COUNCIL ON AFRICAN SECURITY AND DEVELOPMENT

CASADE JOURNAL OF POLICY ANALYSIS AND DEVELOPMENT

Monday 3rd August, 2026 Vol 1. Issue 1

Oil Rents, Regime Type, and the Path to Development in Nigeria: A Reassessment

Revised edition, incorporating data through mid-2026

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Abstract

If country-level data and the statistical analysis built upon them are tolerable surrogates for what they purport to represent, then figures from the World Bank indicate that Nigeria's economic performance since independence in 1960 has, by any reasonable standard, been disappointing — and that the intervening two decades have deepened rather than reversed the pattern. Real GDP per capita stood at roughly US$2,450 in 2024, below the peak of about US$2,590 reached in 2015; a decade of population growth outrunning output growth has left the average Nigerian materially no better off than in the middle of the last decade. Measured against the national poverty line, the share of Nigerians living in poverty rose from 56 percent in 2023 to 61 percent in 2024 and 63 percent in 2025 — approximately 140 million people. Against the international extreme-poverty line of US$3.00 per day (2021 PPP), the share climbed from 47.7 percent in 2024 to 50.9 percent in 2025. These outcomes obtain despite oil and gas exports of US$45.5 billion in 2024 and US$48.2 billion in 2025, and despite a decade of oil earnings that, cumulated, dwarf the sums available to the Asian economies that industrialized from far poorer starting points.

The Dutch disease syndrome, or natural resource curse, continues to offer a plausible account of this record, but the account is useful only when situated within the political realities that inform Nigeria's governance structure. Since state action and policy initiative carry both social and economic consequences, underdevelopment cannot be entertained as a strictly economic phenomenon: the controlling regime type matters. Two developments since 2023 make the

argument more, not less, urgent. First, Nigeria has dismantled the central macroeconomic mechanism through which the classic Dutch disease operated; it removed the petrol subsidy in May 2023 and floated the naira in June 2023, and yet manufacturing's share of real GDP has continued to fall to 7.4 percent in the fourth quarter of 2025 from more than 20 percent in the early 1990s. Relative price correction, by itself, has not produced structural transformation. Second, and in the opposite direction, the fiscal foundation of the rentier bargain is being rebuilt: four Tax Reform Acts took effect on 1 January 2026, non-oil sources now supply roughly three-quarters of federal collections, and the tax-to-GDP ratio has risen from about 10.3 to 13 percent. Taxation is the mechanism by which a state acquires an interest in the prosperity of its citizens; its return is the single most consequential political fact in Nigeria since the 1999 transition.

I take the position, as in the earlier version of this paper, that industrialization, managed rather than indiscriminate international trade, and targeted foreign direct investment are the appropriate path to economic growth and to durable democracy. The evidence of the last two decades has, if anything, strengthened that position. What has changed is that the argument can now be made against a live domestic example, the Lekki refinery complex, rather than against foreign counterfactuals alone.

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1. Introduction

The level of economic development, and the path taken to sustain it, are largely deterministic of chosen forms of governance and of the political realities that inform them. The literature on political economy is close to unanimous on this claim, particularly as it concerns the developing world. The relationship between development and governance is intricate, for it touches every mechanism by which a society deploys resources toward defined goals and by which it distinguishes itself from others. It is to this relationship that one must appeal in order to understand not only why much of sub-Saharan Africa remains economically underdeveloped, but also the forms of government that persist across the subcontinent.

Sub-Saharan Africa produced about US$2.2 trillion of output in 2025, under 2 percent of world output while accommodating roughly 15 percent of the world's population. Regional growth of about 3.5 percent in 2025, against population growth near 2.4 percent, yields per capita gains too thin to move poverty appreciably; the share of the region's people living on less than US$2.15 a day (2017 PPP) peaked at 43.9 percent in 2025 and is projected to fall only to 43.2 percent by 2027. Over the next three decades the region will add roughly 740 million people of working age, with as many as 12 million young people entering the labor market each year against approximately 3 million new formal wage jobs. Whatever else may be said about the development problem in Africa, it is now first and foremost an employment problem, and employment at that scale has never been generated anywhere by extraction.

With the partial exception of South Africa, sub-Saharan African economies remain dependent on extractive activity and, to varying degrees, on external finance. Nigeria, Equatorial Guinea, Gabon, and Angola depend on hydrocarbons; others on solid minerals. These sources of sustenance are powerful determinants of the development path taken and of the political arrangements that accompany it. In states endowed with abundant natural resources, there is strong evidence that rents have shaped the allocation of political power, as elites deploy derived economic benefits to sustain their privileged positions. That single-party dominance and outright authoritarianism were once the fashion across these states is traceable in significant part to resource rents; that nominally multiparty African states today are so often dominated by one party is explicable, with relative facility, by the same phenomenon. Nigeria in 2026 is an unusually clean illustration: the ruling All Progressives Congress controls 31 of 36 governorships and, after a sustained wave of defections between 2023 and 2026, has expanded its House of Representatives caucus from 179 seats at the inauguration of the Tenth National Assembly to 207, while the principal opposition party has fallen from 117 to 92.

This paper explores the link between the path taken to economic development and the choice of government in sub-Saharan Africa generally, with specific emphasis on Nigeria. It uses the explanatory properties of the Dutch disease syndrome to trace that link, and then recommends remedies. The ensuing analysis rests on the understanding, common to the economics and political science literatures, that economic growth and rising personal incomes are generally conducive to democracy, while slow growth and low incomes tend to encourage authoritarianism — an understanding that, as I note below, has itself been contested and refined since this paper was first written.

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2. The Dutch Disease and the Natural Resource Curse: A Revised Paradigm

In its popular apprehension, the Dutch disease is the observed correlation between the discovery of a marketable natural resource within the territorial competence of a state and a subsequent decline in that state's rate of economic growth. While the correlation was once the preserve of development economics, political scientists have used it profitably to explain how the economic phenomenon shapes political arrangements and the relationship between state and governed.

Typically the syndrome manifests in one of two variants. Under a fixed or managed nominal exchange rate, an influx of foreign exchange from any source — resource exports, aid, remittances — tends to bid up the prices of non-traded goods, since the prices of internationally traded goods are set in world markets. Resources reallocate toward non-tradables; investment in export sectors falls; production of tradables declines. Domestic production may fall across the board if the inflow makes imports cheaper and more attractive. Under a floating rate, the influx induces a nominal and real appreciation, making exports dearer and imports cheaper, with the same unwanted consequence: domestic production is displaced by imports. At the extreme, industrialization is discouraged or reversed as the country relies ever more heavily on imported goods, forgoing the experience and technological accumulation that come with learning by doing.

Two amendments to this account are now required.

The first is empirical and concerns Nigeria directly. Since June 2023 the exchange rate mechanism that transmitted the classic effect has been dismantled. The naira, which traded near ₦460 to the dollar in May 2023, depreciated past ₦1,600 in early 2025 and stood near ₦1,370 in mid-2026. Petrol, sold at ₦185–238 per litre in May 2023, now sells between ₦1,300 and ₦1,335. Multiple official windows have been collapsed into a market-determined rate. In the textbook, this is precisely the correction that should restore the profitability of tradables and set structural transformation in motion. It has not done so. Manufacturing grew 1.41 percent in real terms in 2025 — marginally above the 1.20 percent of 2024 — and its share of real GDP fell to 7.40 percent in the fourth quarter of 2025 from 7.62 percent a year earlier. Manufacturing's share of total capital importation collapsed from 11.6 percent in 2024 to 3.3 percent in 2025, even as aggregate foreign direct investment surged. A real depreciation of that magnitude that fails to reallocate resources toward tradables is telling us something: the binding constraints on Nigerian manufacturing are not principally relative prices. They are electricity, logistics, working capital, contract enforcement, and skills. Manufacturers report spending some 40 percent of total production costs on self-generated energy. No exchange rate can compensate for that.

The second amendment is theoretical. The political version of the resource curse — that oil impedes democratization — has been vigorously contested since this paper was first drafted. Haber and Menaldo (2011), using long-run time-series methods, found little evidence that oil wealth harms democratic development and argued that earlier cross-country findings were corrupted by omitted variable bias. Andersen and Ross (2014) replied that the most credible version of the hypothesis had not been tested, that oil became inimical to democratization only after the nationalizations of the 1970s placed rents directly in the hands of developing-country governments, and that the negative relationship reappears once this structural break is modeled. Ross (2015) surveys the field; Prichard, Salardi, and Segal (2018), working with improved revenue data and extensive robustness checks, conclude that a political resource curse does exist and is driven principally by oil, precisely because oil is unusually easy to convert into government revenue. Smith and Waldner (2021) remain skeptical of any universal effect and argue that outcomes vary with pre-discovery institutions and state capacity.

I do not think this debate undermines the argument advanced here; it disciplines it. The lesson of Mehlum, Moene, and Torvik (2006) — that resource abundance is growth-retarding where institutions are grabber-friendly and growth-enhancing where they are producer-friendly — and of van der Ploeg (2011) and Venables (2016), is that the curse is conditional rather than mechanical. Norway, Botswana, and, on the evidence to date, Timor-Leste are not cursed. What matters is the fiscal and institutional architecture that stands between the rent and the ruling coalition. This is a considerably more hopeful proposition than the deterministic version, because architecture is a policy variable.

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3. The State of Economic Development in Nigeria

Nigeria rebased its national accounts in July 2025, shifting the base year from 2010 to 2019 and deployed a supply-and-use framework covering 46 industries and 217 product groups. The exercise raised nominal 2024 GDP to ₦372.8 trillion (roughly US$243 billion), approximately 34 percent above the prior estimate, and captured for the first time the digital economy, modular refineries, and a range of informal activities. The consumer price index was rebased in parallel, from 2009 to 2024, expanding the basket from 740 to 960 items. Neither exercise restored Nigeria to the position of Africa's largest economy; the country ranks fourth, behind South Africa, Egypt, and Algeria. As the Manufacturers Association of Nigeria observed at the time, the rebasing established that the economy is statistically larger without being more productive or more industrialized. It is a caution worth carrying into any reading of Nigerian data: measurement improvements are not development.

Against the improved measurement, the welfare picture is severe. The World Bank's April 2026 Nigeria Development Update reports poverty against the national line rising from 56 percent in 2023 to 61 percent in 2024 and 63 percent in 2025, about 140 million people,

with a slow decline to roughly 59 percent projected by 2028. Extreme poverty at the US$3.00 line (2021 PPP) rose to 50.9 percent in 2025 from 47.7 percent in 2024, an additional 10 million people. This deterioration occurred while inflation was falling sharply: headline inflation dropped from 34.80 percent in December 2024 to 15.15 percent in December 2025, and food inflation from 39.84 to 10.84 percent. The disconnect is instructive. Disinflation lowers the rate at which real incomes erode; it does not restore the level already lost. Nor has social protection cushioned the transition: coverage fell from about 20 percent of the population in 2019 to roughly 6 percent in 2025, with safety-net spending near 0.14 percent of GDP against a global average of about 1.5 percent.

The macroeconomic aggregates, by contrast, have improved markedly. The fiscal deficit narrowed from 5.4 percent of GDP in 2023 to approximately 3 percent in 2024. Gross external reserves reached US$46.7 billion by November 2025 (some 10.3 months of import cover), the highest in nearly seven years, and net reserves rose to US$34.8 billion at the end of 2025. Federation Account allocations rose from ₦629 billion in March 2023 to ₦2.036 trillion in March 2026. Analysts estimate subsidy removal is saving between ₦4 trillion and ₦6 trillion annually.

The coexistence of macroeconomic repair with welfare deterioration is the central analytical fact about Nigeria today, and it is the fact the rentier-state framework is best equipped to explain. Stabilization has restored the state's capacity to collect and distribute; it has not altered the uses to which collection and distribution are put. A report by the Socio-Economic Rights and Accountability Project in October 2025 found that some ₦14 trillion in subsidy savings had been shared among the 36 states and the Federal Capital Territory with little discernible improvement in infrastructure or public services. At the federal level, debt service in the 2026 budget is projected at ₦15.52 trillion, exceeding the ₦14.97 trillion allocated jointly to health and education, with a debt-service-to-revenue ratio near 45 percent. More money is passing through the state. Very little of it is passing through to citizens.

Meanwhile the physical foundations of production remain absent. On-grid generation in 2025 averaged roughly 4,500 to 5,400 megawatts for a population exceeding 230 million; more than 85 million Nigerians lack grid access, the largest absolute access deficit in the world, with the deficit having widened over the past decade as population growth outpaced electrification. The national grid collapsed repeatedly during 2025. The World Bank estimates grid failure costs Nigeria about 2 percent of GDP annually. A country cannot industrialize in the dark, and no amount of exchange rate realism will alter that arithmetic.

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4. Development Thinking and Its Revisions

Beginning in the early 1970s, African leaders and international agencies grappled with the forces that had subdued socio-economic development across the continent despite generous external assistance, moves toward Western-style electoral politics, and formal independence in resource management. Development experts from the Fund and the Bank advised that development was synonymous with productivity and growth. African leaders concurred, in part because they required financial assistance to sustain economies that successive administrations had exhausted, and in part because they possessed no pragmatic alternative account of what development in Africa entailed.

This interpretation was not merely advisory. It formed the basis of aid and loan programs and became part of the conditionality attached to them. Since the assumed goal was economic development, domestic production had to shift toward exportables; for those exports to compete, currencies had to be devalued; devaluation additionally served to suppress import appetite. Currency devaluation and structural adjustment thus became prerequisites for lending. The combined effects on African economies were, on the accumulated evidence, damaging: devaluation raised the cost of importing advanced technologies these countries needed, and adjustment programs discouraged investment in health and education. The precipitous decline of both sectors across the subcontinent is in significant part a consequence of these policies, which permitted venal leaderships to redirect what resources remained toward projects more conducive to misappropriation than to production.

Growth-regression work of the period regressed measures of output on standard vectors, physical capital, human capital, openness, political competition, inflation, government expenditure, and found the expected signs. But in most such studies the dummy variable capturing everything outside the standard vectors was persistently significant, giving empirical sustenance to the suspicion that something about African conditions resisted the Western template. That residual has been given many interpretations: geography and landlockedness; political and social instability; cultural norms. The flaw in these suppositions is that they are presented as reasons why sustained development failed to take hold, but a cursory reading of the histories of Western Europe, North America, and industrializing Asia reveals the same conditions, instability, adverse geography, unhelpful norms, are present in those places too. Those societies developed in spite of them, with time and the judicious use of their resources.

The literature has since converged on institutions, and on the political economy of institutional change. North's insistence that the inability to develop low-cost enforcement of contracts is the most important source of historical and contemporary underdevelopment retains its force. Acemoglu and Robinson (2012) generalized the claim: extractive political institutions generate extractive economic institutions, which reproduce the political arrangements that sustain them. Applied to Nigeria, the framework identifies with some precision what has to change and why change is resisted by exactly those who would have to enact it.

Two further strands deserve emphasis because they bear directly on the recommendations below. The first is Rodrik's (2016) documentation of premature deindustrialization: developing countries today are reaching peak manufacturing employment at lower income levels and lower shares than their predecessors did, which means the historical escalator is narrower than it was, though not absent. The second is the revival of serious empirical work on industrial policy. Juhász, Lane, and Rodrik (2024) survey a body of credibly identified evidence and conclude that the question is no longer whether governments should conduct industrial policy but how, that properly identified studies find more favorable effects than the older correlational literature suggested, and that success depends on iterative public-private collaboration, monitorable objectives, and, critically, a demonstrated willingness to terminate failing programs. Lane's (2022) work on South Korea's heavy and chemical industry drive supplies the canonical positive case. Juhász and Steinwender (2024) place the whole discussion in the longer history of divergence.

The literature identifies the failure mode Nigeria must avoid with uncomfortable accuracy: capture, in which support devolves into rent distribution without discipline, credible monitoring, or the political ability to cut off recipients. Industrial policy in a rentier state is not a different activity from rent allocation unless it is deliberately made so.

5. Applying the Model: Rentierism, Repression, and Rent-Seeking

Dependence on natural resources is by itself neither harmful nor a curse. Resources are endowments that, properly used, generate domestic benefits and useful externalities. The harm stems from how states and their agents manage the rents. In economic parlance, rents are returns in excess of cost and normal returns to investment. This surplus is more pronounced in oil than in most minerals because extraction costs are comparatively low. The abundance of such rents makes the extraction of tax revenue unnecessary, and with it the accountability and transparency that taxation compels.

It is the manner of spending that produces the damage. Rents do not expend themselves; the choices made about their allocation are defined by the governance system in which the allocators operate. Hence the analytical centrality of the rentier state. The three mechanisms by which resource wealth shapes regime type, the rentier bargain, repression, and rent-seeking, remain the right decomposition. Each requires updating.

5.1 The rentier state thesis, and its partial reversal

The thesis holds that as resource revenue comes to dominate the state's revenue function, the state migrates from an extractive to a distributive posture. It abandons taxation, and with it the crucial bond between state and governed: where citizens are not taxed, no accounting is owed them. The loss is not one-sided. A state without a robust taxing apparatus forfeits a vital governing capacity — the ability to collect and document the information a modern state requires to govern at all. The transformation into a distributive state then permits governing elites to use rent to appease selected constituencies and purchase political influence.

Nigeria has conformed to this model since the oil boom of the 1970s. Military elites bought off opposition with oil rent, and the civilian administrations that succeeded them refined the practice while maintaining democratic forms. The structural facts remain: oil contributed only 2.87 percent of real GDP in the fourth quarter of 2025, yet supplies roughly 50 to 55 percent of government revenue and 70 to 80 percent of foreign exchange earnings. Crude alone accounted for 56.14 percent of merchandise exports in the third quarter of 2025, and mineral products for 87.71 percent. An economy in which oil is 3 percent of output and 80 percent of foreign exchange is, for governance purposes, an oil economy regardless of what the sectoral tables report.

What is new — and what I regard as the most important development in Nigerian political economy since the return to civilian rule — is that the fiscal side of the bargain has begun to reverse. Four statutes signed on 26 June 2025 (the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service Act, and the Joint Revenue Board Act) took effect on 1 January 2026, consolidating a fragmented statutory landscape and converting the Federal Inland Revenue Service into an autonomous Nigeria Revenue Service. Collections rose from ₦12.3 trillion in 2023 to ₦21 trillion in 2024 and ₦28.3 trillion in 2025, with ₦21.6 trillion collected in the first half of 2026 alone — a 49 percent year-on-year increase. Non-oil sources supplied 76 percent of collections. The tax-to-GDP ratio improved from about 10.3 to 13 percent, against a stated target of 18 percent.

The theoretical significance of this exceeds its fiscal significance. If the rentier thesis is correct that the absence of taxation severs accountability, then the reconstruction of a broad-based tax system is the mechanism by which accountability is rebuilt. A state that must persuade shopkeepers, salaried employees, and mid-sized firms to remit has acquired an interest in their prosperity and an exposure to their complaints that no distribution of oil rent ever generates. This is the single most promising development in Nigeria's political economy, and it deserves to be defended on those grounds rather than on revenue grounds alone.

Two cautions follow. First, the reversal is incomplete and reversible: an Executive Order of February 2026 requiring upstream operators to remit royalties, taxes, and profit oil directly to the Federation Account improved receipts, but executive orders lapse, and the gain should be entrenched in statute. Second, accountability does not follow automatically from taxation; it follows from taxation plus institutions through which taxpayers can hold the taxing authority to account. The defection wave described below is precisely the erosion of those institutions. Nigeria is, at present, building the fiscal foundation of accountable government while dismantling its political counterpart.

5.2 The repression thesis

The repression thesis formalizes what is commonly observed across resource-dependent states: resource revenue finances the instruments by which governments suppress opposition. In the absence of effective institutions, oil wealth enables authoritarianism through investment in repressive capacity and the preservation of the existing distribution of political and economic power. This was the case in Nigeria under the military regimes from 1983 to 1998, when a disproportionate share of national output equipped and sustained military personnel while schools, roads, and civil administration decayed. Those ravages still resonate.

The mechanism has not disappeared so much as changed register. Contemporary Nigerian security spending responds to genuine and severe threats — insurgency in the northeast, banditry and mass abduction in the northwest, farmer-herder conflict in the middle belt, separatist violence in the southeast. But security budgets in a rentier state are simultaneously a response to insecurity and a channel of rent allocation, and the two functions are difficult to separate in the absence of procurement transparency. That an estimated 120 million Africans face acute food insecurity, roughly 80 percent of them in conflict-affected countries, is a reminder that insecurity is itself a development outcome and not merely an exogenous shock.

The international dimension of the thesis also persists. The strategic value of hydrocarbons renders oil-rich states relatively immune to external pressure, and Western governments, in deciding how to deal with resource-rich authoritarian or semi-authoritarian regimes, have historically deferred to market considerations over human rights and governance. That dynamic has been reinforced, not weakened, by the fragmentation of the international order since 2022, which has multiplied the number of external partners available to any government wishing to escape conditionality.

5.3 The rent-seeking model, and one-party drift

The rent-seeking model is tied to the patron-client paradigm and focuses on how resource abundance generates rents accruing to ruling elites, who deploy them to generate political support among those seeking access. In oil-rich countries the risk of distortionary activity is heightened because oil offers a higher return-to-cost ratio than other primary commodities, providing added incentive for elites to capture the treasury. Nor is the behavior confined to elites: the non-privileged learn in time that rent-seeking rewards talent better than entrepreneurship does, with the predictable consequence of under-investment in formal education and the misdirection of ability toward positions offering proximity to public contracts. The outcome is a debased market economy served by an under-skilled labor force.

The Nigerian federal structure institutionalizes the process. Oil revenue accrues to the Federation Account and is distributed among federal, state, and local governments, each tier confronting ethnic and regional competition over its share. Governing elites at each level benefit clients through contracts and direct disbursement to political operatives. The almost certain outcome is the marginalization of the electoral system, as fair political competition becomes impossible against an incumbent with privileged access to the common purse.

The evidence from Nigeria between 2023 and 2026 is about as direct a confirmation as comparative politics ordinarily offers. Following the 2023 general elections — whose administration was criticized by domestic observers, civil society, and European Union observers, who reported widespread disorganization and failures of procedural adherence during collation — a sustained wave of defections moved elected officials at every level into the ruling party. The APC's House caucus grew from 179 to 207 seats while the PDP's fell from 117 to 92. In 2023 the PDP held 11 governorships; by early 2026 more than half of those executives had crossed over, leaving the PDP with two states, the Labour Party with one, and APGA with one, against 31 for the APC. Constitutional provision barring legislators from switching parties without vacating their seats has been applied with such flexibility by the courts as to be inoperative.

Supporters characterize this as freedom of association and evidence of a dynamic democracy. The rent-seeking model supplies a less flattering and more parsimonious account: in a winner-takes-all system where the commonwealth is concentrated around the ruling party, defection is the rational response of any politician seeking political survival, access to patronage, or proximity to federal power. The mechanism is not coercion. It is the structure of incentives that oil rent creates. Nigeria is drifting toward de facto single-party predominance without any of the formal apparatus of authoritarianism — which is exactly what the model predicts for a rentier state operating under democratic forms. The 2027 general elections will test whether the drift is reversible.

All three mechanisms stem from the same source and collectively explain why Nigeria remains economically underdeveloped and has been governed, since 1960, by a succession of regimes few of which may reasonably be described by the tenets of democracy. These realities would change, I propose, if the ruling elites put in place sound industrial and trade policies. To those issues I now turn.

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6. The Case for Industrialization

Since the late 1970s Nigeria's industrial policy has been guided principally by external prescription, in the main because the country's indebtedness obliged it to implement programs designed to restore capacity to service debt. Such programs may serve short-run debt objectives; they are at odds with the long-run objective of sustained growth.

The policy that resulted placed no emphasis on developing a domestic industrial base: why expend scarce resources reinventing the wheel when manufactures can be imported from countries that make them well? Nigeria accordingly moved from an agrarian economy to a trade-and-services economy, bypassing the industrial stage that no now-industrialized country has failed to undertake. The result is visible in the sectoral data. Manufacturing contributed 20.3 percent of GDP in 1992; it contributed 7.40 percent in the fourth quarter of 2025, and averaged 8.35 percent over the first nine months of that year. Services now account for roughly 56 percent of real output. This is not the services transition of a mature economy; it is the substitution of trade and informal services for production that was never built.

I contend, as before, that the absence of industrialization is a major cause of Nigerian underdevelopment, for the simple reason that its absence denies the country the ability to mechanize the rest of its economy. The capacity to manufacture domestically is essential to growth through learning by doing, which in turn generates the technological competence on which sustained development rests. Economic development, in its popular apprehension, entails a continuous process by which a society is structurally transformed from a predominantly agrarian condition to a predominantly industrial and urban one, with attendant rising collective wealth, meaningful diversity of choice, and stability of institutions. The transformation has historically proceeded in stages: an institutional shift toward investment in modern technology, new industries, new markets, and strengthened infrastructure; the transmission of derived technology to agriculture, mechanizing it and generating economies of scale; the full incorporation of a mechanized agriculture into the industrial economy, accompanied by urbanization and a falling food share of household budgets; and finally the relative decline of agriculture as industry and tertiary services rise.

Countries that have benefited from industrialization invariably had certain minimal prerequisites in place: reliable electricity, an educational system capable of training a workforce, dependable communications and transport, and institutions that enforce rules and private contracts. Nigeria is severely deficient in each. The generation figures cited above are not a detail of implementation; they are a statement that the first prerequisite does not exist. The federal government's Nigerian Industrial Policy targets a manufacturing share of 20 to 25 percent of GDP by 2030, and the Manufacturers Association projects 10.2 percent for 2026. Neither target is achievable on 5,000 megawatts. Power, transmission, and logistics are the industrial policy; everything else is downstream of them.

Once the prerequisites are in place, the country should target sectors that, given its productive and technological stage, would benefit soonest from technologies acquired abroad. Firms in these sectors should be densely concentrated geographically in order to capture both direct benefits and the spillovers — human capital, applied knowledge, institutional development — through which the broader economy gains. Hume's observation, that the best way to improve agriculture is by the roundabout route of first improving manufacturing, has a millennium of evidence behind it. Unlike agriculture, where production units are dispersed and small, industrial production requires firms large and stable enough to absorb novel ideas and thus to serve as reliable sources of innovation. Greenwald and Stiglitz put the developmental case succinctly: for a developing country, the industrial sector is the window through which more advanced knowledge is transmitted to the rest of the economy, agriculture included. It is also, in time, a window through which the world may acquire knowledge from the developing country.

6.1 The Lekki case

The argument no longer rests on foreign counterfactuals. The refinery and petrochemical complex at the Lekki Free Trade Zone, commissioned in May 2023 and in operation from January 2024, reached its full nameplate capacity of 650,000 barrels per day in early 2026, operating at roughly 99 percent utilization. Nigeria's domestic refining capacity has gone from approximately 30,000 barrels per day to some 700,000. In March 2026 the country became a net exporter of petrol for the first time, exporting 44,000 barrels per day of gasoline against a surplus of about 3,000. Refined products now reach Ghana, Cameroon, Togo, Tanzania, Angola, and South Africa, with jet fuel reaching further afield; the associated fertilizer plant, producing three million tonnes of urea, has made Nigeria a net exporter of agricultural inputs. An expansion to 1.4 million barrels per day has been announced. Total oil and gas exports rose to US$48.17 billion in 2025 from US$45.51 billion in 2024 even as crude export earnings fell 14 percent, the difference made up by gas and refined products.

This is the thesis of Section 6 demonstrated at national scale. A country that exported crude and imported refined products was, by construction, exporting the value added and importing it back at a premium — the precise pattern by which, as Reinert argues, the fruits of learning in poor countries are passed to consumers in rich ones as lower prices. Retaining the refining stage retains the value, the foreign exchange, the engineering employment, and the technological competence. Three state-owned refineries absorbed some US$18 billion in maintenance expenditure over two decades without operating; a private complex built to commercial discipline reached full capacity within thirty months of commissioning. The contrast between the two is the difference between rent allocation dressed as industrial policy and industrial policy proper.

Three cautions are nevertheless in order, and they follow directly from the industrial-policy literature. First, a single vertically integrated complex owned by one group is a concentration of market power as well as of capacity, and the regulatory framework must anticipate the conduct questions that follow. Second, refining is a capital-intensive enclave: it retains value and earns foreign exchange, but it employs few people directly, and Nigeria's problem is 12 million labor-market entrants a year. The developmental payoff depends on backward and forward linkages — petrochemicals, plastics, fertilizer-using agriculture, engineering services, maintenance contracting — not on the refinery itself. Third, the complex is exposed to the long-run trajectory of hydrocarbon demand, and its social and environmental effects on surrounding communities are already contested. None of these qualifications undermines the case. They specify the conditions under which the case holds.

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7. The Harmful Effects of "Free" International Trade

A major contributing factor to Nigerian underdevelopment is the belief that free international trade grounded in comparative advantage will produce growth. Nigeria was encouraged to devote resources to export-based production of agricultural and extractive primary goods with a view to attracting hard currency. The effect was to encourage specialization in activities subject to diminishing returns and to something approaching perfect competition. The economic history of the industrialized world makes it plain that countries remaining at the extractive and agricultural stage remain poor for two reasons: those activities depend on a fixed input, land, and are therefore subject to diminishing returns; and their products are undifferentiated, sold in world markets where producers exercise no control over price and face intense competition from more efficient producers elsewhere. The combined effect restrains producer incomes and, by extension, national income.

Experience has long shown that free trade among countries far apart in industrial development harms the least developed. It follows that trade on the basis of comparative advantage is most advantageous among countries near parity in industrial strength, and that a country without an established industrial base is better off protecting selected sectors until it acquires one. The question is how Nigeria should engage the world in trade, finance, and technology acquisition. The concept of managed trade will suffice: purposeful engagement targeting specific domestic sectors for development through judicious use of indigenous resources and imported technology, and restricting foreign direct investment to selected industries.

Recent developments cut in both directions, and the contrast between them is instructive.

On the constructive side, the African Continental Free Trade Area offers precisely the intermediate arrangement the argument recommends: liberalization among economies at broadly comparable levels of industrial development, where intra-regional trade is more likely to be in manufactures than in primary commodities and where learning effects can accumulate before exposure to advanced-country competition. Regional integration is the form of openness a country at Nigeria's stage should pursue most aggressively. The Lekki complex's West African product exports are an early demonstration of what a continental market makes possible.

On the destructive side, the Fiscal Policy Measures and Tariff Amendments announced on 1 April 2026 eliminate or phase out import adjustment taxes on nearly all United States agricultural imports, including a reduction of the wheat tariff from 15 percent to zero, alongside cuts on live animals, animal feed, ethanol, and rice. Whatever the diplomatic logic — and the pressure under which the concession was made is not obscure — the economic logic runs directly against everything the historical record teaches. Zero-rating imports of a staple grain from the world's most heavily capitalized and most heavily subsidized agricultural sector, into a country whose own producers are unmechanized and unfinanced, is the mechanism by which agricultural modernization is foreclosed rather than achieved. Cheap imported wheat lowers the urban food bill in the short run. It also removes the price signal on which any domestic capacity to produce, mill, and process grain would have to be built, and it deepens the foreign exchange dependence that the entire reform program has been designed to reduce. China protected its industrial base behind tariffs on the order of 30 percent; India used tariffs above that level while restricting inbound investment. Neither did so out of theoretical conviction. They did so because that is what building productive capacity requires.

I therefore urge a managed trade regime incorporating a deliberately limited import-substitution strategy: identify a small number of industries essential to the establishment of a domestic industrial base, protect them for a fixed and publicly announced period, and lift protection on schedule so that firms are compelled by competitive pressure to learn, innovate, and adopt efficient practice. The sunset provision is not a concession to critics of protection; it is the operative element. The lesson of the industrial-policy literature is that programs which cannot be terminated become rent-distribution schemes, and that in a rentier state this is not a hypothetical failure mode but the default one.

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8. Should Foreign Direct Investment Be Part of the Strategy?

Capital, like every productive input, flows to where returns are highest. Countries offering adequate infrastructure, a relevant workforce, a safe environment, and a plausible market attract foreign investment; which is to say that a country must either possess the potential for growth or have demonstrated it before investors take an interest. Policymakers should therefore not regard foreign direct investment as a cause of growth, but as something with the potential to contribute to expansion once expansion has begun. It is for this reason that FDI remains heavily concentrated in developed and larger middle-income economies.

The aggregate picture confirms the point. Global FDI reached US$1.5 trillion in 2024 — a headline increase of 4 percent that concealed an 11 percent underlying decline once volatile conduit flows through several European economies are excluded — and rose about 6 percent to US$1.6 trillion in 2025. Africa recorded a 75 percent rise to US$97 billion in 2024, but the increase was driven overwhelmingly by a single large project in Egypt; excluding it, the increase was 12 percent. UNCTAD emphasizes the continued sectoral and geographical fragmentation of flows to developing countries, which remain concentrated in a few large middle-income economies. FDI nonetheless supplies roughly half of total external financing for developing economies, ahead of remittances, official development assistance, and portfolio flows.

Nigeria's own experience illustrates both the promise and the limits. Inflows rose 148.4 percent in 2025 to about US$4 billion, from US$1.61 billion in 2024 — the highest since 2014 and sufficient to return Nigeria to Africa's top five destinations, behind Egypt, Guinea, and Mozambique. The recovery reflects renewed appetite for the energy sector. It remains far below what infrastructure, industrialization, and job creation require at the scale the country needs, and its composition is the more troubling fact: manufacturing's share of total capital importation fell from 11.6 percent in 2024 to 3.3 percent in 2025. Nigeria is attracting more foreign capital into the sector it already has too much of, and less into the sector it must build.

Foreign direct investment is an important component of the capital account and a comparatively stable source of external finance; it can enhance domestic productivity through technology transfer and managerial expertise, since foreign investors generally seek direct influence over the enterprises they fund. But there is a catch. Where the capital account is open and unregulated, foreign firms can pledge local assets against external borrowing and move funds out at short notice, with adverse consequences for the external position. And investment that suppresses current or potential domestic competitors can retard long-run growth: superior products at competitive prices are a benefit to consumers today and a reduction in national productive capacity tomorrow if indigenous firms are eliminated.

To obtain the maximum benefit, a country in Nigeria's position must regulate entry and direct investment toward targeted industries. China restricted inbound investment severely while attracting a large share of the global total, because it offered growth prospects and infrastructure that investors valued. South Korea and India followed comparable strategies, admitting investment where it was needed and excluding it where domestic capacity was being built. The strategic approach served all three. The current evidence on industrial policy supports the general logic while adding an essential qualification: what distinguishes the successful cases is not the restriction itself but the governance around it, iterative consultation with firms, monitorable performance conditions, and the demonstrated capacity to withdraw support. Restriction without those elements produces protected incumbents rather than competitive ones.

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9. Concluding Remarks: Contextual Development Revisited

Any serious effort to engage the development problem in Nigeria must begin from the recognition that socio-economic development can be attained and sustained only if the processes directed toward those ends are mindful of the cultural and social experience of Nigerians. This means viewing matters from the standpoint of those whose welfare one seeks to improve; only when the lived experience of a people is understood is it possible to work within their traditions to establish social, political, and economic institutions that sustained development requires. This approach I have termed contextual development: a balanced integration of indigenous culture, religious belief, prevailing social arrangement, and imported ideas into a strategy suited to a particular state. It requires an understanding of what the people need, how to design programs that exploit the peculiarities of the society, what the collective expectations are, and what form of governance the governed would freely choose. It requires, as an imperative, that whoever undertakes development work in Nigeria be acquainted with the belief systems of the country, the role of religion, the level of literacy, the availability of skill, the traditional roles of the sexes, and, most importantly, what development means to the people themselves.

The novelty of this approach lies less in the idea than in its implementation, for it is now widely accepted among practitioners that imposing change from outside has not produced the desired results and has in places made matters worse. This strategy rejects the one-size-fits-all model that takes institutions as given and applies pre-packaged solutions lacking relevance to local realities. There is more than one path to development: the path taken by Western countries accommodated Western circumstances; an African path must accommodate the continent's unique characteristics.

Two decades on, I would add three observations to that conclusion.

The first is that Nigeria has now demonstrated, at considerable cost to its citizens, what macroeconomic reform can and cannot do. Removing the fuel subsidy and floating the currency eliminated distortions that had persisted for forty years, restored fiscal space, rebuilt reserves, and closed the arbitrage channels through which enormous rents were captured. These were necessary corrections and they were, on the evidence, real ones. But they were corrections to prices, and prices were never the whole of the problem. Real output per head has not recovered its 2015 level, manufacturing has continued to contract as a share of the economy, and 140 million people are poor. Getting prices right is a precondition for development.

The second is that Nigeria is currently moving in opposite directions on the two variables this paper has argued are jointly determinative. The fiscal foundation of accountable government is being rebuilt through a genuine and substantial tax reform, while the political institutions through which accountability would be exercised are being hollowed out by defection and the drift toward single-party predominance. Taxation without competitive politics does not produce responsive government; it produces a better-funded unresponsive one. Whether the 2027 elections restore competition is therefore not a question separable from the economic argument. It is the same question.tt

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Note on sources: figures for Nigerian output, prices, trade, and fiscal aggregates are drawn from the National Bureau of Statistics, the Central Bank of Nigeria, and World Bank country reporting current to mid-2026. Bibliographic details for the scholarly literature should be verified against the published versions before submission.