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Studying the developmental state: theory and method in research on industrial policy and state-led development in Africa

Jesse Salah Ovadia
University of Windsor

Christina Wolf
Kingston University

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Jesse Salah Ovadia
Corresponding author
Assistant Professor
Department of Political Science
University of Windsor
401 Sunset Avenue, Windsor, ON, N9B 3P4, CANADA
Tel: +1 519 253 3000 X 2353
Email: jesse.ovadia@uwindsor.ca

Christina Wolf
PhD Candidate
Department of Economics
School of Oriental and African Studies
Address : 93B Crayford Road, N7 0NE, London, UNITED KINGDOM
Email : c_wolf@soas.ac.uk

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Jesse Salah Ovadia is an Assistant Professor at the University of Windsor, Canada. His research combines international and comparative political economy, African politics and development theory. Focusing on the political economy of oil and development in Angola, Nigeria and the Gulf of Guinea of Africa, he writes about local content policies and their role in linking oil extraction to industrial development and economic growth in the non-oil economy. He is the author of *The Petro-Developmental State in Africa: Making Oil Work in Angola, Nigeria and the Gulf of Guinea* (Hurst 2016) and has co-edited *Energy, Capitalism and World Order: Toward a New Agenda in International Political Economy* (Palgrave Macmillan 2016).

Christina Wolf is a PhD Candidate at the School of Oriental and African Studies (SOAS), University of London. Her research interests include late-industrialisation in Africa with special focus on demand-side dynamics as well as China's emerging role in the African construction sector.

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ABSTRACT

This paper examines theoretical and methodological issues in the study of African developmental states, arguing for a broader approach in applying this concept beyond East Asia and gathering empirical evidence in support of structural transformation. We argue for a mixed methods case study approach that better accounts for deficient demand and understands state-business relations with greater flexibility. At the level of the national economy, strategic sectors, and clusters of firms, we take the examples of concrete manufacturing and oil and gas in Nigeria and Tanzania to illustrate our approach to research on state-led development in Africa.

INTRODUCTION

East Asia's developmental states structurally transformed their economies from largely agrarian subsistence activities to industrial development, high income status and technological market leadership. While there was no one strategy followed by Japan, South Korea, and other East Asian developmental states, many have argued the core tenets of their approach represent an 'East Asian model'.[1] More recently, several African states are attempting to emulate this approach to industrialization and structural transformation, albeit under very different political and economic circumstances.

Yet, the new era of 'Africa rising' has so far failed to deliver significant developmental benefit to the continent. Economic growth has not raised standards of living or reduced poverty.[2] Despite the new interest in African developmental states, no African state meets the criteria of the East Asian model, which is not surprising given ongoing debates about whether any East Asian states ever had the ideal type Weberian bureaucracies suggested in the literature on developmental states.[3] For Whitfield et al,[4] the insight that East Asian developmental states had varied experiences, made numerous improvised decisions and ad hoc policy changes, and never followed a grand strategy, suggests that the entire developmental state concept must be abandoned in the search for a general theory on what makes successful industrial policy. This debate involves two separate but interlinked issues: which economic policies ought to be implemented to achieve high rates of growth in the productive sectors of the economy, and under which political conditions they are adopted.

We continue to hold that the language of developmental states is useful in describing what is being attempted by and what are the developmental outcomes of state-intervention. Rather than seek general conditions/preconditions for structural transformation, we raise some important theoretical and methodological issues about how to advance the understanding of state-led structural transformation in Africa. At the theoretical level, we stress the necessity to broaden conceptually the dimensions of economic policy and agency relations that research on state-led development ought to dissect in order to understand patterns of success and failure. In particular, we argue that recent research on industrial development neglects demand for profitable production as one among other determinants of investment under the assumption of a potentially unlimited export-market. Rethinking economic policies in support of demand is all the more relevant for SSA economies today when considering the shrinking space for export-led industrialisation exposed by Asian drivers and systemic global demand deficiencies stemming from the financialisation of developed and developing economies. By extension, we argue that, when trying to understand the extent to which and the reasons why the growth of demand is supported or not by domestic policy, greater weight must be given to the study of agency relations beyond state-business relations. In terms of methodology, we show that descriptive quantitative analysis can help in the contextualisation and therefore generalisation of focused firm-level qualitative research, which in many cases is the only way to understand the dynamics of particular sectors and clusters of firms.

In Part 1, we discuss in greater depth the above-mentioned theoretical issues. In Part 2, we explore selective examples of Tanzania and Nigeria, looking at the national economy, chosen sectors and key firms to explore the scope for and limitations to domestic sources of demand and show how qualitative and descriptive quantitative analysis can be blended at the level of the macro-economy, specific sectors and (clusters of) firms to gain new insight into African developmental states. While neither Tanzania nor Nigeria would fit any definition of a classical developmental state, the theoretical extensions and empirical approach proposed can contribute to gain further insights into the reasons for (partial) success and failure of structural transformation.

THEORETICAL AND METHODOLOGICAL ISSUES

Case-study method and theoretical inference

For research on state-led development, the case study method[5] has the advantage of producing the context and time dependent knowledge needed to trace complex multi-dimensional, path-dependent and path-shaping processes such as structural change. Yet, case studies have been criticised for their inability to produce generalizable conclusions. Some case-study researchers maintain that this should not be our aim in the first place;[6] instead case studies are to build 'naturalistic generalisations' through a wealth of detail derived from a multitude of concrete cases that build a tacit understanding of causal processes which can be subjectively and intuitively applied.[7] Alternatively, case studies are said to help formulating transferable working hypotheses if there are sufficient similarities between source and target cases.[8]

Yet, even the concepts of 'transferability' and 'naturalistic generalisation' imply that the findings of one case can be extrapolated to a wider, however defined, set of cases. Gomm and Hammersley[9] point out that sound induction needs to be both theoretically informed and systematically tested across large numbers of cases. That is, theoretical induction *firstly* relies on a process of conceptual thinking in formulating what is to be explained and the factors explaining it. *Secondly*, researchers have to seek a large number of cases where the explanatory factor is present so as to check whether and under which conditions it has the effect predicted. [10] While this paper cannot offer systematic testing across a large number of cases, we seek to broaden conceptually the dimensions of economic policy and agency relations that research on state-led development ought to dissect to add to our understanding of patterns of success and failure arguing in particular that research on developmental states needs to uncover the reasons why demand for manufacturing output becomes expansionary or fails to do so.

The extent to which the specific case is symptomatic for a wider phenomenon needs to be established empirically. Gomm et al advocate collecting and presenting information about the case and the population by way of extensive analysis of secondary data.[11] For research on structural change, the characterisation of a case with respect to a broader population of cases can be done at the economy level, sector level or firm level depending on the focus and scope of the study but faces problems of availability and quality of data in the SSA context, where even basic indicators of economic activity like National Accounts data are subject to considerable margin of error and reliable sector or firm-level data are even more difficult to obtain.[12] Jerven argues, however, that even imperfect data can produce useful analysis to the extent that their limitations are clearly documented and descriptive quantitative analysis is complemented with qualitative analysis.

African Manufacturing Activities and Systematic Global Demand Deficiencies

Hirschman[13] starts from the observation of "*frustrated savings*", i.e. mobilisable savings not invested in productive activities but, instead, showing up in luxury consumption, capital flight etc. To find an answer to the question what constrains investment demand, Hirschman distinguishes between autonomous and induced demand. Correspondingly, we can distinguish between two types of demand constraints on industrial output growth: a *Keynesian-type* and *Kaldorian-type* demand constraint. The former concerns entrepreneurial expectations about the level of aggregate demand. Rosenstein-Rodan's[14] shoe factory argument, for instance, relies on the observation that mass-production requires mass-consumption. An important constraint thereto is income distribution: if income distribution is very narrow then manufactured goods can only be sold to the relatively few rich, who given their small numbers cannot sustain demand for mass-production.[15]

Regarding induced demand, mass-production of good A *induces* demand for inputs to the production of Good A (technical complementarity) or consumed with A (consumption complementarities).[16] These 'linkages' constitute an in built investment multiplier process that does not require an anticipation of demand in the Keynesian sense.[17] However, backwardly-linked industries can still face demand constraints to the extent that there are differences in the rates of growth of the value of output and therefore purchasing power along the demand chain. In the Kaldorian growth literature it is the growth of agricultural purchasing power which limits the growth of manufacturing output growth and later the growth of export demand.[18]

Studying the causes of the demise of African manufacturing industries starting in the mid-1970s, research produced by the Washington institutions at the height of the neoliberal policy reversal, surprisingly, points to stagnating domestic and global demand.[19] Yet these issues are interpreted as problems of overproduction caused by distorted market signals,[20] which are best corrected through free-market supply-side reforms and trade liberalisation.

To reassert the legitimacy of state-intervention against the free-market paradigm, the critical scholarship on the East Asian Developmental States (DS) emphasised market failures in technology acquisition.[21] To debunk the free-trade paradigm, critical scholarship on the East Asian DS stressed that export-led industrialisation does not result from "neutral trade regimes" as purported by the Washington Consensus.[22] Instead, ISI and EOI are dependent on each other and rely both on market distorting state-intervention,[23] though a key factor explaining successful industrial policy in East Asia was "how vigorously and rapidly exportables were extracted from a sequentially rising number of import substitution sectors".[24]

Taken together, the critical scholarship on the East Asian DS challenges the *type* of supply-side policies necessary to achieve (industrial) output growth but largely side-lines the demand-side conditions necessary to sustain manufacturing production under the assumption of a potentially unlimited export market.[25] Even in models of structural change incorporating demand,[26] the only (relevant?) component of aggregate demand is export demand. This conceptually circumscribes the scope and nature of macroeconomic policies in support of industrial development, by and large to incentivising exporters through a depreciated exchange rate.[27]

Export demand is specific in that it links the Keynesian and Kaldorian type of demand problems. Export demand is a component of aggregate demand and as such affects entrepreneurial expectations in the Keynesian sense. Beyond providing market outlets, export demand constrains imports necessary for (ongoing) production processes.[28] The expansion and gradual upgrading of manufacturing exports has therefore unsurprisingly and rightly been singled out as a key to successful industrialisation but the assumption of unlimited export markets is untenable. At least for certain manufacturing sectors there is excess capacity relative to world demand leading to intense price and wage competition between developing countries and ultimately to race to the bottom ('fallacy of composition').[29] The terms of trade for low value-added manufacturing products are declining and the concurrent attempt of each country to boost its competitiveness through wage depression further undercuts a vital source of domestic purchasing power and further contributes to the deflation in world demand.[30] In fact, sub-Saharan African economies today face a global economic context marked by systematic demand deficiency. While aggregate export earnings of many SSA economies increased since the turn of the century,[31] manufacturing exports face displacement by Chinese products.[32] In addition, the financialisation of developed and developing economies crowds out production in the real economy and tends to worsen income distribution thereby depressing consumer demand.[33]

Against this context, one key challenge of developmental policy will be to mobilise domestic consumer and inter-sectoral demand. This has a number of implications for policy making located at the macro- and inter-sectoral level. If demand growth is among other a function of income distribution, then supporting manufacturing sector development will involve policy choices on the distribution side, notably with respect to the regulation of labour compensation and wage-bargaining institutions, income redistribution through taxation or measures increasing the disposable income of households like the provision of affordable housing. Government expenditure being a component of aggregate demand also implies a central role for fiscal policy in sectors with a strong potential for linkages and government procurement of manufacturing output.

On the intersectoral level, agricultural productivity acts as a pace-setting factor for backwardly linked manufacturing industries like fertilisers and machinery, which finds ample empirical support in the development experiences of newly industrialised countries.[34] Yet, the intersectoral dimension of policy making in support of industrial development is not limited to agriculture. Construction activities are considered by Hirschman as an important source of linkages (induced investment demand):

> "An example (…) is cement and reinforcing steel rods in the construction, say, of downtown office buildings. (…) the existence of new office buildings strengthens demand for a great variety of goods and services: from modern office furniture and equipment (…), to parking and restaurant facilities, stylish secretaries and eventually perhaps to more office buildings (…)."[35]

The examples of the concurrent growth of the construction, mining and manufacturing sectors in Tanzania and Nigeria show that government fostered linkages between those sectors can spur inter-sectoral demand driven growth and even contribute to the formation of a final consumer demand base via employment generation.

State-business relations and beyond

Political science research on developmental states emphasises that the state has to stand apart from the market and vested interests found within it. Evans[36] coined the term 'embedded autonomy', or a state autonomous from yet constrained by the society it represents, to exclude self-serving bureaucratic elites that appropriate surplus from the ideal type developmental state. However, conceiving vested interests as a deviation from the ideal-type norm conceals how specific economic, political and ideological interests come about, what sustains them (materially and ideologically) and how they change over time.[37]

The embedded autonomy framework therefore remains too general. For subsidy schemes to work, the threat of removing the subsidy has to be credible as otherwise firms do not have the necessary incentives to achieve learning by doing.[38] The feasibility of eliminating losers depends on the *nature* of patron-client networks not their absence. Hence, industrial strategies have to be adapted to the organisational and structural distribution of economic and political power within specific countries.[39] Whitfield et al.[40] is helpful in showing that 'pockets of efficiency' in productive sectors can emerge in different 'political settlements' whether marked by vulnerable authoritarian, weak dominant party, strong dominant party or competitive clientelist coalitions. Yet, a key political challenge lies in the mediation of mutual interests in competition with one another, for instance along a supply/ demand chain where processors interest to pay the lowest price on inputs collides with producers' objective to obtain the highest price for their output.

The embedded autonomy framework remains too narrow in the sense that it assesses the DS through state-business relations alone. Amsden, maintains: "Labour repression is the basis of late industrialization everywhere (…). Developmental differences among late industrializers are best explained in terms of the discipline imposed on big business, not labour (…)."[41] However, structural transformation is also process of social transformation and invariably associated to distributional conflicts over a growing pie. Disentangling those is important not least because they shed light on the spending behaviour of different social strata and the state.

Taken together, understanding the nature of the accumulation process requires an understanding of what motivates investment (for domestic and export markets), what constrains the growth of demand and supply and to what extent savings are mediated into productive investment. The following agency relations therefore must be dissected by research on developmental states: Firstly, state-business relations to understand how a state can discipline businesses within a particular political settlement. Secondly, capital-labour relations to shed light on distributional conflicts occurring in the growth process and how these affect the spending behaviour of different social strata. Thirdly, industry-finance relations to understand under which conditions are savings channelled into productive sector investment.

Lessons from Tanzania and Nigeria

The previous section aimed at broadening conceptually the dimensions of economic policy and agency relations that research on state-led development ought to dissect, while arguing that, at the empirical level, case study research should rely on a mix of qualitative and extensive descriptive quantitative analysis. While the scope of this paper does not allow for all of these issues to be discussed at sufficient depth empirically we consider them important foundations on which future case study work can build. In what follows, we discuss selective examples from Tanzania and Nigeria to illustrate the possibilities for and limitations of demand-driven linkage formation across sectors, the formation of a consumer demand base and distributional conflict in the process of structural change.

The African construction boom and cement production in Tanzania and Nigeria

Average real annual GDP growth rates in SSA (excl. South Africa) had been picking up since the turn of the century, averaging 6.5% in the period 2001-2013 against 2.5% over the 1990s.

The agricultural and manufacturing sectors realised higher growth rates than over the 1990s but fell slightly short of overall GDP growth rates. The construction sector is the only sector of the real economy, which realized higher growth rates than total GDP in all developing regions. Yet, growth rates of the construction sector in SSA are highest across developing regions with 9.6% over the period 2000-13, even ahead of the BRICS (9%) (Table 1).

The slower than average increase in output of manufacturing goes together with slow increases or even decreases in indicators of structural change, real manufacturing value added (MVA) per capita increasing only from $68.4 in 1990 to $78.1 in 2013. By comparison, in 2013 MVA per capita in China amounts to $1,267 and as much as $8,013 in high income countries like Germany. Relative to GDP, manufacturing value added even decreased in SSA from 11.8% in 1990 to 8.7% in 2013 (Table 1).

Tanzania and Nigeria are two SSA economies that show more dynamic manufacturing sectors than the SSA average, with MVA per capita more or less doubling in both countries relative to 1990 and growth rates of manufacturing exceeding average aggregate output growth. The data on sectoral growth, analysed alongside state intervention in those sectors, can deepen our understanding of developmental activities of the state and their relative success. In Tanzania, sectors leading output growth are manufacturing, construction and mining. In Nigeria, these are agriculture, manufacturing and construction (Table 1), raising the question about the link and policy mediation between these sectors.

Table 1. Evolution of the Manufacturing Sector in the Developing World

		Manufacturing VA*		**Average real annual growth rates by sector**					
		per capita (2005 USD)	% of GDP	agri.	manuf.	constr.	mining	non-mining	GDP total
Dev. Asia (ex. China)	1990-2000	188.1	19.3%	1.9%	4.5%	1.9%	3.7%	3.7%	3.7%
	2001-2013	379.3	20.1%	3.4%	5.0%	6.2%	3.5%	5.4%	5.2%
BRICS	1990-2000	188.1	19.9%	2.6%	5.7%	1.8%	2.7%	4.2%	4.0%
	2001-2013	758.8	27.6%	3.7%	8.8%	9.0%	5.2%	7.5%	7.3%
Lat. America (ex. Brazil)	1990-2000	587.9	19.8%	2.0%	3.3%	2.4%	3.6%	3.2%	3.3%
	2001-2013	796.7	17.5%	2.5%	2.6%	5.0%	2.1%	3.7%	3.5%
SSA (ex. S. Africa)	1990-2000	68.4	11.8%	3.1%	0.2%	3.7%	2.0%	2.6%	2.5%
	2001-2013	78.1	8.7%	5.6%	5.9%	9.6%	3.9%	7.0%	6.5%
Tanzania	1990-2000	23.2	7.0%	4.3%	4.4%	7.8%	8.5%		4.1%
	2001-2013	48.3	8.2%	4.4%	7.7%	10.5%	8.5%		6.7%
Nigeria	1990-2000	80.3	9.0%	3.5%	-0.4%	4.0%	1.0%		2.5%
	2001-2013	158.1	8.6%	9.6%	10.8%	10.2%	-1.7%		8.7%

Calculations based on UN National Accounts
* shares calculated for 1990 and 2013 respectively
** note: shaded areas are the sectors whose growth rates exceed average GDP growth rates

One of the most noteworthy linkages forming between the construction and manufacturing sectors in Nigeria and Tanzania is cement production. Increased cement production is an Africa-wide trend, cement production per capita in SSA increasing by a factor of more than five since 1990. Tanzania's small but above SSA average production base in 1990, doubled by 2014 but increased slower than the SSA average. By contrast, Nigeria's production base emerged from zero in 1990 to becoming SSA's biggest cement producer (excluding South Africa) with a production base substantially above SSA average in 2014 (Table 2).

Table 2. Cement Production Tanzania, Nigeria, SSA (selected years)

		1990	2000	2014
Tanzania	per capita	26.6	26.9	53.5
	Total	0.7	0.9	2.9
Nigeria	per capita	0.0	20.3	115.2
	Total	0.0	2.5	20.0
SSA (excl. S. Africa)	per capita	15.6	27.9	79.2

Compiled based on Global Cement Report Database

Comparing cement production in both countries, we find in both countries efforts to support domestic cement production through industrial policy but it is government spending on infrastructure, which makes the production of building materials profitable in the first place. In Nigeria we observe a particular conjunction of forces, in which the anticipated growth of the final consumer demand base supports the reinvestment of cement profits domestically. The Tanzanian case illustrates how a comprehensive development strategy, aiming at building backwardly linked supply chains and supporting the growth of a domestic consumer demand base, can face obstacles at various levels. In the cement industry, competing interests of producers of energy inputs and the cement producers make the use of domestically produced energy inputs difficult, despite comprehensive government plans. The domestic consumer demand base, while growing, faces the dominance of low income generating activities and illustrates the need to study distributional conflict beyond state-business relations.

Cement manufacturing – the case of Nigeria

Still a major importer of cement in 2007, the build-up of the Nigerian production base started following successful lobbying of local cement importers (mainly the Dangote Group) and subsequent government protection in the form of licences, tax breaks and import duties imposed by the Obasanjo Government. Phasing out import licences since 2012, those with existing licences could only import under the condition of developing further domestic production. Over the course of just few years Nigeria has become the largest cement producer in SSA, second only to South Africa. What is more, Nigeria's Dangote becomes a major investor in other African countries – successfully competing with the South African Pretoria Cement Corporation (PCC) and the major European multinationals over the rapidly expanding African cement market.[42]

Two major producers control the huge Nigerian production base of 39Mta installed capacity in 2014 (Table 3). Starting out as a cement import business in 1981, Dangote Cement, as of 2014, has a market share of about 60% spread over five plants. Lafarge, controlling about 32% of the Nigerian market, has undertaken efforts to consolidate its position against Dangote by way of progressing its ownership in the Ashaka and Unicem cement plants to 100% and consolidating Lafarge Nigeria and Lafarge South Africa into a joint stock exchange listing.[43]

Table 3. **Nigerian Cement production base in 2015**		
Company	**Capacity (Mta)**	**No. of Plants**
Dangote Cement	29.00	3
Lafarge Africa	9.00	5
Cement Company of Northern Nigeria (BUA)	0.60	1
Purechem	0.1	1
Source: Global Cement Report 11th edition		

As of 2015, Dangote operates cement plants in eight SSA countries and has reported a 25.6% rise in revenues in 2015 ($2.47bn).[44] Apart from further planned expansions of its African cement operations, the company has reported plans to expand beyond Africa into Asia and Latin America.[45]

Pushed by the Obasanjo government to move from cement import into cement production, Dangote can be considered an important catalyst for manufacturing in Nigeria not only because the group has successfully accumulated capital in the lucrative cement business and even expanded abroad but more importantly, because this capital has been reinvested domestically in labour intensive agro-alimentary (including fruit juice, dairy, bottled water and pasta production) as well as petro-chemical activities (oil refinery and a fertiliser project). Quoted in the Financial Times, Dangote maintains that Nigeria's growing population and, by extension, "demand for basic supplies" was a driving force behind his decision to reinvest in Nigeria.[46] Other African owned companies and Western multinationals without links to cement production tap into this emerging market for fast-growing consumer goods as well. Beloxxi Biscuits and Leventi Foods are among the largest bakery and snack producers in Nigeria. The food processing company Zambeef is market leader in Zambia, now expanding into Nigeria. Expecting to triple sales to $2.2 billion by 2023, Nestlé Nigeria invested $446 million between 2003 and 2014 and plans another $635 million before 2023. Diageo and Heineken also increase their footprint, the former selling by now more Guinness in Nigeria than in Ireland.[47]

Construction and building materials manufacturing in Tanzania

There are two key aspects of recent industrial policy making in Tanzania. *Firstly*, there is a clear recognition of the importance of the domestic market in supporting manufacturing growth. Government strategy documents published following the Tanzanian Development Vision 2025 (TDV) emphasise that a viable export sector forms on the basis of growth in domestic demand in critical mass to allow for economies of scale:

> "(…) the best scenario would be that of having domestic demand in critical mass that will amortize and absorb all the investment costs with an acceptable rate of return on the capital employed, such that manufactured goods for export trade would be competitively priced on the basis of marginal cost of producing the surplus for export trade over and above the requirements to supply domestic demand." [48]

To build on existing demand in Tanzania's 'vibrant and captive consumer market' (pg. 22), government efforts focus on expanding capacity in food and beverage industries.[49]

Secondly, policy documents such as Tanzania's Five-Year Development Plans (FYDPs) for 2011-2016 and 2016-2021 clearly recognise the need to build manufacturing activities backwardly linked to other sectors of the economy, identifying fertilisers and building materials as key strategic sectors. Both aspects are in line with the key economic issues of building a consumer and intersectoral domestic demand base discussed at the theoretical level in section 1.

The government's sectoral priorities are well reflected in subsectoral output figures. Output data from the Tanzanian 2013 census of industrial production show that the biggest sectors are the food-processing and beverages sectors followed by non-metallic minerals (cement) production, producing 55% and 7% of total gross output respectively and employing 40% and 4% of the manufacturing workforce respectively (Annex 2). The strong growth of output in food and beverage production is primarily driven by soft drinks and bottled beer (increasing by 122% and 67% respectively since 2004), while many food processing industries such as polished rice or canned fruit actually saw their output reduced relative to 2004. Output of 'chemicals, petroleum and plastics' increased by only 29% relative to 1985, yet a number of fast-growing subsectors exist especially for building materials like paints and basic consumer goods like soap and detergents or plastics products. Similarly, while output growth in 'basic metals' remains somewhat below average, corrugated iron sheets and rolled steel are both among the five fastest growing industries in Tanzania (Annex 1).

Government spending on infrastructure has surely increased demand for a range of building materials in particular cement and steel.[50] Contrary to most other African countries, Tanzania provides active policy support for its construction industry.[51] However, the only building material specifically targeted in the most recent FYDPs is cement production. While the cement sector provides employment and offers high wages, the entire sector is foreign owned. Dangote has opened Tanzania's largest cement plant with an installed capacity of 3Mta in 2015. 62.5% of the shares of Tanzania's third largest producer Tanga Cement are owned by AfriSam a South Africa based company owned by the Black Economic Empowerment Consortium. 15% of AfriSam remains, however, under the ownership of Holcim. The remaining shares of Tanga are held by pension funds and local stock exchange listings. The Kenyan owned ARM plant which opened in 2012 is another, albeit much smaller African investor. The remainder of the Tanzanian cement production base are under majority ownership of the major European multinationals. 69% of Tanzania's second largest producer – the Tanzania Portland Cement Company – are owned by Scancem International, a Norwegian subsidiary of Heidelberg Cement. The smaller Mbeya plant is wholly owned by Lafarge. Some smaller Asian players control Lee Cement and Lake Cement (Table 4).

Table 4. **Tanzania Cement production base in 2015**

Company	Capacity (Mta)	No. of Plants
Dangote Industries (Tanzania) Ltd.	3.00	1
Tanzania Portland Cement Co. Ltd (Scancem)	1.40	1
Tanga Cement Co. Ltd (Afrisam)	1.20	1
ARM Cement	0.75	1
Lake Cement	0.50	1
Mbeya Cement Co. Ltd (Lafarge)	0.35	1
Lee Cement	0.30	1

Source: Global Cement Report 11th edition

The case of Tanzania's cement industry illustrates the predicaments that can arise from competing mutual interests. Both the establishment of domestic cement manufacturing and the promotion of backwardly linked inputs rests on mutual interest between capitalists and bureaucrats but their respective interests stand in conflict with one another. Tanzania's last government led by president Kikwete offered generous incentives for Dangote to invest in

Tanzania including tax exemptions on the import of diesel, tax waivers on machinery, government provision of land for Dangote's factory and the facilitation of permits and contracts for expatriate staff. At the same time, government regulations aimed at developing the supply chain incentivising procurement of Tanzanian energy inputs the Ministry of Energy and Minerals. The ban on coal imports in 2016, however, increased Dangote's production costs.[52] In addition, current regulations force Dangote to buy gas through middle companies at inflated prices instead of directly from the state-owned Tanzania Petroleum Development Company (TPDC). Dangote's recent shutdown is therefore an attempt to exert pressure on the new government led by president Magufuli to relax these measures with some noticeable success: Dangote has been awarded its own coal mining license after a government report confirmed that Tancoal, the only active coal producer in Tanzania, was unable to guarantee the quality and quantity demanded by the market.[53]

Existing research on Tanzanian manufacturing firms point to supply-side constraints like technological capabilities, infrastructure, access to finance[54] and to industrial land, as well as the high concentration of exporting firms[55] and contending factions of intermediate classes within the state.[56] As in Nigeria, Tanzania has experienced increased demand for industrial goods from a growing consumer class.[57] Domestic entrepreneurs tap into these gaps, as for instance, Azam Cola, produced by a family owned business that entered the market in 2011 and gained 30% market shares in just 18 months.[58] However, a closer look at output and employment figures by sectors and firm sizes suggests hindrances to growth in the final consumer demand base, namely the small scale of production of the majority of manufacturing establishments and correspondingly low levels of productivity, wages and purchasing power. The Tanzanian 2013 census of industrial production reveals that more than 53% of those employed in manufacturing work in firms with less than 10 employees. Yet, these firms produce merely 5% of total gross output. Output per worker in firms with less than 10 employees is on average merely 5.2% that of firms with more than 10 employees, ranging from 1.6% in the tobacco industry to 34.3% in machinery and equipment manufacturing. This productivity differential is also reflected in wages and by extension purchasing power of those employed in the manufacturing sector (wages per worker in firms with less than 10 employees are on average 14.2% of those in bigger firms). The problem of small-scale and comparatively unproductive manufacturing activities becomes particularly apparent in the production of wearing apparel, textiles and furniture employing together 31% of the total manufacturing workforce but contributing merely 9% of total gross output (Annex 2).

The problem of small-scale, low productivity production generating few consumption multipliers is more far-reaching and concerns large parts of the agricultural sector, which employs 75% of the Tanzanian workforce but only produces about 21% of total output in 2010.[59] To understand why these issues are not readily addressed by policy despite well-drafted policies on paper requires dissecting distributional conflicts. For instance, initiatives to support output growth in the production of food crops like rice through extensive irrigation systems were poorly implemented due to half-hearted political support. The political influence of the predominately black and small-scale rice producers was scattered and unorganised while capitalists in the rice import business dominated by Asian-Tanzanians were important financiers of the ruling party and able to resist the introduction import tariffs against their immediate interests.[60]

The Oil and Gas Industry in Tanzania and Nigeria

Petroleum resources are at the centre of a number of African states' strategies for industrialization. In Nigeria, oil and gas are fundamental to the economy, accounting for over 75% of exports and 60% of government revenue in 2014 prior to the oil price shock. By 2016, oil was closer to 30% of exports and revenues, with revenues also down 30% from 2014.[61] Tanzania is an emerging gas producer with minimal current production but large plans for gas-based development. The following sections argue, that contrary to resource curse arguments, the extractive sector does not have to remain an enclave in the economy but can directly and indirectly support manufacturing production by way of generating revenues for the government and by widening the consumer demand base through job generation in mining-related services.

The rebasing of Nigeria's GDP in 2014 not only made Nigeria SSA's largest economy but also indicated that petroleum resources were much less important for Nigeria's economy than previously thought. Adding industries not accounted for in the previous base year of 1990 made manufacturing grow from 1.9% of GDP under the old calculation to 9% and Services from about 25% to roughly 50% of GDP. However, as anyone even casually familiar with Nigeria's political economy would immediately note, the growth of these sectors does not necessarily have to do with state policy and is more likely to have occurred despite the Nigerian government. The country remains however one of the most developed in SSA in terms of its industrial base and workforce skills. This is important for understanding its future potential.

Combined with renewed militancy in the Niger Delta cutting into production, the fall in oil prices has left the country in a major economic crisis. Foreign direct investment has been falling and the economy has begun contracting while inflation has returned to double digits. Exports were down 40% in 2015, 'decimating government revenues'.[62] Despite facing a budget deficit of US$11billion, the 2016 budget represented a 20% increase over the previous year, reflecting the new president's desire to spark further industrial transformation through investment in national quality infrastructure. There are other indications that the Buhari administration is seeking to play a larger role in fostering structural transformation. A core of highly competent cabinet ministers have been led by Vice-President Osinbajo in their efforts to revive economic planning and direct state investments more effectively toward national development priorities. Osinbajo is Chairman of the National Economic Council, an advisory group of state governors, key ministers and others. The committee has taken on new importance and an implementation steering committee has been formed with high-profile governors and members of cabinet. A six-point implementation plan for the 2016 budget focuses on diversifying the economy by fast-tracking industrialization, agriculture and agro-processing. The plan aims to increase Nigeria's food output of basic commodities like rice, tomato paste, wheat, maize, soya, poultry and livestock.[63] There has also been a focus on solid minerals with an eye toward reviving Nigeria's long-dormant steel industry.

As Ovadia[64] argues, structural transformation of the economy can also be rooted in petroleum resources, despite Nigeria being seen as a prime example of the 'resource curse' or 'paradox of plenty'.[65] After decades of no discernible benefit to the majority of citizens, Nigeria began to embrace local content in the mid-2000s. The effort to promote the employment of Nigerians, use of Nigerian companies, and value addition in Nigeria was boosted by the 2010 Nigerian Oil and Gas Industry Content Development Act. The agency it created, the Nigerian Content Development and Monitoring Board (NCDMB), has been leading a set of initiatives that very much resemble the interventionist strategies of East Asian developmental states. It has promoted infant industries such as steel pipe and sub-sea equipment manufacturers, spurred the building of new fabrication yards, and led other initiatives that have created thousands of jobs. As of late 2015 prior to a change in executive leadership, it was spearheading three industrial parks in the Niger Delta states of Imo, Cross River and Bayelsa that will specialize in manufacturing of low-cost equipment, component parts, spare parts and chemicals.

The above sector-level analysis can be complemented with case studies of specific firms, as Ovadia demonstrates with profiles of ten indigenous oil and oil services firms in Nigeria. Quantitative and qualitative research at all three levels of analysis reveal a developmental project that has very real aspirations but many challenges ahead. While this paper cannot fully go into those, we maintain that the success or failure of Nigerian content and of the Buhari government's recent efforts toward economic diversification can best be researched through an extended developmental state framework and adaptation of theory and methodology to researching developmental states in the African context.

Tanzania discovered natural gas in 2012. Since then, a vigorous debate has begun over how best to take advantage of these resources to help the country achieve its development objectives. Several separate but interrelated support programs have launched since 2012 to link investment in the industry to a broader strategy of structural transformation. Working with the African Development Bank,[i] the EU, UNDP and other international organisations, the National Economic Empowerment Council (NEEC) has taken the lead on local content promotion—in extractives and throughout the economy. The updated Petroleum Act of 2015 and Draft Local Content Regulations of 2017 encourage local participation in the emerging gas industry with an aim to increasing in-country value addition and promoting local linkages.

The World Bank has funded a multi-year study on the potential opportunities for industrial development and linkages promotion through the planned Tanzania Liquid Natural Gas (TLNG) facility, which will (due to government intervention) process gas from both the Statoil and BG/Shell gas projects. The World Bank study[66] concludes that by providing goods and services to the TLNG project in three areas, Tanzania could capture as much as $2 billion of the total $15-$17 billion investment, creating as many as 80,000 direct and indirect jobs. The three categories alone account for $12 billion of the $17 billion of spend on the project. They are general construction, LNG project-specific industries, and key supporting services. The first category is important because building these industries, which operate both inside and out of oil and gas and are crucial to structural transformation, leaves a lasting benefit to the Tanzanian economy. The second category is important because this is where the majority of spend is located for their TLNG project. Capturing even a few percent of the spend would be significant for developing heavy industry. Finally, the third category represents 'low-hanging fruit', or services that Tanzanian companies should be able to provide (like catering, security, cleaning, and low-skilled labour) that may not capture significant value but will generate significant employment and purchasing power.

Crucially, the World Bank study demonstrates a significant difference between a 'base case' in which minimal intervention is carried out prior to the final decision to invest in the TLNG project (now not expected before 2020) and a 'success case' that assumes government and donor intervention to integrate supplier and workforce development interventions. Under the success case, local value capture increases from $1.4 billion to $2 billion, while employment generated increases from around 60,000 to 80,000. These figures bolster the argument of Ovadia and others[67] about the significance of local content in oil and gas.

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[i] Author A has worked as a consultant for the African Development Bank in their programme of support for NEEC on local content.

CONCLUSIONS

We have argued that one factor largely side-lined by research on development states concerns the conditions under which demand for commodity production remains or becomes expansionary. This is of particular relevance SSA economies today as they face a global economic context tending towards systemic deficient demand. Financialisation in developed economies crowds out long-term productive investment and tends to worsen the distribution of income and wealth thereby depressing consumer demand. What is more, intense competition from China has been shown to displace African manufacturing exports.

Against this context of shrinking space for export-led industrialisation, domestic developmental policy has to mobilise and support the growth of domestic consumer and intersectoral demand. Disentangling the conditions under which this occurs or the reasons why it does not can provide important additional insights into patterns of growth and stagnation of manufacturing activities in SSA. The article draws on selective examples from Tanzania and Nigeria to show how certain manufacturing activities in both countries emerged on the basis of domestic sources of demand and investigates limitations thereto.

Large-scale building materials manufacturing in both countries was assisted by the strong growth of construction activities, which created a profitable market for building materials. Of particular relevance here is not just the emergence of mutual interest between capitalists and bureaucrats but also the mediation of conflicting mutual interests. Data on ownership structures in the Tanzanian and Nigerian cement industries serve to take account of tendencies towards monopolisation and gauge bargaining positions in situations of competing mutual interest. For instance, Tanzania’s government actively pursued efforts to build cement and other manufacturing industries backwardly linked to the construction sector. Yet, these efforts, while in the mutual interest of suppliers and bureaucrats may clash, as they have in Tanzania with the interests of foreign investors—even African ones. What is noteworthy is that government support for building materials manufacturing in both countries primarily extends to the capital intensive cement sector. The developmental potential of linkages between the construction and building materials sector could be enhanced by targeting the production of less capital intensive building materials more systematically.

In Nigeria, the anticipated growth of the large domestic consumer market has favoured the re-investment of profits generated inside and outside of the cement sector. Qualitative evidence, for instance, suggests that Dangote’s expansion into other sectors is based on the anticipation of growing consumer demand base. In Tanzania, manufacturing output and ownership data revealed an enormous differential in wages and productivity between small-scale and medium- to large scale manufacturing enterprises with corresponding ramifications for the consumption multiplier processes. Future research will have to uncover the dynamics of redistributive and capital-labour relations in greater detail to understand the factors that further or constrain the broadening of the domestic consumer demand base.

The case of petroleum and natural gas production in Nigeria and Tanzania shows that these sectors do not have to remain enclaves if mutual interest forms to support linkage formation to forwardly and backwardly linked manufacturing activities and local content policies supports domestic employment generation.

Notes

[1] Chang, *The East Asian Development Experience: The Miracle, the Crisis and the Future*; Arrighi, *Adam Smith in Beijing: Lineages of the 21st Century*.
[2] Whitfield et al., *The Politics of African Industrial Policy: A Comparative Perspective*; Taylor, 'Dependency Redux'.
[3] Moon and Prasad, 'Beyond the Developmental State: Networks, Politics and Institutions'.
[4] Whitfield et al., *The Politics of African Industrial Policy: A Comparative Perspective*.
[5] Whitfield et al., *The Politics of African Industrial Policy: A Comparative Perspective*.; Williams, *The End of the Developmental State?*; Kanyenze et al., *Towards Democratic Developmental States in Southern Africa*.
[6] Lincoln and Guba, 'The Only Generaliztion Is: There Is No Generalization'.
[7] Stake, 'The Case Study Method in Social Inquiry'.
[8] Lincoln and Guba, 'The Only Generaliztion Is: There Is No Generalization'.
[9] Gomm, Hammersley, and Foster, 'Case Study and Theory'.
[10] Ibid.; p. 249
[11] Gomm, Hammersley, and Foster, 'Case Study and Generalization'.
[12] Jerven, *Poor Numbers: How We Are Misled by African Development Statistics and What to Do about It*.
[13] Hirschman, *The Strategy of Economic Development*.
[14] Rosenstein-Rodan, 'Problems of Industrialisation of Eastern and South-Eastern Europe'.
[15] Dutt, 'Stagnation, Income Distribution and Monopoly Power'.
[16] Hirschman, *The Strategy of Economic Development*.
[17] Ibid.
[18] Thirlwall, 'A General Model of Growth and Development on Kaldorian Lines'.
[19] William F. Steel and Jonathan W. Evans, 'Industrialization in Sub-Saharan Africa: Strategies and Performance', World Bank Technical Paper (Washington, D.C.: World Bank, 1984), p. 50; Gerald M. Meier and William F. Steel, *Industrial Adjustment in Sub-Saharan Africa* (Oxford: Oxford University Press, 1989), p. 87
[20] Ibid, p. 14
[21] Khan, 'Technology Policies and Learning with Imperfect Governance'.
[22] World Bank, 'Accelerated Development in Sub-Saharan Africa - An Agenda for Action'.
[23] Zhu, 'Rethinking Import-Substituting Industrialization: Development Strategies and Institutions in Taiwan and China'.
[24] Alice H. Amsden, *The Rise of the 'Rest' - Challenges to the West from Late-Industrializing Economies* (New York and Oxford: Oxford University Press, 2001), p. 161; Shafaeddin, 'Industrial Policy Relevant in the 21st Century?'; pg. 36
[25] Amsden, 'Third World Industrialization: "Global Fordism" or a New Model?'; pg. 11; Monga, 'Winning the Jackpot: Jobs Dividends in a Multipolar World'.; pg. 154
[26] Cimoli and Porcile, 'Accumulations of Capabilities, Structural Change, and Macro Prices: An Evolutionary and Structuralist Roadmap'.; Astorga, Cimoli, and Porcile, 'The Role of Industrial and Exchange Rate Policies in Promoting Structural Change, Productivity and Employment'.
[27] Cimoli and Porcile, 'Accumulations of Capabilities, Structural Change, and Macro Prices: An Evolutionary and Structuralist Roadmap'.
[28] Thirlwall, 'Reflections on the Concept of Balance-of-Payments-Constrained Growth.'
[29] Palley, 'The Economic Case for International Labour Standards'.
[30] Razmi and Blecker, 'Developing Country Exports of Manufactures: Moving Up the Ladder to Escape the Fallacy of Composition?'
[31] Bagnai, Rieber, and Tran, 'Sub-Saharan Africa's Growth, South–South Trade and the Generalised Balance-of-Payments Constraint'.
[32] Giovannetti and Sanfilippo, 'Do Chinese Exports Crowd-out African Goods?'
[33] Wade, 'Chocking the South'.
[34] Ikpe, 'Lessons for Nigeria from Developmental States: The Role of Agriculture in Structural Transformation'.
[35] Hirschman, *The Strategy of Economic Development*.; pg 68
[36] Evans, *Embedded Autonomy*.
[37] Fine, 'Beyond the Developmental State: An Introduction'.
[38] Khan, 'Technology Policies and Learning with Imperfect Governance'.
[39] Ibid.
[40] Whitfield et al., *The Politics of African Industrial Policy: A Comparative Perspective*.
[41] Amsden, 'Third World Industrialization: "Global Fordism" or a New Model?'; pg. 18
[42] White, 'The Case of Cement'.

[43] Armstrong et al., *The Global Cement Report*.
[44] ICR Newsroom, 'Dangote Cement Full-Year Boosted by New African Plants'.
[45] ICR Newsroom, 'Dangote Asian Expansion?'
[46] Wallis, 'Aliko Dangote – Africa's Richest Man'.
[47] Games, 'The Fast-Moving Consumer Goods and Retail Sectors'.
[48] URT-ERB, '15 Years of Implementation of Tanzania Development Vision 2025'.; pg. 10
[49] URT, 'The Tanzania Five Year Development Plan 2011/2012-2015/16'.
[50] The Business Year, 'Construction - Hammer Time'.
[51] URT-MOW, 'Construction Industry Policy'.
[52] IPP News Media, 'Dangote Saga Continues'.
[53] Mtulya, 'Report Backs Cement Firms' Outcry on Coal'.
[54] Wangwe et al., 'The Performance of the Manufacturing Sector in Tanzania: Challenges and the Way Forward'.
[55] Sutton and Olomi, 'An Enterprise Map of Tanzania'.
[56] Gray, 'Industrial Policy and the Political Settlement in Tanzania: Aspects of Continuity and Change since Independence'.
[57] URT-ERB, '15 Years of Implementation of Tanzania Development Vision 2025'.; pg 22
[58] Games, 'The Fast-Moving Consumer Goods and Retail Sectors'.
[59] Whitfield et al., *The Politics of African Industrial Policy: A Comparative Perspective*.
[60] Ibid.
[61] IMF, 'Nigeria: 2016 Article IV Consultation'.; 34
[62]*Ibid*; pg 1
[63] For example, an import ban on rice has increased prices by 60%, fuelling local demand and drawing new investment into the sector. Fick, 'Nigeria's Rice Farmers Enjoy Growth amid Economic Crisis'.
[64] Ovadia, *The Petro-Developmental State: Making Oil Work in Angola, Nigeria and the Gulf of Guinea*.
[65] Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis*.; Karl, *The Paradox of Plenty*.; Ovadia, 'The Nigerian "One Percent" and the Management of National Oil Wealth Through Nigerian Content'.
[66] World Bank, 'Leveraging a Large Capital Investment to Develop Local Value Chains: "Local Content" in the Construction of Tanzania LNG Facility'.; pg. 9
[67] Ovadia, 'Local Content and Natural Resource Governance: The Cases of Angola and Nigeria'.; Ovadia, *The Petro-Developmental State: Making Oil Work in Angola, Nigeria and the Gulf of Guinea*.; White, 'Regulating for Local Content: Limitations of Legal and Regulatory Instruments in Promoting Small Scale Suppliers in Extractive Industries in Developing Economies'.

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