (Munshi 2019)**. It is in this context that the dramatic decision of land border closure was announced**, when it seemed that further progress in the sector is not possible without taking measures to effectively block smuggled rice from entering the domestic market. Smuggling was threatening the progress of agricultural policies. “Now that our people in the rural areas are going back to their farms and the country has saved huge sums of money which would otherwise have been expended on importing rice using our scarce foreign reserves,” President Buhari said, “we cannot allow smuggling of the product at such alarming proportions to continue” (Premium Times 2019).

Rice prices rose following the border closures (from N14,500 to N27,000 for a 50kg bag of imported rice, and 22% increase in domestic rice in the South of the country) (Proshare 2019). Some actors, e.g. RIFAN (Olatunji 2019; Vanguard 2019), called for prolonging the closure (Ugwuja and Chukwukere 2021). Some media reports suggest that the border closure was “a decision taken in the right direction”.[25] **A handful of individuals in the NCS and some large-scale rice producers lobbied for the continuation of the border closure against the promise of self-sufficiency in rice production** (Interview). Among the prominent actors calling for this were Dangote.[26]

The border closure also revealed that the magnitude of smuggling was in fact being underestimated, which by extension implied that **the level of domestic production was overestimated**. For instance, while the government estimates production to have risen to 9.2 million tonnes in 2020 from 7.2 million tonnes in 2015, agricultural data specialist Gro Intelligence placed it at 4.9 million tonnes in 2019, well below the 7 million tonnes required for domestic consumption (George 2020). The exaggeration of production figures can be seen as an effort to represent the protectionist policy as more successful than it actually is, in order to justify its continuity as explained in section 2. Effectively, about 2 million tonnes shortfall in rice production and consumption is either met through imports or illegal smuggling (Mwai 2022).

[24] See speech by Governor Godwin Emefiele in 2015.

[25] “Nigerians are getting used to eating locally-produced rice, and farmers are now confident that there is a steady market [..] The border closure [..] has also favoured [local] employment [..], enhancing the country’s GDP. Local rice farmers claim they are getting better by the day and closing the quality gap between imported and Nigerian rice” (Babatunde 2020).

[26] It was claimed that Nigeria would soon become a rice-exporting nation (Ramalan 2019). The President of the African Development Bank (AfDB), Akinwumi Adesina (Nigeria’s former Minister of Agriculture) also stated that Dangote Group would become the world’s largest exporter of rice by 2021 (Premium Times 2017).

What does the rice experience tell us?

Beyond support to improve access, there are limited performance monitoring mechanisms that ensure accountability by actors for the support they get. The outreach of policies also remains limited. For instance, yields continue to be low, partly because access to inputs, including extension services, remains limited (Ojo et al. 2020).[27] Trade policy considerations are important - the ECOWAS CET on rice remains low, shifting incentives towards imports rather than domestic production. While raising the CET is not straightforward,[28] Nigeria attempts to reverse this by raising tariffs on imports into the domestic market in turn creates incentives for smuggling via Benin. Especially in the absence of effective monitoring of borders, these interdependencies affect the effectiveness of Nigerian national policies. Indeed, Benin over the years has become a major supplier of re-exported rice given the significant differences in customs duties (12% in Benin vis-a-vis 70% in Nigeria). While an agreement was signed between the two countries to stop rice smuggling (Ugbodaga 2021), this is unlikely to bring significant results as long as significant variation in the custom rates persists.

Although the border closure was a continuation in a series of efforts to curb smuggling and was complemented by support to paddy production, constraints in the rice value chain lie elsewhere. To illustrate, despite rising (paddy) production, food inflation in Nigeria has been on the rise - especially since the border closures - due to rising transport costs given the lack of infrastructure and transport service, as well as rising fuel prices.[29] This requires integration within the national market, and a closing of the urban-rural divide to ensure sector development, which does not receive enough policy attention. Rice milling capacity is held back due to continued disruptions in electricity access. The sector remains highly fragmented with limited organisation and coordination among and between actors - farmers, mills and market intermediaries - along with poor facilities in terms of harvesting, milling, storage and transport which in turn hinder the marketing of domestic rice (Tondel et al. 2020). Uneven and inconsistent application of policies hindered their effectiveness, and ultimately adversely affected the sector.

Even though the border closure clearly cannot be a long-term strategy to develop the sector, it is nevertheless important to point out that **Nigeria's protectionist policies are directed against rice imported from third countries outside the region, which then is smuggled via land borders** (interview). Farmers in other West African countries are equally against the importation of cheap foreign rice into the region; rice farmers in Ghana have lobbied for the government to adopt Nigeria's policy (Nwagbara 2019; Ghana Web 2019). However, Ghanian actors in the rice sector are less politically-connected to influence national policy as happened in Nigeria. On the other hand, **intra-regional trade in domestically-produced rice could potentially help achieve economies of scale and greater efficiency** given the cost variation in several value chain activities due to factors like suitability of land for rice production, the scale of operations and influence of local buyers/traders, milling capacity (linked to cost of electricity), as well as processing capabilities. Free movement of goods within the region would promote productivity as countries concentrate on specific segments of the value chain in which they are cost-effective, without necessarily focusing on all the stages of the value chain.[30] Thus the promotion of a regional value chain may be an effective way to create the demand for regional integration, and by extension for trade facilitation.

[27] See for instance this article.

[28] While countries with a potential to scale up rice production may have an interest in raising tariffs in order to support rural farmers, this needs to be balanced with the need to secure supply to relatively cheap food for (urban) consumers.

[29] Food prices rose 18% nationally between August 2019 and August 2021, however while the rise in the rice producing North was only 8%, it was 25% in the rice consuming South of the country (Dapel 2021).

[30] Indeed, such functional specialisation is already in evidence in Nigeria and Cameroon on a small scale. Rice farmers in Cameroon prefer to export paddy to Nigeria given more competitive rice husking in Nigeria that is largely unavailable in Cameroon's rice-producing regions (Mbodiam 2021).

While there is some desire for regional trade/cooperation (especially among small-scale farmers), concerns around rice smuggling from outside the region remain more serious. To promote greater regional integration then, this problem needs to be addressed. Trade facilitation could play an important role here to include systems for detecting and eliminating re-exports. This however is not just a technical challenge; political interests and incentives around re-exports need to be carefully analysed to propose appropriate solutions that are fit-for-purpose. Thus, **grounding trade facilitation to address a specific problem in regional trade may ensure greater buy-in from Member States making it demand-led, and promote regional integration simultaneously**.

4. Pharmaceuticals - the pipedream of self-sufficiency

Nigeria has a long history of pharmaceutical production starting when multinational European companies set up subsidiaries in their colonies (e.g. May and Baker Nigeria Pic in 1944, GlaxoSmithKline in 1954 and Wellcome Nigeria in 1962). These remain amongst the largest pharmaceutical companies in the country today, though configuration and ownership structure has changed. Nigerian companies **account for about 60% of pharmaceutical production in ECOWAS** (UNIDO 2011), producing mainly generic medicines (Mackintosh et al. 2016) such as paracetamol, aspirin, antifungals and multivitamins.[31]

However, firms do not produce more technically demanding drug products (Interviews and Pharmapproach 2021) such as cancer drugs or vaccines (Adebowale 2021). As a result, **the country imports about 70% of its pharmaceutical requirements**, primarily from India and China (Government of Nigeria 2021; Mackintosh et al. 2016) with an import bill of US$1.5 billion in 2019 according to available trade data. According to Obukohwo et al. (2018) nine Nigerian pharmaceutical firms export about 26% of their products to the ECOWAS region,[32] but exports are generally insignificant (Government of Nigeria 2021).

Efforts to promote local production have primarily focused on import restrictions, to provide firms with learning rents. However, as this section shows, in the absence of strategic coordination to resolve binding constraints, and monitor performance of firms, the sector remains uncompetitive. One of the reasons for Nigeria's border closure was to tackle the considerable health risk of smuggled illegal drugs and opioids (including tramadol, codeine and morphine), given its "alarming" use in Nigeria (UNODC 2021).[33] Though it was not motivated by considerations of protecting the domestic industry, there was an implicit expectation that production would be boosted as unfair competition from informal drugs is minimised.

While there is a growing interest in an African pharmaceutical value chain, there are important considerations to be made. Firstly, domestic markets alone are unlikely to provide opportunities for economies of scale which are central to make operations viable (Kaplan and Laing 2005; Mackintosh et al. 2016).[34] On the other hand, while

[31] Production in Nigeria consists of liquid preparations, tablets, capsules, ointments, lotions, creams and ophthalmic preparations (UNIDO 2011).

[32] These include Drugfield Pharmaceuticals Ltd, Emzor Pharmaceutical Industries Ltd, Evans Medical Plc, Fidson Healthcare Plc, GlaxoSmithKline Nigeria, May & Baker Nigeria Plc, Mopson Pharmaceutical Industries Ltd, Neimeth International Pharmaceuticals and PZ Cussons Plc (Obukohwo et al. 2018).

[33] According to UNODS, there are some 4.6 million illegal drugs and pharmaceutical opioid users as of 2017. In most cases, these drugs are smuggled from Nigeria into other countries of the region (Ibid.), but according to some, medicines also enter Nigeria from neighbouring countries. According to an interviewee, greater surveillance of the border had helped reduce the flow of such drugs.

[34] The African pharmaceutical market is comparable to India's given its population and income levels, anticipated to grow from $14 billion in 2012 to $26 billion by 2018, compared to $16 billion and $28 billion in India according to projections by McKinsey (Mackintosh et al. 2016). Nigeria's market is forecast to grow to $3.6 billion, as big as South Africa's market today (Holt et al. 2017).

regional markets offer a bigger market, significant coordination - in regulatory harmonisation, among other things - is required for the industry to flourish. Secondly, the competing objectives of ensuring on the one hand access to affordable medicines from a healthcare perspective, and on the other promoting *local* production of medicines (i.e. industrialisation) which is, at least initially, more expensive than those offered in the international market also makes pharmaceuticals an interesting case. Lastly, COVID-19 has shown that complete reliance on imports is unsustainable, with increasing attention at the level of the Africa Union to develop this industry.[35] Stimulating (domestic/regional/continental) competitive pharmaceutical production however requires an active and dedicated industrial policy to build productive capabilities (Mackintosh et al. 2016). An important aspect is containing the informal distribution and retail networks which (unfairly) compete with registered drugs (Holt et al. 2017). Nigeria's industrial policies in this regard have important lessons for other countries.

Formal policy pronouncements..

Developing the pharmaceutical sector is a long-standing ambition of successive Nigerian governments, to ensure access of the Nigerian population to good quality medicines, and to create jobs and income. However, as highlighted in section 2, policy continuity and clarity has been a challenge and the nature of support has shifted. In the immediate post-independence support took the form of increasing stakes in multinational companies in the indigenisation policy of 1972 (and amendment of 1977). In 1982-86, licensing arrangements were made conditional on setting up domestic manufacturing factories. Since 1990, the National Drug Policy (NDPo) has been the main policy document embodying the goals in this sector.

Trade policy was used as an accompanying measure to boost domestic production - under the second NDPo of 2005 the government introduced an import ban on 17 widely used medicines, which is still in place (International Trade Administration 2021a). The NDPo also has guidelines for procurement of domestic drugs (Onwujekwe et al. 2022).

The current Buhari administration introduced more trade policy tools. Since 2016, the Import Adjustment Tax (IAT) was introduced on pharmaceutical raw materials, including active pharmaceutical ingredients (API) which effectively reduced the tariff from 5-20% (under the ECOWAS CET) to 0% (Fatokun 2020).[36] At the same time IAT on four groups of imported drugs that can be produced by local manufacturers (antimalarials, antibiotics, alkaloid derivatives and vitamins) was raised to 20% (Ibid.). The National Agency for Food and Drug Administration and Control (NAFDAC), the national regulatory body, imposed high registration fees on imported medicines to disincentivise imports, with a ceiling list on imports of certain medicines to protect the domestic industry.

Additional non-trade policy tools were also introduced. A 2017 federal executive order stipulates that all public procurement is to grant preference to domestic manufacturers, contractors and service providers, with at least 40% of expenditure on locally manufactured goods, including pharmaceuticals (Ibid; International Trade Administration 2021b). Furthermore, the Five Plus Five-Year Validity (Migration to Local Production) policy of 2019 gives a newly registered imported product a (maximum) period of 10 years (i.e. five years of initial registration plus another five years of renewal registration) to migrate to local production (NAFDAC n.a.). This migration is limited to those products where there is local capacity to manufacture (Ibid.).

Efforts have also been made to increase access to finance. COVID-19 related disruptions revived the conversations around "medicine security" in Nigeria and triggered the creation of a 100 billion Naira credit support scheme for

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[35] For instance, AUDA-NEPAD has a pharmaceutical manufacturing plan for Africa.

[36] The CET adopted in 2015 set a 0% tariff rate on finished pharmaceutical goods, and 5-20% tariff on raw materials and intermediate inputs (e.g. packaging) for pharmaceuticals, which was resisted by many domestic manufacturers (Etim 2015).

manufacturers in the health care sector, including pharmaceuticals (Akande-Sholabi & Adebisi 2020; Central Bank of Nigeria 2020). Reportedly, by August 2021, 93 billion Naira of the Fund had already been disbursed (Obinna 2021). There are also planned investments of US$200 million in pharmaceutical infrastructure via the Nigeria Sovereign Investment Authority (NSIA) announced in July 2021 (Olisah 2021b).

..without credible commitments

While past policy efforts have translated into some progress,[37] the 2005 NDPo ambition to meet 70% of the country's demand for medicines (in volume) with local drug manufacturers by 2008 has not been met to this day. Reportedly, domestic pharmaceutical supply is enough to meet 45% of the national demand in 2017 (Oxford Business Group 2017). A major reason why, even after 40 years of interventions in the sector, domestic production has not increased substantially, is that the **pharmaceutical industry has not been able to build the required technological capabilities for a competitive sector**.

Policy actors did not fully take into account the technological and organisational capabilities across the industry. Previous policies, including (1972 and 1977) indigenisation policy and (1982-86) licensing strategy did not give adequate attention to technological acquisition and capability development.[38] The SAP reversed some of the initial, albeit limited, progress and created perverse incentives to import finished medicines as they became cheaper (Ibid.).[39] Policies failed to provide an environment of interactive learning through collaboration with foreign firms to accelerate capability development, unlike in other countries like Ethiopia or Kenya.[40] The state lacked the (technical) capacity to negotiate appropriate technology transfer or monitor it. Most national staff was and continues to be involved in marketing, as sales representatives.

As highlighted in section 2, **without sufficient groundwork to identify the main constraints to capability development, policies often lacked substance and clarity**. For instance, without specification of the technical details in which the 2005 ban was to be applied, NAFDAC did not have the mechanisms to ascertain conformity of firms while implementing the policy. So while imports of multivitamins (except modified release formulations) were banned, by not stating the exact formulations, both importers and manufacturers continued importing multivitamins (interview).

[37] The country can produce certain basic medicines like paracetamol. During COVID-19 the local industry used funding from CBN to boost their production capacities to manufacture facemasks, personal protective equipment (PPE), hand sanitisers, gloves, antiviral drugs, ventilators, medical supplies and vaccines (interview).

[38] A study on the status of pharmaceutical manufacturing activities in Nigeria from 1971 found that domestic manufacturing was limited to simple tableting and liquid mixing operations with over 95% of the medicines being imported, indicating that few domestic capabilities were built during this time when multinationals operated in the market. Marketing was the most lucrative opportunity, with the most demand for labour.

[39] There were steeper tariff cuts on finished goods than those on intermediate goods thereby discouraging local manufacturing. The already limited state capacity to support firms was further reduced due to austerity under SAP. Other practices such as the misuse of licensing arrangements meant for the import of raw materials to instead import finished medicines, further reduced manufacturing activity.

[40] This is in contrast with other countries. For instance, Uganda and Kenya have WHO prequalified manufacturing plants that supply medicines to the global fund, and Ethiopia exports hard gelatin capsules. In the case of Ethiopia for instance, joint ventures were encouraged to forge strategic partnerships in order to transform and upgrade facilities in line with good manufacturing practice (GMP) requirements (Mackintosh et al. 2016). These collaborations are considered to be a key factor in the long-term success of the pharmaceutical industry in Ethiopia. To a certain extent, similar observations can also be made about Kenya where domestic firms also tapped into global networks to identify reliable equipment suppliers to overcome the challenge of import dependence. Apart from an industrial policy motivated by import-substitution and early joint ventures, the country also engaged in gradual liberalisation which contributed positively towards the accumulation of technological capabilities (Ibid.).

The deteriorating economic situation in the 1980s forced many consumers to seek alternative sources of medicines thereby creating an emerging industry of fake and substandard medicines. Peterson (2014) lays out the various mechanisms through which these medicines enter the Nigerian market. But putting things into historical perspective, the author also describes how a specific community of Imo state, who received training to administer emergency aid during the Biafra war, became patent drug traders in Lagos. Over time, due to specific circumstances around SAP and branded drug pharmacies, these traders took control of the wholesale market with extensive supply chains into West and Central Africa and became the preferred facility for consumers in need of affordable medicine.

While the increasing levels of informal imports raised the urgency to strengthen regulatory oversight, efforts were largely ineffective. Peterson (2014) refers to a court case in 1992 between traders in the Idumota market in Lagos, whose licence was revoked to control unregulated drugs, and the Pharmacists Council of Nigeria, responsible for the registration and licensing of vendors. The case was lost by the latter. Apart from the legal dimensions, where it could not be proved that Idumota was a market rather than a neighbourhood, there are also important informal socio-political dimensions to the case. Market closure would not only have an immediate impact on the livelihoods of several workers selling other products than pharmaceuticals like phone credit and drinks, but also affect wider supply chains in the whole region given the importance of the Idumota market. Moreover, the closure would have negatively affected the Yoruba elites who owned much of the property and would not receive their relatively high rents (Peterson 2015; Premium Times 2015).

On the supply side, while policy instruments were used to create incentives for firms in the form of rents, these have not been accompanied by measures to overcome some of the binding constraints. In many cases, it is cheaper to import the medicines than to locally produce them given myriad challenges including poor infrastructural facilities (e.g. electricity supply), inadequate and inefficient financing to import pharmaceutical raw materials (Government of Nigeria 2021; Mackintosh et al. 2016; UNIDO 2011),[41] lack of WHO-GMP certification for quality assurance,[42] and weak testing and inspection with a vulnerability to regulatory capture (Garuba et al. 2009). With these supply and demand constraints capacity utilisation in the sector is low and declining (from 40% in 2011 (UNIDO 2011) to 20% in 2016 (Spur 2018), with the closure of some 30% of firms in the sector (Ships & Ports 2016)). In this context, informal imports remain high. Unlike in the rice sector, informal imports of pharmaceuticals, including counterfeits, which compete with locally produced medicines, come via the same channels as normal medicine imports. Both licit as well as fake drugs can be produced by the facility which makes detecting the fake medicines especially challenging. Overall, lack of coordination among the diverse functions, pharmaceutical production has remained uncompetitive.

The procurement system, riddled with inefficiencies, could not ensure that firms build capacities to respond to the needs of the domestic market. Onwujekwe et al. (2022) highlight several shortcomings in the system. Workers, including doctors, often do not receive guidance on the essential medicine list based on which procurement should be guided. Health facilities often lack efficient planning to identify the pharmaceutical needs. In some other cases, corrupt practices by sales representatives of pharmaceutical companies influences doctors' prescriptions, including favouritism, kickbacks and bribery. To add to this, lack of transparency in tendering as well as non-payment to suppliers discourages firms from engaging in government procurement contracts. In such a context, firms with networks and close ties to higher echelons of the government tend to participate because they know how to receive their payments (Ibid.).

[41] The industry continues to rely on imported pharmaceutical raw materials (including machinery and spare parts). A cost breakdown of operations would be roughly 60–80% API and 20–40% conversion cost, the latter composed of approximately 50% labour and 50% other components (ECOWAS 2014).

[42] Good Manufacturing Practices (GMP), adopted in 1968 by the WHO, is the aspect of quality assurance that "medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification" (WHO n.a.).

By the 1990s, most multinational firms left the market and the **domestic pharmaceutical sector was increasingly dominated by powerful trading organisations who eventually set up manufacturing plants** similar to the situation in the rice sector (interview). There are over 115 registered pharmaceutical companies in Nigeria, with predominantly indigenous ownership (Pharmapproach 2022), employing approximately 500,000 persons, mostly in the distribution chain (UNIDO 2011). This group is dominated by a few large and politically-connected firms,[43] and they are part of the influential Pharmaceutical Manufacturers Group of Manufacturers Association of Nigeria (PMG-MAN), which was established in 1983 and has close to 100 members. Another influential organisation is the Pharmaceutical Society of Nigeria (PSN), which is an umbrella body of pharmacists in the country and has been active in advocating the enactment of laws to boost domestic production.[44]

In the absence of stringent performance monitoring, acquired capabilities have not been consolidated and firms have failed to graduate from the manufacturing of low value therapeutic drugs to complex formulations. Most companies produce certain products and import others. With a dual role as producer and importer, firms have diversified policy preferences, though manufacturers generally support protectionist policies that provide lucrative rents. While mobilising resources to influence government policy towards "self-sufficiency", firms also continue importing finished medicines given the need for an "uninterrupted access" to medicines from a healthcare perspective, leading to an "import-trap".[45] While this circular flow and arbitrage has led to a stagnation of technological stagnation, it has been profitable for the firms involved. The inefficiencies in industrial policy to provide targeted and time-bound support with stringent conditions on performance to raise productivity meant that these firms can only operate under protective measures (Lawson 2021).

Lack of holistic thinking

The eventual success of industrial policies depends not just on building knowledge but also on economies of scale - that is, the ability to supply the domestic market needs to be matched by adequate consumer demand for locally produced goods (Itaman and Wolf 2021b). It is unclear whether the demand for Nigerian pharmaceuticals is strong enough, in the domestic as well as regional markets. Boosting regional (ECOWAS) demand would require competitiveness and quality assurance of Nigerian drugs. But Nigerian policies have instead focused excessively on local production, without concomitant investments into other areas such as storage, quality control and distribution and marketing networks to ensure the viability of the sector.

The complex nature of the sector with numerous players (manufacturers, suppliers, regulators, wholesalers and retailers, different government ministries, and other stakeholders) makes **coordination between actors crucial for any eventual development of the sector. But it is unclear whether this is indeed happening in Nigeria**. While progress has also been made in some regulatory functions, like greater control on the flow of counterfeit drugs,[46]

[43] These include, for instance, Dana Pharmaceuticals, Emzor Pharmaceutical Industries Limited, Fidson Healthcare Plc, May and Baker Nigeria Plc, Mopson Pharmaceutical Limited and a handful others. E.g. High ranking actors in May and Baker, Emzor, Orange Drugs Limited (trader) have close links to ruling elites, including former President Obasanjo.

[44] PSN has called on the government to enact several legislations. For instance, in 1977 it demanded the enactment of a legislation to compel foreign firms to manufacture drugs in the country or withdraw from the market; in 1981 that 60% of medicine demand be met locally; in 1984, that medicines requiring simple technology be produced in 5 years, and others in 10 years (interview). However, results of these pronouncements have been limited, as the 2021 NDPo confirms.

[45] This is a hypothesis put forward by Efefion Kofon who is pursuing his PhD by analysing the pharmaceuticals industry in Nigeria through the lens of political settlements.

[46] Unlike the 2000s when around 60% of the medicines circulating in the market were fake (Olugbenga 2014), the flow of counterfeit drugs is now more contained (17% in 2019) (NAFDAC 2019).

thanks to coordinated interventions of NAFDAC[47] following its organisational restructuring and other reforms in 2001 (Garuba et al. 2009), other challenges persist.

Policies often lack pragmatism. The 2021 NDPo continues with the objective of self-sufficiency in local medicine production and exports, with local sourcing of raw materials (Government of Nigeria 2021). Experts have pointed out that self-sufficiency,[48] or medicine security as it is termed in Nigeria (Muanya 2020), is unrealistic in such a complex value chain. In fact, it may not always be the most strategic choice for firms in developing countries that mostly imitate existing technologies and lack significant research and development capacity (Kaplan and Laing 2005). Retaining manufacturing capacities along all activities, especially producing the raw materials locally, is difficult since limited economies of scale affect competitiveness (interview). Neither is the transfer of technology straightforward. While this is not to say that progress cannot be achieved through well-designed and targeted industrial policy, there is need for greater realism in objectives through a thorough diagnostic of current capabilities, as well as sequencing (consolidating some aspects, before moving into newer ones).

As COVID-19 has renewed discussions of the need to develop an indigenous African pharmaceutical industry, what lessons does the Nigerian experience provide? While industrial policies will remain central to the development of the pharmaceutical sector, they need careful targeting with support to overcome binding constraints - finance, infrastructure, regulatory environment, quality control - along with performance monitoring to ensure productivity growth. Other policy considerations are equally important. For instance, what kind of partnerships are needed to build the necessary skills among local firms? How to ensure affordability and accessibility of quality medicines? These remain outside the scope of this paper.

What interest in reaching out to the regional market?

ECOWAS, and possibly the African continent with the implementation of the AfCFTA, provide huge market opportunities for Nigerian pharmaceuticals. With 70% of the registered pharmaceutical firms in ECOWAS, Nigeria has by far the most pharmaceutical companies in the region to take advantage of these opportunities.[49] However, **with inefficiencies in the domestic pharmaceutical sector, most firms cannot survive the stiff international competition,[50] and it is easier to focus on the protected domestic market** (Kaplan and Laing 2005). There is little investment in quality assurance - only four companies in Nigeria have WHO-GMP certification of their facilities (Muanya 2017),[51] while some others are in the early stages of getting some of their medicines WHO qualified.[52] There seem to be fewer avenues to engage in a regional pharmaceutical value chain. Small-scale production of API by Lagray Chemicals Ltd in Ghana was discontinued (Ogada 2020). Opportunities for specialising in other input segments like excipients, binders and packaging remain to be explored.

[47] Tackling counterfeit drugs was a collective effort with simultaneous actions on many fronts. For instance, a 2001 policy limited the import of all drugs to two seaports and two airports, banning such imports through all land borders (Fenoff & Wilson 2011). At the same time, activities of the Ports Inspection and Enforcement directorates were also strengthened and surveillance and establishment inspection activities by NAFDAC intensified (UNIDO 2011). According to the WHO, this has contributed to a considerable reduction of the amount of counterfeit drugs (Fatokun 2020; UNIDO 2011).

[48] Going by the typology by UNIDO production activities can be viewed along a continuum of 1. no manufacturing; 2. packaging of already formulated drugs; 3. formulation of drugs in final dosage based on imported intermediates; 4. production of some imported intermediates; 5. production of active substances (Kaplan and Laing 2005). Nigerian ambitions in the pharmaceutical sector could be seen going from 2/3 to 5.

[49] Nigeria has 115+ registered pharmaceutical firms (Okereke et al. 2021) out of 172+ firms in the whole region (Ogada 2019).

[50] Firms have an average age of only 13 years (Obukohwo et al. 2018).

[51] These firms include Evans Pharmaceutical Ltd, May & Baker Pharmaceutical Ltd, Chi Pharmaceutical Ltd. and Swiss Pharma Nigeria Ltd.

[52] These include Juhel Nigeria Ltd, Emzor Pharmaceutical Industries, and Swiss Pharma Nigeria Ltd or Swipha (PQM+ 2020).

Trade policy remains an important tool for the development of this sector - current ECOWAS CET on pharmaceutical inputs (5% to 20%) and final products (0%) is not favourable for promoting local production (WAHO 2017).[53] Like rice, rectifying this requires policy measures at the regional level. Even as trade policy remains unfavourable, the region provides opportunities for Nigerian exports, especially in niche products like medicines against neglected tropical diseases, by leveraging some of the positive experience in phytomedicines.[54] However, there are limited investments in this area.

Promoting regional trade in pharmaceutical products also requires regional cooperation through the harmonisation in regulatory frameworks. The African Medicines Regulatory Harmonization (AMRH) Initiative in 2009 has had some success in reducing registration times, building regulatory expertise, and harmonising regulatory frameworks through regional approaches. There are attempts to harmonise the West African medicine regulation (AUDA-NEPAD 2017). However, drug certification and marketing are not mere technical procedures and have significant political aspects where regulation may result in, or from, favouring certain groups (Olugbenga 2013).[55] These aspects need to be carefully considered. The West African Health Organisation (WAHO) focuses on the provision of affordable drugs while reducing illicit and counterfeit drugs, as outlined by the regional pharmaceutical plan (ECOWAS 2014).[56] However, despite its institutional set up, operational challenges remain much the same as at the national level.[57]

In short, development of the pharmaceutical sector will require an increase in quantity and quality of production through coordinated policy actions that seek to resolve infrastructure and other regulatory challenges, thereby creating demand for regionally produced goods while controlling the ubiquitous informal distribution channels. **Trade facilitation, through simplifying and harmonising border procedures, can play a limited, albeit important, role in filling some of these gaps**.

5. Drawing implications for regional integration and trade facilitation

Nigeria has a long-standing history of using import restrictions to advance its industrial ambitions. This in addition to the failure to effectively control its borders are in a large part what motivated the border closure. Looking forward,

[53] The CET was the result of negotiations between member states after considering the regional list of medicines produced and pharmaceutical raw material and equipment required (ECOWAS 2016; NEPAD 2017). There is discussion at the regional level about a revision of the CET levels. To illustrate, the ECOWAS Regional Pharmaceutical Plan (2014) contains the activity to “advocate for zero tariff on pharmaceutical raw materials within the ECOWAS Common External Tariff (CET)”.

[54] The positive experience of Niprisan, to prevent sickle-cell disease, developed at the National Institute of Pharmaceutical Research and Development (NIPRD) shows that phytomedicine or herbal medicines, derived from traditional knowledge can be effective in finding cures to neglected tropical diseases with huge economic as well as social benefits (Mackintosh et al. 2016).

[55] The author points out that the characteristics of the industry, where it is difficult to have an overview of the different activities, especially distribution networks, predispose it to corruption and regulatory capture whereby the purpose of regulation is compromised due to discretionary power to favour individuals or groups. This is not just because of “corruption” but also because of different actors safeguarding their political and economic interests.

[56] The plan is currently under review (interview).

[57] The regional pharmaceutical plan (ECOWAS 2014) notes the following challenges: At the firm level - poor leadership and governance; inability to attain WHO pre-qualification; high cost of local medicines compared to imports due to a. high tariffs on imports of raw materials on which they depend b. high cost of funds c. lack of infrastructure d. inadequate human resources and poor remuneration e. insufficient incentives. Beyond the production phase there is also poor distribution & supply chain system; inadequate investments in research and development; inadequate market information and data. Other policy challenges include uneven implementation of existing policies; inadequate regulatory capacity; weak capacity of quality control laboratories; porous borders.

as long as industrial policies in Nigeria are introduced as a crisis response, import restrictions will continue to be the focus of such policies. Smuggling is likely to remain a more pressing concern for the government, rather than trade facilitation. In the absence of effective performance management, industrial policies remain likely to be captured by interest groups without significant development of productive capacities. As observed in the case of rice, shortcomings in sector performance may be placed on rampant smuggling, without sufficient regard to the larger system within which these practices exist (see Karkare et al. 2021). On the other hand, with uncoordinated action and untargeted policy support, the pharmaceutical sector will continue to depend on import restrictions to survive. In order to break this cycle, **there is need for a multipronged approach whereby the country's industrialisation ambitions are supported along with trade facilitation given the close link between the two**.

On industrial policies

Sections 3 and 4 while contextualising their complexities shows that **Nigeria's industrial policies in the rice and pharmaceutical sectors have had mixed results**. Some progress clearly has been made, whether thanks to or despite these restrictions - for instance, rice production is on the rise, and the country can produce basic medicines. However, challenges continue to persist. While some are similar (import dependence, access to inputs, infrastructure), the organisation and complexity of the sectors is very different, requiring different measures to address them.

In such a case, a "one size fits all" approach, of introducing import restrictions, may not bring desired results (as previously pointed out by McCollough et al. 2017). Moreover, te Velde et al. (2016) points out the need for consistency in industrial policies in Nigeria, along with clarity of objectives as well as monitoring and evaluation to scale up successes and learn from failures. An immediate policy conclusion therefore is that industrial policies, which remain crucial to steer sector development, **need a greater array of tools than simply import restrictions**.[58]

Some of the core functions of industrial policies (see annex 3) include support to firms to enable learning(-by-doing) which is expensive and requires time. The probability of cost recovery for firms can be ensured through different instruments including trade policy which essentially create rents for firms (learning rents). It requires patient capital and continuity in policy. At the same time, these policies should include the right balance of incentives (subsidies/import restrictions/other support instrument that are well defined and time-bound) and compulsions (threat of withdrawal of support in the case of non-performance) to raise productivity through credible commitments that effectively take into account the power structure and political dynamics. Inherently then, industrial policies need to be context (not just country but also sector) specific. In short, industrial policies entail strategic coordination to resolve several organisational, structural and institutional challenges that require a whole-of-government approach, rather than being a static policy document prepared by one agency alone (Said 2021). Juxtaposing the above discussion on sector fragmentation against the functions of industrial policies described here shows the **need for (strategic) coordination in Nigeria's industrial policies. Import restrictions or border closure alone does not address these shortcomings**.

Apart from accompanying measures like infrastructure provision to address binding constraints, policies often failed to ensure compatibility between resource allocation and enforcement of conditions to enable learning. Indeed in the absence of political buy-in and consensus, informal dynamics (which include patronage politics and rent-seeking) overpowered the ability to monitor performance.[59] This further shows that **the country needs industrial policies**

[58] It has been argued elsewhere that "industrial policies that prioritise only protection without an equal focus on capabilities and competitiveness are harmful, detrimental to our local manufacturers and undermine our efforts to diversify exports"(Ogbonna 2021).

[59] This however is by no means specific to Nigeria alone (Devarajan 2016).

that are well suited to its socio-political context in terms of how government policies are applied and accountability mechanisms that take into account the distribution of power among different interest groups. It requires a strategy which can elicit high learning effort from firms while closely monitoring their performance to cull losers (or cutting off support to non-performing firms) rather than pick winners as was observed in East Asia (Roggeveen 2013). The question of "how" to do this is one with less consensus - should this be with a selective industrial policy?[60] Should there rather be a focus on fewer firms, rather than sectors given their heterogeneity? (Devarajan 2016). Answering these questions would require further deeper analysis and remain outside the scope of this paper.

On supporting regional integration and trade facilitation

In terms of its industrial ambitions, **Nigeria plausibly perceives a greater threat from smuggled goods from third countries via its neighbours, than potential benefits from regional economic cooperation by trading with them given their limited markets**, among other things. While border closures cannot be a long-term solution to contain smuggling (e.g. Omale et al. 2020),[61] some believe that a complete rupture in this status quo was necessary to ensure a return to rule-abiding cross-border trade. It is therefore necessary to understand the precise political motivations and calculations behind the closure. While the closure severely disrupted informal cross-border trade which is also responsible for upto 30% of the food trade in the region (Karkare et al. 2021), for its supporters, the closure resulted in substantial state revenue gains.[62] Hence it is important to understand the overall impact of these considerations.

How can these views be reconciled to promote regional integration, including trade facilitation? **An immediate implication for support is to align interventions with industrialisation ambitions and create the demand for regional cooperation**. Support could include those aspects which can prepare countries to generate goods in the first place, so that they then can trade. Some of the current gaps for national industrial development include structural constraints (infrastructure, transport and logistics), enterprise development (having solid business plans, finding the right suppliers, developing marketing strategies to create a regional market for regionally produced goods), as well as value chain-specific constraints beyond production (effective regulatory oversight, reliable data collection, harmonisation of standards).

Second, given its relevance, **support should be designed to effectively address the issue of smuggling**. As highlighted in section 2, the border closure to a large extent resulted from the lack of regional capacity to efficiently control smuggling at the border. This aspect has received less attention. Rather much attention has been drawn to the fact that Nigeria's border closure threatens regional trade. Effective implementation of the ETLS will remain crucial in this regard. A very specific concern raised by the government of Nigeria is the absence of electronic scanners at the border to effectively contain the trade in banned products (e.g. rice) from third countries. This may see a greater interest from national policymakers to engage in trade facilitation.

While trade facilitation is a means to address challenges at the border, it is important to understand why some of these challenges exist in the first place. As section 2 shows, NTBs and burdensome border procedures themselves

[60] However, the idea of "picking winners" is considered a bad policy because of its distortionary effects.

[61] For instance, the National Association of Nigerian Traders (NANTS), an influential private sector representation in the country, while recognising the need to effectively regulate cross-border activities in line with stipulated rules and ensure industrial development in Nigeria, calls for a more strategic approach than outright (unilateral) border closure.

[62] According to the NCS, state revenue losses of 110 billion Naira (US$303 million) were reversed with the border closure, because cargo that used to go to Benin only to then be smuggled into Nigeria instead came directly into Nigeria through the ports and paid the necessary duty (similarly Benin's exports were also formally registered with trade data suggests a significant jump in Benin's exports to Nigeria from less than 10% in 2016 to as high as 73% in 2019). Fuel smuggling (into Benin) also went down as highlighted by the drop in consumption by 8 million litres (Ukpe 2021).

are a response to other challenges, especially smuggling. Unless these underlying border challenges are addressed it is unlikely that they will be removed. Thus, rather than approaching trade facilitation as a technical solution to NTBs, it is important to analyse the context that drives this issue. In this case NTBs seem a symptom, rather than the underlying cause of challenges at the border. This in turn points to the need for a **problem-driven approach that is bottom-up (or has buy-in) rather than top-down and supply-(or solution)-driven reforms**.[63]

Finally, **the demand for trade facilitation can be enhanced by ensuring sector development**. As a sector develops and matures, there may organically be greater demand for rules-based operations, including trade facilitation that brings transparency, and actors in turn influence policy accordingly. There are existing examples of this in Nigeria, for instance in cement, where rising production and exports helped in creating the demand (and interest) to upgrade Nigeria's trade infrastructure more broadly.[64] The government worked with the sector to eliminate unnecessary checks, facilitate exports, including through negotiations with other countries in the region, when it was also perceived in their own interest. Support programmes could therefore facilitate dialogue between important stakeholders who could together forge a way forward in terms of the genuine requirements for trade facilitation in the sector. This would necessitate a **sector-by-sector approach**.

Rice

Section 3 identifies some of the sector-specific challenges in the rice sector. While addressing the "smuggling problem" remains a key focus for the government and other stakeholders, section 2 briefly outlines the context in which this trade happens. Re-exportation is ingrained in the political economy of Benin, and in the absence of other productive opportunities, it is unlikely to be displaced by the mere aspiration to adhere to regional trade rules. **Regional integration in ECOWAS would require serious consideration of broader questions of productive capacities, including in Benin, before significant progress can be achieved in truly ensuring free movement of goods**.

A concrete way of creating demand for trade facilitation may be by **exploring opportunities for a regional rice value chain through not just freer regional trade but also negotiated cooperation**. There are attempts to replicate Nigeria's supposed success in rice production in other neighbouring countries (Agbakwuru 2021; Olaoluwa 2019; Nyabor 2022). However, there should be a cautious approach to avoid a situation where *all* countries put in place protective policies to focus only on domestic production. Not only would such policies be to the detriment of regional trade, but it may also undermine the effectiveness of policies of individual countries because they cannot benefit from a larger regional market (Odijie 2019). Indeed, the goal of self-sufficiency in rice is said to get in the way of regional cooperation (Tondel et al. 2020). The ECOWAS Rice Offensive recognises the importance of regional rice trade, which currently is hampered by several obstacles that require trade facilitation (ECOWAS 2019).

In a context where each member is focused on self-sufficiency, regional cooperation may have to be negotiated, to demonstrate its utility. For instance, while rice producing countries like Nigeria have an interest in the ECOWAS CET being raised so that imports become more expensive, the interest in rice-deficit countries may be in securing a steady supply. Given that each country has vastly different interests in the sector[65] (informed in turn by political

[63] This is well illustrated by Ngozi Okonjo-Iweala's (Nigeria's former Finance Minister in 2011-2015) attempt to discontinue a duplicate cargo tracking system at one of the ports which, without an appreciation of the vested interests involved, led to a pushback from high-level Nigerian politicians, even though little revenue was generated from this duplicate system (which continues to exist) and it entailed an extra burden for firms (Okonjo-Iweala 2018).

[64] An incentive was generated for companies by granting them concessions to build roads in exchange for tax credit (President, Republic of Nigeria 2019).

[65] E.g. rice is a crop with much more political interests in Nigeria than say Ghana, also demonstrated by the relatively little influence Ghanaian rice actors have been able to have on national policies.

processes, formal as well as informal), as well as capabilities across countries, a more pragmatic approach may be to have a **regional platform that provides space for engaging in bilateral negotiations that respond to country needs**.

Pharmaceuticals

For the pharmaceutical industry to truly develop, many moving parts of the puzzle need to be put together. As such, **focus needs to be not only on boosting production but also in other areas of the whole value chain**. Storage, distribution as well as marketing of pharmaceuticals is as important as the production if the drugs are to reach the intended beneficiaries. Production is contingent on access to inputs, which in turn requires coherence with trade policies. Without accompanying measures like effective application of the ETLS and investments in quality control, consumer preferences are unlikely to change in favour of local drugs. Thus, sector development requires different complementary measures and policies.

Containing informal imports will remain a key aspect to boost the local industry. Given the multitude of products that make up this industry, interventions should be designed to facilitate the production and trade of specific products which hold the greatest potential. Interventions could include customs cooperation to share intelligence as well as joint operations to capture and impound counterfeit and illicit drugs. On the other hand, rapid customs clearance for imports of pharmaceutical inputs could significantly reduce trade costs.

Lessons can also be drawn from ongoing private initiatives like the E-pharmacy[66] in Ghana which could provide a robust verification system, while appreciating the unique circumstances which allow for such initiatives to take off (e.g. widespread use of mobile money in Ghana). Similarly, Shelf Life is another health start-up that manages forecasting, quality assurance, and inventory for pharmacies in Nigeria, while giving a preference to locally manufactured drugs thereby contributing to a more robust distribution system (Mureithi 2021). These initiatives, along with formal regional strategies like the pharmcovigilance strategy, could encourage regional trade by assuring consumers of quality and increasing transparency to detect counterfeit drugs, and could therefore be included as part of trade facilitation.

To conclude

Nigeria's unilateral border closure, and retaliatory actions, pose a threat to regional integration. Resolving these tensions requires a deeper understanding of where the actual concerns lie. This paper offers some insights into the shortfalls of Nigerian industrial policy. Moving from national to regional dynamics, the paper also points to certain ways forward in terms of trade facilitation which may bring Nigeria and its neighbours closer to ensure the smooth movement of goods, services and people. However, these remain a few among the wide spectrum of tools available to achieve broader objectives, in this case, cooperation among ECOWAS Member States to achieve greater and shared prosperity. **Greater dialogue and diplomacy between these countries need to accompany some of the policy interventions highlighted in this paper**.[67] It is with the help of all these measures that regional integration in the true sense can be realised and sustained. This in turn can open pathways to ensure the successful implementation of the AfCFTA.

[66] E-Pharmacy offers the opportunity for consumers to upload prescriptions and find out where to locate certain medicine. Customers can compare the prices and purchase using mobile money. This can help Ghana's Foods and Drug Authority (FDA) to check fake or counterfeit medicines because the platform is created by and "linked to the FDA which will monitor the batch numbers of all products real time". Such a verification process, if effective, could allow Ghana to adopt a freer trade with regional countries since the threat of fake and smuggled drugs would be broadly mitigated.

[67] For instance, appreciating the political realities in Benin, where the highest echelons are involved in illegal imports into Nigeria, the latter is negotiating with the former through dialogue at the highest level.

Annex 1: Immediate impact of border closures in Benin and Niger

Nigeria's border closure coincided with Benin's tomato harvest and export campaign. The price of tomatoes fell from FCFA 13,000 to FCFA 2,000 following the closure. Pineapple prices, usually transported in a «PEUGEOT bâchée» with a capacity of 2.5 tonnes, fell from FCFA 220,000 to FCFA 120,000. The Nigerian market accounts for 40% of total pineapple exports from Benin. With no other market to sell to, farmers saw their incomes decline. Not only were these exports suspended as a result of the border closures, but taxes collected from trucks exporting to this market also had to be suspended, creating a multiplier effect and leading to severe shortfalls in municipal revenue[68].

According to the Head of Customs Post at Sèmè, Mr. Honoré Padonou, over 1,100 trucks got stranded at the border, and the situation was worse particularly at Atlas Park. Neither trucks from Nigeria, nor those from other neighbouring countries could transit through the Sèmè-Kraké border. Especially, trucks carrying perishables suffered severe losses.

Nevertheless, people with means of identification (international passport or ECOWAS Certificate) were allowed by Nigerian Immigration to cross the border between 6:00 am and 6:00 pm, even though goods of commercial quantity such as trucks were not allowed entry or exit. Acts of vandalism, theft were recorded during this time, with subsequent arrests.[69]

The Republic of Niger shares a border of more than 1,500 km with Nigeria, and being a landlocked country is dependent on Nigeria for about 34% of imports. The border closure also negatively impacted the socio-economic situation in the country. According to the Directorate General of Customs (DGD), some FCFA 17.6 billion was earned in July 2019 from the trade with Nigeria, which subsequently was suddenly halted due to the closure. Sharp fall in staple food prices (e.g. cowpeas prices fell by a third from FCFA 238 to FCFA 190), which are geared towards the Nigerian market meant reduced incomes for farmers, as well as traders in Maradi, Zinder and Diffa. Exports of other products like tigernut, sesame, livestock among others also suffered given that main sales happen in Nigeria. Moreover, the shortage of products imported from Nigeria (agricultural products, sugared beverages, tomato, potato, cement, cigarettes, etc.) was also acutely felt.

[68] The Mayor of Sèmè-Podji in the Republic of Benin described the situation prevailing in his community since the closure of the Nigerian border as deplorable. Over and above the revenue losses in municipal taxes, the City Council sometimes provided humanitarian services by giving food to drivers in the interest of maintaining social stability in the region.

[69] The Head of Police of Sèmè, Republic of Benin Mrs. Maylise Wannou while testifying before the ECOWAS Task Force on the ETLS.

Annex 2: Investments in the rice sector

Table 1: Examples of investments in the rice sector

Company	**Details**
Kereksuk Rice Farm	established in 2012, covering 45,000 hectares (Flora IP website)
Wems Agro Rice Farm	established in 2013 by Rotimi Akinsola (major rice importer seeking to capitalise on the policy shift away from importation) (Wems Agro website).
Olam Group	commissioned an integrated rice milling facility (capacity of 36,000 MT) in 2014 + 6 mills with combined capacity of 1 million metric tonnes (Olam Group news)
BUA Group	plantation (100,000 out-growers with around 10,000 hectares) in Kano and Jigawa States, Nigeria + milling 200,000 tonnes per annum in Kano with planned upgrading to 1 million metric tonnes per annum (BUA Group website)
Labana Rice Farm	integrated rice mill since 2014 (Lbana Rice Mills website)
Haske and Williams	production (outgrower) + milling (H&W Rice Company website)

Some investments were the result of public-private partnerships - e.g. JOSAN Integrated Rice Farms and Mills (Nairaland forum), Pearl Universal Impex Ltd (Falaju 2017), Coscharis Group among others. Edo State has partnered with Stallion Group and Ebonyi State has extended a N1 billion loan to commercial rice farmers in the form of seedlings, fertilisers, and pesticides (KPMG 2018).

Annex 3: Relevance of industrial policy - a literature review

Industrialisation, as Andreoni and Chang (2017) argue, is centred on production and associated with structural transformation - a transition from a predominantly agrarian system, based on raw materials, to one that is based on manufacturing and industrial production (De Vries et al. 2015).[70] Further, such **transformation rarely emerges spontaneously through the interplay of market forces,[71] but rather has been the result of determined state interventions or "industrial policies"** (Chang 2003; Woo-Cumings 2019; Chang and Andreoni 2020). Industrial policies are government policies intended to promote the growth and development of specific sectors, which may or may not amount to general economy-wide transformation (Aiginger and Rodrik 2020).

Development of industries typically requires organisation capabilities which cannot simply be acquired through technologies alone but need tacit knowledge through learning-by-doing (Khan 2013).[72] This learning however takes time, entailing periods of loss financing when the firm produces but is unable to make a profit (Ibid.). In the absence of industrial policies, domestic capitalists are unlikely to allocate resources to areas in which they lack production and market knowledge due to the high cost of learning or acquiring knowhow under free market conditions. **Appropriate industrial policies can therefore reduce the cost of learning by increasing the probability of recovering costs through different kinds of support instruments**. In modern usage, the term "industrial policy" is not limited to traditional manufacturing or industries, but has come to encompass agriculture and other non-industrial sectors as well (Rodrik 2004; Newfarmer, Page and Tarp 2019).

Trade policy is an important industrial policy tool, especially in developing countries with low capital to provide direct subsidies. Just as (temporary) trade restrictions[73] can help create space for domestic firms to build their capabilities (although this comes with many other complications), freer trade can aid industrial policies, especially, when domestic firms rely on imported inputs. Indeed, with the rise of global value chains (organisation of production across geographical locations) and niche specialisation, domestic firms require unimpeded access to markets to source inputs, as they cannot develop production capabilities and knowledge covering all stages. Even for sectors protected by very restrictive protectionist policies, such as cement (Akinyoade and Uche 2018) and sugar (Nigeria Sugar Development Council 2013) in Nigeria, imports - though restricted to a handful of companies with domestic production capabilities - saw a reduction in both tariffs as well as simplification of the procedures and controls governing importation.[74] Therefore, **open trade and industrial policies are not mutually exclusive; most industrial policies require some degree of promotion of free trade to succeed**.

Like all government policies, **industrial policies affect the distribution of state resources, and hence are deeply political (Whitfield and Buur 2014; Whitfield et al. 2015)**, especially in clientelist countries where ruling elites use state resources to ensure their political survival (Whitfield and Therkildsen 2011; Hansen et al. 2016). There is a risk that they are instrumentalised for the survival of ruling elites, irrespective of enhanced learning and better development outcomes. Thus, a policy deemed suitable based on a solely technical analysis may not be politically expedient - political elites may not implement policies if it entails negative distributional outcomes for them.

[70] In the language of economics this would be the allocation of production resources from traditional to modern activities (see Lewis 1954; Kuznets 1966).

[71] This is because there are various forms of market failure (e.g. in product, knowledge, credit, and labour).

[72] For instance owners, managers and supervisors need to learn how to "align the machinery, set up systems for quality control, reduce input wastage and product rejection, manage inventories, match order flows with production cycles, maintain after sales services and a host of other internal coordination and management issues that are essential for achieving competitiveness" (Khan 2013).

[73] These may include import bans, import tariffs, import quotas, and restrictive import licences.

[74] Both Nigeria's cement and sugar policies involved import duty waivers as well as a waiver on value-added tax, customs duties and a reduction of checks on the importation of specific production equipment needed by domestic producers.

Furthermore, in clientelist political systems, ruling elites tend to allocate state resources to their supporters or coalition members and such "corruption" may amount to industrial policy. For example, if the domestic supporters/funders of a political party are also producers of goods and services or have an interest in a given sector, they are likely to request protection against imports, or elicit subsidies.[75] It is important to determine how domestic producers benefit from such policies and contribute to better outcomes to understand the success of industrial policies.

Policy continuity is a serious concern when industrial (and trade) policies are too closely tied to politics. This is because a change in power, or ruling coalition, is likely to result in a change in the distribution of resources through alteration in policies (Odijie and Onofua 2020) so as to cater to supporters of the new regime (Williams 2017). Domestic capitalists navigate such a difficult environment by deploying tactics such as co-opting new elites, sponsoring business groups to promote policy continuity, and investing in public campaigns or propaganda that exaggerate the benefits of these policies (Bowman et al. 2017), as conspicuously successful policies are difficult to discontinue.

According to Khan (2013) given that on the one hand, all policies generate rents,[76] and that societies have different political settlement (i.e. the distribution of organisational power and technical capabilities) on the other, the success of industrial policy lies in finding the **right balance between incentives and compulsions to achieve more desirable social outcomes within the context of the political settlement**. Thus, industrial policies can be used to create incentives, which could be deemed as compensating rents, and at the same time ensuring compulsions for firms "to use the learning space to rapidly raise productivity and product quality". He further argues that "[t]he 'doing' is necessary for 'learning', but on its own the doing is not sufficient to ensure learning. This is unfortunately demonstrated by the many instances of 'infant industries' in developing countries that failed to become competitive after years of subsidies, financing, learning-by-doing" (Khan 2013). This is why it is important to consider the aspects of allocation as well as enforcement. But his analysis also shows that **industrial policies therefore need to be very context specific taking into account the capabilities of the different actors involved**.

Building on the above, Andreoni and Chang (2019) argue that apart from the infant industry framing which may be the primary motivation of many countries in introducing industrial policy, the latter can also be seen from a perspective of **strategic coordination** which can be organisational (between different actors), structural (between different sectors) and institutional (between different policies). This coordination is far from evident,[77] requiring a dynamic process that seeks complementarities "in time" as well as "over time" to resolve the challenges of institutional bottlenecks and policy misalignment, and conflicting interests, among other things. Historically, the authors argue, "free trade, export promotion (which is, of course, not free trade), and infant industry protection were organically integrated, both in cross-section terms (so there always will be some industries subject to each category of policy, sometimes more than one at the same time) and over time (so, the same industry may be subject to more than one of the three over time)."

[75] Scholars have analysed how political elites in Nigeria (ab)used the pretext of supporting domestic sectors to allocate huge amounts of funding to cronies in the forms of import bans, restrictive import licences, waivers, export taxes etc. (e.g. Modebe et al. 2014). Such policies are equivalent to the allocation of a large volume of state resources to selected individuals. For example, Nigeria's House of Representatives Committee on Customs and Excise reported that during the run-up to the country's 2007 elections, Nigeria lost more than N380 billion in import duties, which were waived by the federal government on behalf of its crony importers (Ibid.).

[76] Rents can be defined as higher incomes compared to a scenario where the policy was not in place.

[77] For instance, different organisational power of actors within the same sector may lead to the exclusion of some. Similarly, the influential position of a particular sector, over others, may result in certain policy outcomes (e.g. Nigeria's border closure). Moreover, the lack of functioning of institutions may be "not simply a technical-design problem [but] also [..] a political economy problem" (Andreoni and Chang 2019).

The governance of industrial policy is not always straightforward and includes actors beyond the firms and politicians. Increasingly, discussions are framed in terms of the **business-politician-bureaucrat** triangle where the technical and practical knowledge of the latter not only gives them the latitude to impose conditions on firms' access to some of the benefits under industrial policies, but also the ability to mediate different interests. Though these too are not easy to identify since they "cannot always be easily identified in one-dimensional terms as belonging to either the public or private sector, the state or the market" (Buur and Nystrand 2020).

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This publication was commissioned and funded by the Netherlands Government to support the Trade Facilitation West Africa programme with ECOWAS and UEMOA, as well as its wider partnerships in West Africa. It has also benefited from structural support by ECDPM's institutional partners: Austria, Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, the Netherlands and Sweden.

ISSN1571-7577

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