

Of people, politics and profit:

The political economy of Chinese industrial zone development in Nigeria

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I hereby certify that this thesis is the result of my own work except where otherwise
indicated and due acknowledgement is given

ABSTRACT

This project approaches ongoing debates over the impact of increased Chinese engagement in African countries through the lens of production and industrialisation. Emerging market FDI into Africa is growing rapidly, and an increasing proportion of this investment is into manufacturing and productive sectors. This trend is led by the commercial expansion of private Chinese manufacturing firms across the continent. The goal of this project is to examine the differentiated impacts on African industrialisation attempts of this phenomenon. It takes as its case study industrial zone development projects in Nigeria, namely, the two official economic and trade cooperation zones being developed as large-scale FDI projects by Chinese firms, with Chinese and Nigerian government support, in Lagos and Ogun states. Analytically, four dimensions of this process are identified for study: the home country context, the host country context, the zone structures and institutions, and the firms themselves. Special attention is paid to the interface between foreign actors and the particular political economy of Nigerian manufacturing, as well as the at times substantial gaps between policy and practice in terms of industrial planning, investment and production.

The thesis argues that SEZ projects in general, including the Chinese ETCZs, are industrial policy tools that operate on particular assumptions regarding the organisation of global production. As such, they incentivise the insertion of export-oriented firms into established global networks supplying international markets. However, a closer examination of industrial policy in China, the production environment in Nigeria and the behaviour of internationalising firms reveals that these assumptions are not always accurate. Thus, the SEZ institution as it is currently conceived in Nigeria is ill-suited to lend support to the trend towards Chinese relocation of producer firms, as well as to the reality of Nigerian production—both of which are predicated on domestic and regional markets as the primary driver of African industrialisation and productive sector growth.

(300 words)

For Doug

Thank you for holding everything together while I chased this dream

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ACRONYMS AND ABBREVIATIONS

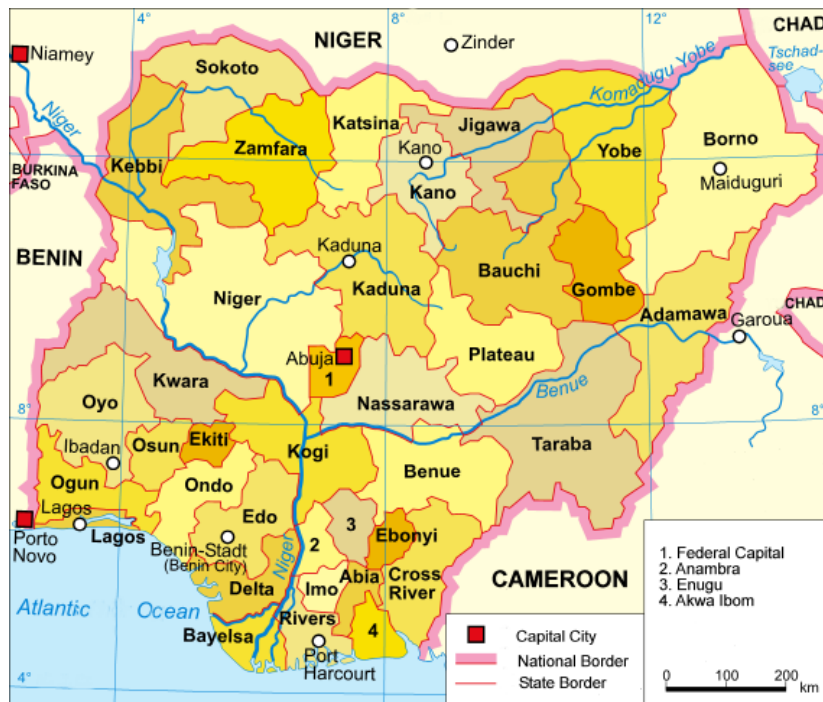
\$	United States dollar
CAC	Corporate Affairs Commission (Nigeria)
CAD	comparative-advantage-defying
CAD Fund	China-Africa Development Fund
CAF	comparative-advantage-following
CBN	Central Bank of Nigeria
CCECC	China Civil Engineering and Construction Corporation
CDB	China Development Bank
CIC	China Investment Corporation
CRCC	China Railway Construction Corporation
Ecowas	Economic Community of West African States
EPZ	export processing zone
ETCZ	economic and trade cooperation zone
Exim	China Export-Import Bank
FDI	foreign direct investment
FIAS	(World Bank) Foreign Investment Advisory Service
FOCAC	Forum for China-Africa Cooperation
FTZ	free trade zone
GCC	global commodity chain
GDP	gross domestic product
GE	General Electric
GPN	global production network
GVC	global value chain
ILO	International Labour Organization

IMF	International Monetary Fund
LFZDC	Lekki Free Zone Development Company
MAN	Manufacturers Association of Nigeria
NACCIMA	Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture
Nepad	New Partnership for Africa's Development
NEPD	Nigerian Enterprises Promotion Decree
Nepza	Nigerian Export Processing Zones Authority
NIPC	Nigerian Investment Promotion Commission
NJEDZ	Nanjing Jiangning Economic Development Zone
OFDI	outward foreign direct investment
OSIC	one-stop investment centre (Nigeria)
PPP	public-private partnership
SAFE	State Administration of Foreign Exchange (China)
SAP	structural adjustment programme
SEZ	special economic zone
SME	small- and medium-sized enterprise
Smedan	Small and Medium Enterprises Development Agency of Nigeria
SOE	state-owned enterprise
UN	United Nations
US	United States
WTO	World Trade Organisation

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Figure 1: Map of Nigeria



Source: http://en.wikipedia.org/wiki/Template:Nigeria_states_map

Figure 2: Map of China



Source: http://en.wikipedia.org/wiki/File:China_administrative_claimed_included.svg

Chapter One
**INTRODUCTION — CHINA IN AFRICA: A CRITICAL OVERVIEW OF
CURRENT DEBATES**

Ever since observers have been on hand to report the arrival of a Chinese presence in Africa has been greeted with extremes of approval and dismay.¹

Over the last decade, the scope of China's quest for resources, markets and alliances in Africa, and the developing world more widely, has become increasingly apparent. Scholars, officials, policymakers and news media on all sides opine vociferously about what this new era might mean for China, for Africa and for the world at large, provoking a 'fuzzy cacophony of indignation, proselytism and policy recommendations'.² This thesis approaches ongoing debates over the impact of increased Chinese engagement in African countries through the lens of production and industrialisation.

¹ Phillip Snow, 'Foreword', *China returns to Africa: A rising power and a continent embrace*, ed. Chris Alden, Daniel Large, and Ricardo S. d. Oliveira (London: Hurst and Co, 2008).

² Jonathan Holslag, *Friendly giant? China's evolving Africa policy* (BICCS, 2007). p. 9.

Emerging market foreign direct investment (FDI) in Africa is growing rapidly, and an increasing proportion of this investment is in manufacturing and productive sectors. This trend is led by the commercial expansion of private Chinese manufacturing firms across the continent. The goal of this project is to examine the differentiated impacts on African industrialisation attempts of this phenomenon. It takes as its case study industrial zone development projects in Nigeria—namely, the two official economic and trade cooperation zones (ETCZs) being developed as large-scale FDI projects by Chinese firms with Chinese and Nigerian government support in Lagos and Ogun States.

It seeks to contextualise this new kind of south-south cooperation between the Chinese government, Chinese developers and African governments within a broader narrative that takes into account the domestic motivations of China's commercial expansion as well as Africa's shifting role in the global economy. Inquiry is driven by three broadly defined questions, dealing with Chinese actors, the political economy of the countries in which they operate, and the process of zone development and operation:

- How does China's domestic economic experience influence the evolution of its outward foreign direct investment (OFDI) policy framework, the internationalisation strategies of firms, and the establishment of its zone initiatives abroad?
- Given the widespread failure of Nigerian zone initiatives in the past—and the poor performance of manufacturing over the past two decades—can Chinese economic and trade cooperation zones (ETCZs) contribute to a credible industrial development strategy for the country?

- What are the processes and mechanisms through which Chinese ETCZs are organised, constructed and populated, and what opportunities and challenges does this model of south-south partnership present to African economic development?

These questions are examined with an eye to the interface between the Chinese government, Chinese companies and the political economy of the host country in order to construct production narratives that focus on actor agency at the local level as well as linking those experiences to a wider assessment of Chinese economic expansion and Nigerian industrial development.

Analytically, four dimensions of this process are identified for study: the home country context, the host country context, zone structures and institutions, and the firms themselves. Special attention is paid to the interface between foreign actors and the particular political economy of Nigerian manufacturing, as well as the at times substantial gaps between policy and practice in terms of industrial planning, investment and production. Data is drawn from over 70 interviews with government officials, policymakers, and firm owners and managers as well as primary source material collected during fieldwork undertaken in Nigeria and China in 2011 and 2012.

The thesis argues that SEZ projects in general—including the Chinese ETCZs—are industrial policy tools that operate on particular assumptions regarding the organisation of global production. As such, they incentivise the insertion of export-oriented firms into established global networks supplying international markets. However, a closer examination of industrial policy in China, the production environment in Nigeria and the behaviour of internationalising firms reveals that these assumptions are not always accurate. Thus, the SEZ institution as it is currently conceived in Nigeria is ill-fitted to

lend support to the trend towards Chinese relocation of producer firms, as well as to the reality of Nigerian production, both of which are predicated on domestic and regional markets as the primary driver of African industrialisation and productive sector growth.

This introduction locates this research in a growing academic debate over China's expanding presence on the African continent. Part one surveys the historical literature on China-Africa relations from the post-colonial period through the late 1990s, and discusses the role this historical narrative plays in shaping current Sino-African interaction. Part two details the central debates surrounding China in Africa at the moment in three conceptual spheres: international relations, development and trade, and discusses some of the shortcomings of these quite internationalised perspectives. The final section gives an overview of this project's contribution to these debates and details the structure and arguments to follow.

CHINA-AFRICA SCHOLARSHIP, 1949-2000

It is often remarked that China's engagement with Africa is not new but the continuation of a long and rich relationship. Just how far that relationship stretches back into the mists of history depends on whom one listens to. Reference is often made to the construction of the TanZam railway in the 1970s, to the legions of doctors and aid workers sent by China to newly independent African states, to China's support of African liberation struggles during the colonial period, and in many cases even all the way back to the arrival on the east coast of Africa of Chinese ocean explorer Admiral Zheng He in the early part of the 15th century. The study of Chinese-African relations, however—prior to the profusion of literature that has appeared in the last decade—has been fairly limited, and has tended to

surge and wane together with the geopolitical importance of China within the global system.

As a result, much of the early literature on China-Africa is highly politicised, emerging as it did from the volatile cold war period. Then, in the 1980s, China under Deng Xiaoping largely withdrew from international affairs in order to pursue a policy of internal development, and interest in its relationship with the developing world likewise receded. Additionally, there has until recently been very little dialogue between China-Africa research within China and that taking place in the West and, to a very limited degree, in Africa. This section first surveys a chronological sample of the available literature on China-Africa from the 1960s through the early 1990s. It then assesses how the construction of this historical narrative, by Chinese, Western, and African academics and officials, continues to inform the evolution of Chinese policy in Africa, and local and international responses to it.

Since the Communist Party's rise to power in 1949, Chinese policy in Africa has conformed to a pattern of alternating engagement and withdrawal similar to that which characterised its relationship with the world at large. Phillip Snow's seminal *Star Raft* is a historical overview of China-Africa relations, which pays special attention to Chinese concern with national pride and international status within a richly contextualised Africa. Snow chronicles the 1963 tour by Premier Zhou Enlai that marked the start of a period of deeper interest in a continent rapidly breaking bonds with its colonial masters. Zhou repeatedly invoked the images of Zheng He as an early symbol of Chinese peaceful exploration, and that of Major-General Charles George Gordon, a British officer who oversaw imperial campaigns in both China and Sudan, as a symbol of shared experiences

of Western oppression. He famously quipped that Africa was ‘ripe for revolution’ and offered Chinese support for fledgling revolutionary movements.³

Against the backdrop of the global ideological struggle between communism and the West, and later between China and the Soviet Union, newly independent African states assumed a geostrategic importance. As the great powers vied for influence, African liberation movements were showered with aid, arms and assistance. The ideological fervour of the period is reflected in texts like *East Wind Over Africa: Red China’s African Offensive*, which opens with the line, ‘Red China has moved into Africa, and it intends to stay there.’⁴ Not surprisingly, within Western academic and political circles, much of what was written during the 1960s and early 1970s is primarily concerned with the effects of Chinese and Russian strategic movements in Africa on the balance of the international system,⁵ and conceptualises China’s foreign policy as rooted in and reactive to the experience of American hegemony.⁶ Some of this China threat rhetoric has resurfaced in the discussion of China’s rise in international relations circles today. In fact, John Cooley’s contention that China was on a quest to capture African influence and resources for itself at the expense of the West by offering untied aid and trade in a ‘single, businesslike package, wrapped in the friendly tissue paper of “peaceful coexistence” and “non-interference in internal affairs”’⁷ could just as easily have been written in 2005 as 1965.

³ Philip Snow, *The star raft: China’s encounter with Africa* (London: Weidenfeld and Nicolson, 1988).

⁴ John K. Cooley, *East wind over Africa: Red China’s African offensive* (New York: Walker, 1965).

⁵ See the edited volume by Sven Hamrell and Carl Gosta Widstrand, eds. *The Soviet Bloc, China and Africa* (Uppsala: The Scandinavian Institute of African Studies, 1964). Ian Greig, *The Communist challenge to Africa: An analysis of contemporary Soviet, Chinese, and Cuban policies* (London: Foreign Affairs Publishing Co. 1977).

⁶ Richard Lowenthal, ‘China’, *Africa and the Communist World*, ed. Zbigniew Brzezinski (Stanford: Stanford University Press, 1963).

⁷ John K. Cooley, *East wind over Africa: Red China’s African offensive* (New York: Walker, 1965), p. 187.

Thus, China in Africa has never been solely about China and Africa. A rare African voice in the postcolonial period acknowledges the challenges for Africa in negotiating this global power dynamic. Emmanuel John Hevi spent 18 months studying in China, and later passionately argued that Africa was swimming in cold war currents: ‘[T]he best thing we can do is to try to learn how these currents flow. That will be an important step towards reaching the shores of economic self-sufficiency and political stability.’⁸ This location of China-Africa relations within a larger global paradigm of power politics, and the challenges of creating space for African priorities, is a perspective that continues to drive much China-Africa inquiry today.

Other contributions during the post-colonial period include Alaba Ogunsanwo’s *China’s Policy in Africa, 1958-71* and Bruce Larkin’s *China and Africa, 1949-1970*.⁹ Ogunsanwo’s is one of the few texts that acknowledge the aspirations and agency of African states, and their varied responses to Chinese initiative. He also discusses the dynamic and responsive nature of Chinese policy in Africa over the period considered, pointing to a fundamental pragmatism underpinning China’s staunchly ideological motivations.¹⁰ Larkin takes a more theoretical stance, analysing China’s Africa policy utilising a rubric of long-term and short-term strategies in order to reconcile seemingly contradictory approaches.¹¹ Both texts, however, focus on the complexities of Chinese interests in Africa, and the varied strategies adopted in order to address them. George Yu’s study of Chinese policy evolution in Tanzania is an in-depth look at patterns of cooperation and alliance building between a major power and a small state within a unique

⁸ Emmanuel John Hevi, *The dragon’s embrace: The Chinese communists and Africa* (London: Pall Mall P, 1967), p. 2.

⁹ Alaba Ogunsanwo, *China’s policy in Africa, 1958-71* (London: Cambridge University Press, 1974).

¹⁰ This observation is echoed by Alan Hutchison, *China’s African revolution* (London: Hutchinson and Co., 1975).

¹¹ Bruce D. Larkin, *China and Africa, 1949-1970: The foreign policy of the People’s Republic of China* (Berkeley: University of California Press, 1971).

political context.¹² This conceptualisation of China in a cooperative international role, rather than one of conflict, represented a significant departure for academics during this period, and continues to be relevant today in interpreting China's rise within the global power dynamic.

For linguistic, logistical and political reasons, the field of China-Africa relations (and that of politics more generally) has long suffered from a veritable chasm between research undertaken in the West, and that undertaken in China. In this regard, a 2005 survey by Li Anshan of Chinese language texts on Africa over the past 50 years is a welcome contribution.¹³ He chronicles the development of African studies in China as one mediated by government support for a number of African studies institutes as well as large translation projects of academic texts by African, Western and Soviet authors. From 1967-1978, a period which spans the chaos of the Cultural Revolution, 117 books on Africa were published, almost all of which were translations of foreign texts.

Like many Western academy publications of the time, 'Chinese African studies of this period were largely pragmatic and politically motivated rather than purely academic',¹⁴ and focused on the anti-colonial struggle and African liberation. Interestingly, the study of Sino-African relations was often pursued by history departments, and a sizeable proportion of China-Africa texts focus on establishing a rich history of interaction between the two regions. By the 1980s and 1990s, Chinese scholars had widened their scope to include subjects like African socialism, ethnicity and international relations, among others. However, Li notes that there is still a significant divide between Western and Chinese

¹² George Yu, *China's African policy: A study of Tanzania* (New York: Praeger, 1975).

¹³ Li Anshan, 'African studies in China in the twentieth century', *African Studies Review* 48.1 (2005).

¹⁴ *Ibid.*, p. 64.

scholarship, and the inclusion of Chinese language sources remains a challenge to modern China-Africa studies.

While some research continued within China during the 1980s, China's presence in Africa waned as the country under Deng Xiaoping isolated itself from international politics in order to pursue a policy of internal modernisation and development.¹⁵ The end of the cold war redrew the map of global power relations, and 'China, the Third World, and the international system [became] moving targets on turbulent trajectories, subject to contradictory pressures and undergoing profound metamorphoses'.¹⁶

China-Africa relations as an academic sub-field was largely abandoned in the West throughout the 1980s and early 1990s. Ian Taylor published an analysis of Chinese policy towards Africa in the 1990s,¹⁷ while Deborah Brautigam's *Chinese Aid and African Development: Exporting Green Revolution* is based on extensive fieldwork in Liberia, Sierra Leone and the Gambia. Her work stands out as a rare longitudinal inquiry into the intersection between Chinese aid policies and the institutional and political framework of the recipient state, and its impact on success and sustainability.¹⁸ Otherwise, China-Africa relations received little attention until the explosion of interest in the early part of this decade, as the magnitude of China's new interest in Africa became clear.

The current Chinese economic expansion into Africa in many ways represents a break with past interaction, yet the historical relationship between the two regions remains quite relevant due to its central role in framing and contextualising deepening engagement. The

¹⁵ A process that Snow in 1988 presciently argued would ultimately give China a great deal more influence in the developing world. *Star raft*, p. xx.

¹⁶ Samuel Kim, 'China and the third world in the changing world order', *China and the world: Chinese foreign relations in the post-cold war era*, ed. Samuel Kim, 3rd Edition ed. (Oxford: Westview Press, 1994).

¹⁷ Ian Taylor, 'China's foreign policy towards Africa in the 1990s', *Journal of Modern African Studies* 36.3 (1998).

¹⁸ Deborah Brautigam, *Chinese aid and African development: Exporting green revolution* (London: Macmillan, 1998).

literature from the last 50 years briefly surveyed here highlights the construction of this historical narrative by Chinese and Western scholars, officials and policymakers, a narrative that is still very topical for two reasons. First, and often noted, the constant reinterpretation and repetition of the language of shared experience of Western oppression, long-standing support for African independence and self-definition, and a historical commitment to south-south cooperation is shrewdly manipulated by the Chinese to ease their entry into African resource markets. The success of this rhetoric in engendering a welcoming response from African states disillusioned with Western paternalism and exploitation is widely assumed. However, this solely instrumental view overlooks the power of China's historical narrative in continuing to shape its interaction with Africa.

This power is the second reason the embedding of this history is important in reference to current China-Africa relations. Chris Alden and Ana Alves link the articulation of its history in the international arena to the construction of a Chinese identity that reconciles its developing country status with that of its emerging global power.¹⁹ Indeed, there is a certain historical continuity in the perception of itself that China has promoted abroad over the past half-century; a consistent self-definition as a developing, anti-hegemonic victim of foreign aggression is readily discernible despite its shift from a revolutionary, revisionist stance to a more cooperative status quo power.²⁰ These ideas of image-building and international status are recurrent themes in Chinese foreign policy literature, and are repeatedly linked to the quest for legitimacy and China's increasingly cooperative stance in international affairs.²¹

¹⁹ Chris Alden and Ana Cristina Alves, 'History and identity in the construction of China's Africa policy', *Review of African Political Economy* 115 (2008).

²⁰ Wang Hongying, 'National image building and Chinese foreign policy', *China rising: Power and motivation in Chinese foreign policy*, ed. Yong Deng and Fei-Ling Wang (Oxford: Rowman & Littlefield Publishers, Inc, 2005).

²¹ Alastair Iain Johnston, *Social states: China in international institutions 1980-2000* (Princeton: Princeton University Press, 2008). Yong Deng, *China's struggle for status: The realignment of international relations* (Cambridge: Cambridge University Press, 2008).

Recent research suggests that the construction of China's self image is more than a simply rhetorical exercise, and that it has a visible effect on the formulation of Chinese foreign policy.²² Who China is in the world matters very much to China, and the narrative it has chosen in Africa should not be dismissed as simple propaganda, despite the, at times, significant discrepancy between that narrative and the reality on the ground. Certainly the preservation of this narrative, and thus a certain level of international legitimacy, is becoming one of China's biggest challenges on the continent today. This notion of status, its link to the ways in which China constructs its image, and its influence on the evolution of policy, feeds into many of the more contemporary debates surrounding China-Africa relations to which this chapter now turns.

CURRENT TRENDS IN SINO-AFRICAN RELATIONS

While official Chinese policy towards Africa consistently roots itself rhetorically using the language of history, there is no doubt that the Chinese presence in Africa today represents a qualitative break from that of the past. Many have observed the distinct shift in China's relationship with Africa from one driven by ideology to one driven by economics; this plus the scope and scale of increasing Chinese engagement on the continent indicate that, in a very essential sense, China is a new player in modern Africa. The volume of capital flows moving into Africa from China and the distinctive nature of China's renewed interest in the continent have invited an explosion of new scholarship over the past decade. Alden's volume *China in Africa*²³ gives a balanced and informative overview of the evolution of Chinese engagement in Africa through the mid-2000s. Brautigam's *Dragon's*

²² Yong Deng, 'Better than power: "International status" in Chinese foreign policy', *China rising: Power and motivation in Chinese foreign policy*, ed. Yong Deng and Fei-Ling Wang (Oxford: Rowman & Littlefield Publishers, Inc., 2005); Wang Hongying 2005.

²³ Chris Alden, *China in Africa*, ed. International African Institute and Royal African Society (London: Zed Books, 2007).

Gift takes on many of the myths surrounding China-Africa engagement.²⁴ And *A Century of Engagement* by David Shin and Joshua Eisenman gives an expansive and historically grounded view of political relations between the two regions.²⁵ Additionally, a number of edited volumes have been published that attempt to establish the significance of China's move into Africa and to define a further research agenda for a newly invigorated field.²⁶

The current debates surrounding Sino-African relations suffer from a certain dearth of theoretical coherence, and an unapologetic belief in Chinese exceptionalism. Whether positive or negative, it has been widely accepted until recently—both in official discourse as well as academic circles on both sides—that the Chinese operate differently from the West and that this difference will have a significant impact on Africa's development trajectory.²⁷ China-Africa scholarship synthesises, sometimes uncomfortably, several bodies of theoretical literature. These include the wide international relations literature on global balance of power and the related literature on Chinese foreign policy; that pertaining to the development discourse with its rhetoric of human rights, global governance, liberal democratic values and the like; and that concerned with economic and trade policy, the feasibility of neoliberal economic practices, and African industrialisation. Much of the current discussion concerning China and Africa, from governments, development agencies and academics alike, takes one (or a combination) of these three approaches.

²⁴ Deborah Brautigam, *The dragon's gift: The real story of China in Africa* (Oxford: Oxford University Press, 2009).

²⁵ David Shin and Joshua Eisenman, *China and Africa: A century of engagement* (University of Pennsylvania Press, 2013).

²⁶ Firoze Manji and Stephen Marks, eds. *African perspectives on China in Africa* (Oxford: Fahamu, 2007). Marcel Kitissou, ed. *Africa in China's global strategy* (London: Addis and Abbey, 2007). Garth le Pere, ed. *China in Africa: Mercantilist predator, or partner in development?* (Midrand, South Africa: Institute for Global Dialogue, 2007). Robert Rotberg, *China into Africa: Trade, aid, and influence*, (2008).

²⁷ This stance has been challenged in recent work that argues that in fact China is simply a new player in an old game that has more to do with the political economy of resource extraction, and the politics of the African state. See Christopher Clapham, 'Fitting China in', and Ricardo Soares de Oliveira, 'Making sense of Chinese oil investment in Africa', both in *China returns to Africa: A rising power and a continent embrace*, ed. Chris Alden, Daniel Large, and Ricardo S. d. Oliveira (London: Hurst and Co, 2008).

The international relations debate

Much has been made of China's emergence on the world stage as a rising power over the past decade, and for China scholars and international relations adherents, China's engagement in the developing world is a useful study of how it is managing that rise. Much of this discourse locates itself within the international relations theoretical paradigm of global balancing of power and the debate between realist and constructivist visions of a shifting global order. An extensive literature on Chinese foreign policy and international relations analyses China's hegemonic ambitions within the current world order;²⁸ common themes being the potential for conflict with the United States (US),²⁹ China's conduct within and socialisation into international institutions like the United Nations (UN) and the World Trade Organisation (WTO),³⁰ and China's quest for status.³¹

Parts of this literature have been co-opted to argue that China's activities in Africa, and the developing world as a whole, constitute a continuing challenge to US hegemony, and are part of its attempt to craft a new, multipolar world order. Zhao Suisheng discusses China's international relations as pragmatic engagement based in *liliang duibi*, or balance of forces.³² Ian Taylor's volume contends that anti-hegemonic concerns underpinned China's ideologically driven foreign policy in Southern Africa during the postcolonial period as well as continuing to shape the economic relationships it is building with African states today. However, while he contextualises Chinese foreign policy in Africa within the

²⁸ For a general overview of this literature, see Kim 1994). Thomas Robinson and David Shambaugh, eds. Chinese foreign policy: Theory and practice (Oxford: Clarendon Press, 1994).

²⁹ For arguments specific to Africa see Raymond Copson, 'The US response to China's rise in Africa: Policy and policy options', and Michael Sachs, 'China's leap into the heart of the twenty-first century', both in Africa in China's global strategy, ed. Marcel Kitissou (London: Addis and Abbey, 2007). Bates Gill, Chin-hao Huang, and J. Stephen Morrison, 'Assessing China's growing influence in Africa', China Security 3.3 (2007).

³⁰ Alastair Iain Johnston, Social states: China in international institutions 1980-2000 (Princeton: Princeton University Press, 2008).

³¹ Yong Deng, China's struggle for status: The realignment of international relations (Cambridge: Cambridge University Press, 2008).

³² Suisheng Zhao, 'China's geostrategic thrust: Patterns of engagement', China in Africa: Mercantilist predator, or partner in development?, ed. Garth Le Pere (Midrand, South Africa: Institute for Global Dialogue, 2007).

international relations great power literature, he also cautions that its analysis should be ‘an exercise in observation’³³ as it evolves. Additionally, Jonathan Holslag examines the international relations concept of adaptation in reference to China in Africa by assessing the impact of external criticisms on shifting Chinese policy,³⁴ while others challenge the traditional balance of power paradigm and argue instead that dialogue and rapprochement are central objectives in response to a rising China still formulating its foreign policy agenda.³⁵

The international relations perspective is useful at the macro-level in contextualising China’s involvement in Africa as part of a larger global strategy. It is also valuable in providing a well-developed theoretical paradigm through which to view China-Africa relations, which is missing in much China-Africa scholarship. However, because of the region’s comparatively limited status within the world order, it tends to relegate Africa to its cold war position as the pitch upon which great-power games are being played. Also, by taking the unitary state as its unit of analysis it ignores the increasing differentiation of political and economic ties; anti-hegemony is not a viable objective for the Chinese provincial authority establishing diplomatic links with an African city, or for a private corporation founding a joint venture with an African company. Lastly, the international relations perspective suffers from what Shaun Breslin refers to as ‘outside-in’ interpretation of Chinese power, which ignores Chinese domestic politics and how they might impact international interests and vice versa.³⁶ Thus, this ‘China and the World’ view illuminates only one dimension of complex political, economic and social processes. Yet, whether China’s increasing international integration is perceived in terms of conflict

³³ Ian Taylor, *China and Africa: Engagement and compromise* (London: Routledge, 2006).

³⁴ Holslag.

³⁵ Dirk Messner and Jing Gu, ‘Global governance and developing countries: The implications of the rise of China’, *World Development* 36.2 (2008).

³⁶ Shaun Breslin, ‘Power and production: Rethinking China’s global economic role’, *Review of International Studies* 31 (2005).

or cooperation, as threat or opportunity, will have a significant impact on how its engagement in Africa is interpreted and countered.

The development debate

While discourses on power, threat and conflict dominate the study of Chinese international politics, the language of development governs Africa scholarship, and sub-Saharan Africa's relationship with the world is marked by its colonial legacy and its identity as aid recipient. After decades of Western-backed structural adjustment policies, governance reform attempts and increasingly demanding aid conditionalities, the Chinese arrival in Africa has 're-opened the development debate'.³⁷ As a country with an independent and unarguably successful state-directed growth strategy, China's developmental experience stands in contrast to the neo-liberal strategies of the Washington Consensus.

This has inevitably drawn comparisons with the 'Beijing Consensus', a term coined by Joshua Ramo³⁸ (and never adopted by China itself) for China's state-driven development policies. While perhaps not as explicitly as Ramo indicates, China does present an alternative development agenda that emphasises collective over individual rights, stresses political stability and sovereignty, is internally driven and context specific, and explicitly claims to separate business from politics.³⁹ Much of the literature in this vein attempts to classify Chinese activities as either exploitative or beneficial to African nations and is concerned with the impact of this new paradigm on governance, aid regimes and debt relief, and human rights.

³⁷ Ndubisi Obiorah, 'Who's afraid of China in Africa? Towards an African civil society perspective on China-Africa relations', *African perspectives on China in Africa*, ed. Firoze M. Manji and Stephen Marks (Oxford: Fahamu, 2007).

³⁸ Joshua Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004). For a comparison of the Washington and Beijing Consensuses see Emma Mawdsley, 'China and Africa: Emerging challenges to the geographies of power', *Geography Compass* 1.3 (2007).

³⁹ Daniel Large, 'As the beginning ends: China's return to Africa', *African perspectives on China in Africa*, ed. Firoze M. Manji and Stephen Marks (Oxford: Fahamu, 2007).

Perhaps the loudest critiques of Chinese policy in Africa have to do with its relationships with pariah regimes like Sudan's and Zimbabwe's. Respecting state sovereignty is a central tenet of Chinese policy, one that is becoming increasingly difficult to justify. Indeed, several interesting analyses have emerged of the evolution of China's Darfur policy from non-interference in an internal matter to one of explicit persuasion, indicating the process of policy refinement in response to new challenges.⁴⁰ Others point out that China is grappling with similar challenges in the domestic sphere,⁴¹ and that reconciling the growth requirements of a developing country with the international conduct of a responsible world power is quite problematic. 'While decision makers appreciate the need for a more value-based strategy, and would arguably like to equip the country with one, the current level of China's development calls for a more pragmatic, even opportunistic policy.'⁴²

More general concerns voiced by international development organisations and liberal Western academics include threats to good governance and transparency agendas by China's 'no strings attached' aid policy. Common arguments include the threat to the bargaining power of international funders and aid organisations around these issues, the threat to the values of African initiatives like the New Partnership for Africa's Development (Nepad) and the creation of a new debt spiral in countries that have only just emerged from crippling international obligations.⁴³ There is also some apprehension

⁴⁰ Jonathan Holslag, 'China's diplomatic manoeuvring on the question of Darfur', *Journal of Contemporary China* 17.54 (2008). For a Chinese perspective on this 'balancing act' see Wenping He, 'The balancing act of China's Africa policy', *China Security* 3.3 (2007).

⁴¹ Sanusha Naidu, 'China-Africa relations in the 21st century: A "win-win" relationship?', *Current African Issues No. 35: China in Africa*, ed. Margaret C. Lee and Henning Melber (Uppsala: Nordiska Afrikainstituter, 2007).

⁴² Michal Meidan, 'China's Africa policy: Business now, politics later', *Asian Perspective* 30.4 (2006), p. 72.

⁴³ Denis Tull, 'China's engagement in Africa: Scope, significance and consequences', *Journal of Modern African Studies* 44.3 (2006). Ian Taylor, 'Unpacking China's resource diplomacy in Africa', *Current African Issues No. 35: China in Africa*, ed. Margaret C. Lee and Henning Melber (Uppsala: Nordiska Afrikainstituter, 2007).

among African civil society and human rights advocates and scholars that China's development paradigm might reverse democratic gains and civic freedoms.⁴⁴

However, much of this literature is speculative at best, and there is as yet little evidence that increased Chinese presence in Africa is imperilling governance gains. New lines of inquiry are needed that take into account the web of interests operating in African contexts. In reference to its relationships with unsavoury regimes, these include questions surrounding the political economy of Western-dominated extractive industries in Africa—there is a reason that China is active in places that Western governments and companies have abandoned—and the impact of China's domestic political economy on its international activities. Regarding labour standards and environmental issues, more credible studies based on fieldwork are beginning to emerge, especially regarding activities of Chinese firms in the extractive sectors. Human Rights Watch and Global Witness have recently released studies on Chinese safety and employment practices in Zambian and Congolese mines.⁴⁵ Finally, on the subject of governance and transparency, it has been argued that China's policy in Africa will move towards that of the West as it faces the challenges of operating in the African context that shaped current Western policy.⁴⁶ This has certainly been true in Libya and in China's growing commitment to African peacekeeping—where its foreign policy choices have broadly moved in concert with international norms. This conception of policy as a dynamic process that shifts as participants are confronted with new challenges is important to keep in mind in reference to China, but also in reference to Africa as it continues to craft responses to increasing integration.

⁴⁴ Obiorah.

⁴⁵ Matt Wells, "‘You’ll be fired if you refuse’: Labor abuses in Zambia’s Chinese state-owned copper mines" (Washington DC: Human Rights Watch, 2011). Global Witness, China and Congo: Friends in need: A report by Global Witness on the Democratic Republic of Congo (London: Global Witness, 2011).

⁴⁶ Gernot Pehnelt, The political economy of China’s aid policy in Africa, Jena Economic Research Papers (2007).

The trade debate

The other prominent debate surrounding China's rapid growth in Africa is taking place among economists and policymakers regarding the macro-level impact of China on African economies. Sino-African trade is soaring, rising from \$10 billion in 2000 to over \$100 billion in 2008, and doubling again to approximately \$200 billion in 2012.⁴⁷ In monetary terms, these trade flows dwarf smaller aid and investment flows into the continent. However, the majority of exports are from the extractive sector, with five oil and mineral-producing countries accounting for 85 per cent of all African exports to China,⁴⁸ prompting concern that the Chinese presence in Africa is recreating unequal colonial relationships of the past⁴⁹ and harming Africa's prospects for economic development. Economists note that there are significant challenges in establishing actual investment and aid flows due to conflicting data sources and a lack of transparent reporting.⁵⁰ However, a series of publications has attempted to quantify and interpret China's economic relationship with Africa.

The effects of China and India's rapidly increasing demand for resources have boosted primary commodity prices worldwide, which has improved terms of trade for resource-rich African countries. The continuing reliance of these states on extractive industry, as well as the flooding of African markets with cheap Chinese goods, has led to a proliferation of economic literature on the macro-level impact of the 'Asian drivers' on developing countries. A World Bank study by Harry Broadman approaches the Sino-African economic relationship from the perspective of transaction costs. It utilises firm-

⁴⁷ Ministry of Commerce figures, various years.

⁴⁸ Harry G. Broadman, *Africa's silk road: China and India's new economic frontier*, ed. Gozde Isik (Washington, DC: World Bank, 2007).

⁴⁹ Margaret Lee, 'The 21st century scramble for Africa', *Journal of Contemporary African Studies* 24.3 (2006).

⁵⁰ Jian-Ye Wang, *What drives China's growing role in Africa*, IMF Working Paper WP/07/211 (International Monetary Fund, 2007).

level case studies to argue that trade and tariff regimes ‘at the border’, domestic market characteristics ‘behind the border’, and logistical and informational challenges ‘between the border’ combine to constrain African economic development.⁵¹ The resulting policy recommendations are the familiar demands for increased deregulation, market liberalisation and streamlining of tariff policies.

Raphael Kaplinsky and Mike Morris contend that sub-Saharan Africa cannot compete with the Asian drivers in manufactured goods production, which threatens future growth potential and possibilities for industrialisation.⁵² They examine the textile-manufacturing sector in several southern African countries and conclude that sub-Saharan African manufacturing needs trade protection not only from industrialised countries, but also from other developing countries like China. Others note the differential effects on African economies depending on whether they are energy exporters or importers,⁵³ the potential for competition in third markets⁵⁴ and possible direct and indirect impacts of various channels of influence.⁵⁵

Thus, the trade literature on China-Africa is primarily focused on macro-level studies of the effects of continued reliance on the extractive sector on future economic development goals, and the macro-impact of floods of cheap Chinese imports on sub-Saharan Africa’s fledgling manufacturing sector. While the heterogeneity of African economies and the potential differential impacts China’s rise may produce are often acknowledged, as yet there are few region- and country-level case studies examining these effects. Additionally,

⁵¹ Broadman 2007. See also Harry Broadman, ‘China and India go to Africa: New deals in the developing world’, *Foreign Affairs* 87.2 (2008).

⁵² Raphael Kaplinsky and Mike Morris, ‘Do the Asian drivers undermine export-oriented industrialisation in SSA?’ *World Development* 36.2 (2007).

⁵³ Andrea Goldstein, et al, *China and India: What’s in it for Africa?* (OECD Development Centre, 2006).

⁵⁴ Rhys Jenkins and Chris Edwards, ‘The “Asian drivers” and sub-Saharan Africa’, *China in Africa: Mercantilist predator, or partner in development?*, ed. Garth Le Pere (Midrand, South Africa: Institute for Global Dialogue, 2007).

⁵⁵ Raphael Kaplinsky, ‘The impact of China and India on the developing world’, *Focus*.1 (2007).

policy recommendations calling for increased investment in the industrial sector and development of transnational industrial links to make sub-Saharan African exports more competitive tend to overlook issues of institutional capacity in African countries and take political considerations out of the equation. These micro-level effects of Sino-African trade are taken up in reference to Nigeria in chapter four.

While the three theoretical frames discussed above offer a number of useful lenses through which to engage with Chinese intentions in Africa and their potential impacts, they reflect the agendas of the international, predominantly Western, community from which they emerge. This wide-lens internationalised focus tends to overlook both the heterogeneity of the Chinese presence in Africa as well as the complexity of African responses, and ignore the economic and political encounters at the local level that are shaping the ways in which Chinese and Africans interact. Instead, the result is too often a sensationalised discourse on China-Africa that ignores the African state in favour of attempts to label monolithic Chinese intentions as either predatory or charitable. However, more nuanced treatments are beginning to appear as the field matures. Over the past several years, a growing number of case studies based on fieldwork have begun to appear—from academics, international development organisations and business and economic consultancies—and the focus of China-Africa scholarship has begun to shift noticeably towards a more analytical and nuanced approach.

Disaggregating China Inc.

While academic and policy discourses on global geopolitics, African development and economic theory percolate in classrooms and boardrooms in Washington, London and Beijing, China's long-term impact on African states is being negotiated on the ground,

where an increasingly differentiated Chinese presence is establishing itself in African communities across the continent. Official figures for Chinese FDI stock in the continent have risen from negligible to over \$18 billion since 2000. The level of state control of the Chinese economy, and China's ability to offer African countries aid, trade and investment deals in a single, tidy package has engendered a view of China in Africa as a monolithic presence under the complete control of the central state. Thus, the myriad state-owned corporations, private multinationals, smaller enterprises and private citizens and traders doing business in Africa become extensions of Chinese foreign policy and potential liabilities for the Chinese state when something goes wrong.

One of the distinguishing characteristics of China's Africa strategy is coordination of diplomacy, capital, enterprise and labour into a unified strategy in line with national goals.⁵⁶ It is assumed that China has a sophisticated, multi-level corporate engagement strategy where diplomats smooth the way politically for the entrance of Chinese state-owned enterprises (SOEs), themselves encouraged by economic agencies at home. Chinese workers willing to work for low wages are brought in to staff certain types of projects, while the influx of migrants build trade networks between China and Africa.⁵⁷ However, the composition of Chinese economic enterprise on the continent is becoming increasingly differentiated, with the dominance of state-owned enterprise shifting markedly towards private investment,⁵⁸ and trailblazing multinational corporations being joined by large numbers of smaller firms and individual traders. As short-term corporate interests begin to conflict with long-term national goals, monitoring the increasingly

⁵⁶ For an overview of the financial underpinnings of this strategy, including a survey of Chinese state-owned banks and their responsibilities, see Michelle Chan-Fishel and Roxanne Lawson, 'Bankrolling the "going out" strategy: China's financing of African aid and investment, and implications for Africa's debt and development', *Africa in China's global strategy*, ed. Marcel Kitissou (London: Addis and Abbey, 2007).

⁵⁷ James Reilly and Na Wu, 'China's corporate engagement in Africa', *Africa in China's global strategy*, ed. Marcel Kitissou (London: Addis and Abbey, 2007).

⁵⁸ Jian-Ye Wang, 'What drives China's growing role in Africa?', IMF Working Paper WP/07/211 ed. International Monetary Fund, 2007).

diffuse business actors on the continent is becoming steadily more problematic for the Chinese state.⁵⁹

This challenge is obvious in the backlash against China over the environmental and labour practices of some Chinese companies. Resentment over employment practices in Namibia prompted President Hu Jintao to meet Chinese business owners during a state visit to that country in 2008 to entreat them to abide by local labour laws. A number of African human rights activists have expressed concern over Chinese activities in their countries,⁶⁰ including those in Nigeria that have accused Chinese firms of polluting local rivers and violating safety laws.⁶¹ Anger over lax safety standards and poor employment practices in Zambia's mining sector resulted in popular mobilisation around the unsuccessful presidential campaign of Michael Sata, who ran on a populist anti-China platform in 2007.⁶² Sata went on to win the 2011 presidential election and has since become much more pragmatic in his approach to Chinese investment in Zambia. This is reflective of a shift in perception across the continent from the hyperbole—both positive and negative—surrounding the early days of China's arrival in Africa, to a more balanced perspective that revolves around the practical challenges for both sides of doing business in Africa.

Chinese business is facing considerable challenges of its own in the African context. Beijing has ambitious goals in its attempts to create competitive global firms,⁶³ and the grooming of 'national champions' that can operate at the international level is central to its economic development plans. These firms face significant obstacles in Africa, such as

⁵⁹ John Reilly and Na Wu, 'China's corporate engagement in Africa', *Africa in China's global strategy*, ed. Marcel Kitissou (London: Addis and Abbey, 2007).

⁶⁰ John Rocha, 'A new frontier in the exploitation of Africa's natural resources: The emergence of China', and Ndubisi Obiorah, 'Who's afraid of China in Africa? Towards an African civil society perspective on China-Africa Relations', both in *African perspectives on China in Africa*, ed. Firoze M. Manji and Stephen Marks (Oxford: Fahamu, 2007).

⁶¹ Ndubisi Obiorah, 'From China with love, trade, and guns: A human rights perspective on China and Africa', *The new sinosphere: China in Africa*, ed. Leni Wild and David Mepham (London: Institute for Public Policy Research, 2006).

⁶² 'In Africa, China's expansion begins to stir resentment', *Wall Street Journal*, 2 February 2007.

⁶³ Peter Nolan, *China at the crossroads* (Cambridge: Polity, 2004).

high debt levels, little international experience, cultural and management issues and a conflict between short-term profits and long-term capacity building.⁶⁴ Additionally, many of the issues Chinese firms are dealing with in Africa with regard to human rights and corporate standards are also becoming increasingly salient at home, as the Chinese government begins to explore corporate social responsibility initiatives for foreign firms in China.⁶⁵ A latecomer to investment in Africa, China is in many ways at a disadvantage. The vice-chairman of China Investment Corporation (CIC), China's government-owned international investment arm, candidly admits that lack of experience and the complex legal and institutional environments of particular countries are some of its biggest challenges associated with its new role as an international actor. These challenges make it 'easy to wander down the path of illegality if one stops paying attention for even a moment'.⁶⁶

These disadvantages are particularly salient in African resource sectors, which have long been dominated by Western multinationals. The oil industry in most African countries is a mature one where influence follows historical patterns of colonial power. Within this context, it has been noted that the partnership between the Chinese state and national oil companies has loosened perceptibly since 2002; they are operating more like private enterprises than they did in the past but still have much to learn in terms of risk management.⁶⁷ This premise is echoed in Erica Downs's challenge of the conventional wisdom about Chinese oil activities in Africa.⁶⁸ She argues that China's oil strategy is much less coherent than assumed, constrained by problems with coordination, government

⁶⁴ Chris Alden and Martyn Davies, 'A profile of the operations of Chinese multinationals in Africa', South African Journal of International Affairs 13.1 (2006).

⁶⁵ Yongnian Chen and Minjia Chen, China moves to enhance corporate social responsibility in multinational companies (China Policy Institute, 2006).

⁶⁶ 'CIC vice chairman: Obstacles to overseas investment', Caixin, 16 January 2012.

⁶⁷ Phillip Andrews-Speed and Xin Ma, 'The overseas activities of China's national oil companies: Rationale and outlook', Minerals and Energy 1 (2006).

⁶⁸ Erica Downs, 'The fact and fiction of Sino-African energy relations', China Security 3.3 (2007).

capacity and competition between national oil companies. Chinese companies are still relatively small players with limited technological expertise operating in new oil-producing countries like Angola or Ghana, and areas that Western firms find unappealing or unprofitable, like Sudan.⁶⁹

Chinese corporations are also heavily involved in the infrastructure sector in many African nations. A report commissioned by DFID China examines the construction sector in Angola, Tanzania, Sierra Leone and Zambia.⁷⁰ A series of common barriers for Chinese companies emerge across country studies, including language, lack of local skills and logistical and transport issues, which limit opportunities for technology transfer and the emergence of competitive local firms. Another report, commissioned by the World Bank, takes a more macro-level approach and attempts to quantify the volume of capital flows entering the sector and the distribution of infrastructure projects across the continent by amassing data from a variety of Chinese sources.⁷¹ It finds that Chinese finance is focused towards bilateral, multi-sectoral projects that are in line with host country priorities, but that funds are concentrated in a small number of countries, namely, Nigeria, Angola, Sudan and Ethiopia.

Outside the large, often state-owned firms operating in the energy and infrastructure sectors, Chinese enterprise and commerce in Africa initially received far less attention, despite growing concentrations of Chinese traders and private businesses of every size across the continent. Brautigam's work on business networks in Mauritius and Nigeria—which concludes that within a supportive policy environment, Chinese networks can

⁶⁹ Emilio Moreso Grion, 'The political economy of commercial relations: China's engagement in Angola', China in Africa: Mercantilist predator, or partner in development?, ed. Garth Le Pere (Midrand, South Africa: Institute for Global Dialogue, 2007).

⁷⁰ Centre for Chinese Studies, China's interest and activity in Africa's construction and infrastructure sectors (Stellenbosch: CPI, 2007).

⁷¹ Vivien Foster, et al, Building bridges: China's growing role as infrastructure financier for Africa (World Bank, 2008).

encourage local industry—is a valuable, early contribution.⁷² Other studies conducted at differing levels of detail include work on Mozambique’s timber industry,⁷³ an overview of China in Ghana,⁷⁴ and interesting research into Chinese migrant communities in Cape Verde and Zanzibar, which point to the diversity of private citizens expanding into African urban centres.⁷⁵ Other contributions with a micro-level perspective look at the role of Chinese and African traders in facilitating the flows of goods between the two regions.⁷⁶ Recent contributions point to the rising dominance of private Chinese companies as the driver of Chinese commercial expansion on the continent, and the prominent role of manufacturing in the investment patterns of these firms.⁷⁷

This surge of empirical work at the micro-level is encouraging. It is to this body of contextualised empirical research seeking to disaggregate Chinese actors and their differentiated impacts within particular country contexts that this dissertation hopes to contribute. It seeks to link global trends with local processes by approaching questions of Chinese impact on Africa through the lens of production and industrialisation, and by highlighting the role of domestic political and economic environments in shaping the choices of differentiated Chinese and Nigerian actors.

⁷² Deborah Brautigam, ‘Close encounters: Chinese business networks as industrial catalysts in sub-Saharan Africa’, *African Affairs* 102 (2003).

⁷³ Anabela Lemos and Daniel Ribeiro, ‘Taking ownership or just changing owners?’ *African perspectives on China in Africa*, ed. Firoze M. Manji and Stephen Marks (Oxford: Fahamu, 2007).

⁷⁴ Isaac Idun-Arkhurst, *Ghana’s relations with China* (Johannesburg: South African Institute of International Affairs, 2008).

⁷⁵ Giles Mohan and Dinar Kale, *The invisible hand of south-south globalisation: Chinese migrants in Africa* (The Open University, 2007). Heidi Haugen and Jorgen Carling, ‘On the edge of the Chinese diaspora: The surge of Baihuo business in an African city’, *Ethnic and Racial Studies* 28.4 (2005). Elizabeth Hsu, ‘Zanzibar and its Chinese communities’, *Population, Space and Place* 13 (2007).

⁷⁶ Heidi Ostbo Haugen, ‘Chinese exports to Africa: Competition, complementarity and cooperation between micro-level actors’, *Forum for Development Studies* 38.2 (2011). Daouda Cisse, ‘South-south migration and trade: Chinese traders in Senegal’, (Stellenbosch: Centre for Chinese Studies, 2013).

⁷⁷ Jing Gu, ‘China’s private enterprises in Africa and the implications for African development’, *European Journal of Development Research Special Issue* 24.1 (2009a). Jing Gu, ‘The last golden land? Chinese private companies go to Africa’, *IDS Working Paper* 365 (2011). Xiaofang Shen, ‘Private Chinese investment in Africa: Myths and realities’, *World Bank Policy Research Working Paper* 6311 (2013).

CHINA, AFRICA AND GLOBAL PRODUCTION

At the 2006 Forum for China-Africa Cooperation (FOCAC), China announced that it would support the development of three to five overseas economic and trade cooperation zones in Africa. It also announced the establishment of a \$5 billion China-Africa Development Fund to encourage ‘established and reputable’ Chinese companies to invest in Africa.⁷⁸ The African zones are part of a larger Chinese initiative, outlined in its 11th five-year plan, to launch up to 50 overseas zones world-wide in a bid to promote the expansion and upgrading of Chinese firms and the restructuring the domestic economy. After two competitive tenders in 2006 and 2007, 19 zone proposals were selected in 15 countries.⁷⁹ Six of these zones are under construction or in operation in Africa—in Egypt, Nigeria (two), Mauritius, Ethiopia and Zambia. While no plans for additional zones were announced at the fourth FOCAC conference in Egypt, the 2009 Action Plan did pledge to ‘provide facilitation to African small and medium-sized enterprises to develop their business in the zones’ and to assist Chinese banks in establishing a \$1 billion loan for African small and medium-sized businesses development.⁸⁰

These zones represent a new kind of investment in the long-term productive future of the African continent, a region that has had very little historic success with manufacturing. As such, the zone projects—as well as the rise in outward manufacturing FDI they seek to channel—are indicative of changes in China that incentivise the export of excess manufacturing capacity. They are also a symbol of the ways in which Africa’s role in the global system is shifting, as rising growth rates and large, new markets draw more

⁷⁸ FOCAC Beijing Action Plan (2007-2009). Available at <http://www.focac.org/eng/ltada/dscbjzjhy/DOC32009/t280369.htm>, retrieved 13 July 2011.

⁷⁹ Deborah Brautigam and Tang Xiaoyang, ‘China’s investment in African special economic zones’, *PRMTR Working Paper* (2010).

⁸⁰ FOCAC Sharm el Sheikh Action Plan (2010-2012) available at <http://www.focac.org/eng/dsjbjzjhy/hywj/t626387.htm>, retrieved 13 July 2011.

diversified FDI to the continent. The ways domestic economic priorities in these disparate regions align with shifts in the organisation of global production may provide opportunities for both. Certainly, that is the hope, as a number of scholars begin to comment on the prospects for Chinese firms, zones and investment to be catalysts for African industry.⁸¹ The limited research on zones and manufacturing firms thus far has focused on the characteristics of Chinese official and firm-level actors, and the barriers facing them in a relatively undifferentiated ‘Africa’. However, there has as yet been little attention paid to just how these institutions and firms anchor in particular host country contexts, how that local political economy shapes incentives for expansion and production, the sorts of productive patterns that are being created, and how industrial policy in both China and specific African countries can contribute to actual win-win partnerships in this regard. This thesis attempts to address some of these issues with a rooted exploration of Chinese-developed SEZs in the context of Nigerian manufacturing and production.

Special economic zones as microcosms of global production

In many ways, the SEZ is a perfect tool for observing the ways in which global economic trends impact domestic policy and practice. In essence, the SEZ is a microcosm of global production, which links to international production networks and markets on the one hand, and to domestic economies and industrial policy goals on the other. The popularity of SEZs as an industrial policy tool has been growing over the past three decades, primarily in response to the role they have played in Asian export-led industrialisation. Currently there are approximately 3,000 zones in 135 countries, generating over \$500 billion of direct trade-related value added, compared to 79 zones in 25 countries in 1975. Approximately 2,300 of these zones are located in 119 low-income countries, accounting

⁸¹ Vandana Chandra, Justin Yifu Lin, and Yan Wang, ‘Leading dragon phenomenon: New opportunities for catch-up in low-income countries’, *Asian Development Review* 30.1 (2013). Shen 2013.

for \$200 billion in gross exports every year.⁸² The most dramatic SEZ success stories are from Asia, where zones employ 55 million of the 66 million people working in zones worldwide; 40 million of those are in China's zones alone. SEZ initiatives, combined with wider economic restructuring and shifts in global production networks, had a catalysing effect and converted the region into a global manufacturing hub. In three decades, Shenzhen—China's first SEZ—has been transformed from a fishing village to a city of 13 million that is the industrial heart of the country.

As a result of China's undeniable success with SEZs—both as industrialisation catalysts as well as sites for policy experimentation—there is quite a deep literature on Chinese zones, the political economy of their establishment, their policy framework and the lessons they provide for other low-income countries.⁸³ Smaller-scale accomplishments in Vietnam, Bangladesh and the Philippines, among others, have spurred additional contributions,⁸⁴ and popularised the SEZ as an economic development instrument. This led to an explosion of zones of all types in the late 1980s in developing countries around the world—many in Latin America and Central Europe—and a relatively broad selection of case study literature.

The debates surrounding SEZ policies broadly mirror debates around issues of economic liberalisation. Supporters of zones as a policy mechanism list as their advantages the creation of a controlled space in which to experiment with industrial policy, the ability to engage with the global economy in a limited fashion while shielding the majority of the domestic economy from global competition, the creation of large-scale direct employment

⁸² FIAS, *Special economic zones: Performance, lessons learned, and implications for development* (Washington, DC: World Bank Group, 2008).

⁸³ For a comprehensive overview of literature on Special Economic Zones, see George Crane, *The political economy of China's special economic zones* (London: Armonk, 1990).

⁸⁴ Connie Carter, *Special economic zones in Asian market economies: Routledge Studies in the Growth Economies of Asia* (Hoboken: Taylor Francis, 2010).

and the growth of exports, the potential for knowledge and technology spillovers into the domestic sphere, and the attraction of foreign investment. Detractors have critiqued zone regimes for the creation of enclaves with little scope for technology transfer to the host economy, for offering incentives to foreign companies that make it impossible for domestic producers to compete with them, and for negative socioeconomic impacts as countries compete to draw foreign investment by rolling back labour and environmental standards inside zones in a ‘race to the bottom’. Chapter two engages with these theoretical debates in more detail, and links them to theories of industrial policy and global production networks in order to build a conceptual framework through which to view the empirical case material that follows.

In recent years there has been a resurgence of interest in SEZs among development practitioners. The International Labour Organization (ILO) keeps a database of SEZs worldwide that it last updated in 2007.⁸⁵ It is a useful tool for cross-country comparisons of SEZ regimes, investors and limited outcomes; however, because it is based almost exclusively on information gleaned from government websites, the data for many African countries is unreliable and incomplete. In 2008, the World Bank’s Foreign Investment Advisory Service (FIAS) released a comprehensive report on SEZs. It argues that they remain a legitimate industrial development tool in low-income countries, provided that the policy recipe is right and that there exists a conducive regulatory climate as well as an environment of good governance (perhaps a rather demanding set of requirements for many developing countries).⁸⁶ Key avenues for inquiry in much current scholarship on SEZs is quite technocratic and concerns identifying the proper policy arrangement and ownership structure as well as their continuing relevance in an increasingly liberalised

⁸⁵ Jean-Pierre Singa Boyenge, ‘ILO database on export processing zones (revised)’, *Sectoral Activities Programme Working Paper* (2007).

⁸⁶ FIAS, *Special economic zones: Performance, lessons learned, and implications for development* (Washington, DC: World Bank Group, 2008).

global trade environment governed by WTO strictures against tariff barriers and export subsidies of any kind.

However, the transferability of the Asian experiment with zones as industrial catalysts is still quite an open question; certainly African countries have had much more mixed experiences. Most African zone programmes are government-owned, were launched in the last 20 years—when Asia had already emerged as a global manufacturing hub—and have struggled to attract significant amounts of FDI or create any considerable employment opportunities.⁸⁷ There are between 90 and 114 zones in sub-Saharan Africa—although there are far fewer if single-factory schemes are excluded—and they employ less than one million people. Despite the occasional small-scale success story, until recently zone initiatives as industrial catalysts and creators of significant employment opportunities in sub-Saharan Africa seemed to have reached somewhat of a dead end.

Chinese zone development in Nigeria

China's entry into SEZ construction and operation in Africa has inserted a question about actors into a debate that until now has focused almost exclusively on policy. Can Chinese zone developers—with their considerable experience with SEZ operation at home, with their networks of Chinese businesses from which to draw investment, with financial and political backing from the Chinese government, and in partnership with local actors—create successful zone initiatives where others have failed? The Chinese zones explicitly claim to address two of the main obstacles faced by prior African zone initiatives: the provision of world-class infrastructure, and the difficulty of attracting FDI. The expectation on both sides appears to be that China offers a package deal of infrastructure

⁸⁷ Thomas Farole, *Special economic zones in Africa: Comparing performance and learning from global experiences* (World Bank Publications, 2011).

and investment. Chinese developers design and build the zones, then market them and recruit among networks of companies in China.

Of the six official zones under construction on the African continent, two are in southern Nigeria—the Lekki zone in Lagos State, and the Ogun-Guangdong zone in Ogun State. Nigeria is in its second decade of civilian rule, and has embarked on an ambitious economic reform programme that includes over a dozen new public and private SEZ projects. FDI flows have been increasing markedly, and the non-oil economy is expanding at much higher rates than primary industries, with some sectors comfortably in double digits. With a rapidly growing population of over 150 million, most of them young, it is Africa's largest economy after South Africa. It is also the biggest importer of Chinese manufactured goods on the continent, and sits at the nexus of extensive regional trade networks. These are clearly attractive attributes for market-seeking firms.

However, in many ways Nigeria is also a surprising destination for large-scale manufacturing FDI. Crippling power and transport constraints are some of the worst in Africa, and significantly drive up production costs. A complex and opaque political economy is characterised by religious and ethnic conflict, an undiversified political and economic dependence on oil extraction and entrenched mechanisms of state patronage and corruption. And its business environment consistently ranks unappealingly low compared to other African economies in international indices. For these reasons and others, Nigerian manufacturing has not been a priority either for domestic elites or for foreign investors, and has stagnated at only four per cent of gross domestic product (GDP) for decades.

The transnational nature of the zones and their links to domestic industrial policy objectives in both China and Nigeria raise several questions for both countries in terms of

how they function and whose goals they serve. Chapters three and four delve into the political economy of home and host country respectively. For China, the challenges associated with reshaping a successful domestic industrial policy institution into a tool of foreign diplomacy are becoming apparent, as is Beijing's strained capacity to manage the success of zone institutions and the behaviour of firms outside its own borders. Chapter three probes this link between domestic politics and foreign policy by assessing the ways in which historical experience and current strategic imperatives are central to China's SEZ programme. It identifies institutional, strategic, and diplomatic drivers of China's evolving outward FDI policy framework in general, as well as its overseas zone programme in particular in order to address these tensions in more detail.

Chapter four engages with Nigerian political economy around issues of productive sector development, industrialisation and foreign investment. It looks at both the formal and informal mechanisms state elites use to balance political necessity and national stability on the one hand, with economic priorities and planning on the other. In the Nigerian context, these competing priorities create a particular economic logic that is central to understanding the role of FDI in the economy and the ways that Chinese investors integrate into the domestic institutional environment. Within this context, certain dimensions of Nigeria's relationship with China exacerbate institutional challenges, while others allay them. This interface between the country's institutional and policy regimes and Chinese state and private actors frames the material on zones and firms that follows.

Chapters five and six focus on the planning and operation of Chinese SEZs and the firms that build and inhabit them. These chapters pay particular attention to the political economy of zone initiatives in Nigeria generally—including the two formal Chinese zones as well as the mixture of other public and private programmes. The ways the zone

institution itself functions in relation to successive institutional and bureaucratic layers, both in China and Nigeria, is the subject of chapter five. Particular attention is paid to sub-national institutions—such as state and local governments and agencies—and the advantages they may have in facilitating linkages between zones and host communities, as well as the limitations they face in terms of advocating on behalf of the zones at the national level.

Chapter six examines the behaviour of both Chinese developer and producer firms in more detail, within the context of the Nigerian manufacturing environment. It asks whether the de facto productive incentives for firms in Nigeria align with the policy objectives of the zone programme and the stated goals of Nigerian industrialisation, and discusses the emerging trend toward private industrial zone development by established Chinese firms in the country as an alternative to the official zone programme. It argues that a distinct pattern of localised production for domestic and regional markets is emerging among Chinese firms in Nigeria, and that this pattern of economic organisation has considerable implications for Nigerian industrial policy.

These emerging patterns of production—led by Chinese firms but not uniquely Chinese—raise larger questions related to the trajectory of African industrialisation more broadly. Chapter seven concludes by reflecting on the potential of FDI-driven localised production as an alternative pathway to industrialisation for Nigeria, and discusses some of the implications of this strategy for perception, policy and practice.

CONCLUSION

The preceding discussion attempted to survey the state of China-Africa literature and point to some of the omissions in and challenges to current scholarship. It reviewed the history of China-Africa relations and suggested ways in which the construction of that historical narrative continues to influence policy and perceptions today. It then turned to current debates occurring in three overlapping conceptual spheres, namely, international relations, development and trade. Finally, it detailed the shift towards more empirical, field-based research utilising country and sector studies in emerging lines of inquiry, and detailed the contribution this dissertation makes in that regard.

Some common themes emerged from this exercise that are useful in framing the research that follows. First, China and Africa are not the only ones in the room; it is impossible to analyse China-Africa outside of the international system. For China, its Africa policy is a small part of a much larger diplomatic and economic front in which questions of international power and domestic legitimacy play a significant role. For Africa, its growing interaction with China cannot be contextualised outside of its relationship with the West in terms of its colonial past, current development discourse and resource economy. Second, the dynamic and evolving nature of the engagement between China and sub-Saharan Africa is central to its assessment. On both sides, perceptions, priorities and policies are shifting constantly as China's engagement in specific African contexts deepens and becomes more diffuse.

Finally, while China's arrival on the African continent is momentous, both its capacity to change the trajectory of African development and its uniqueness as a political and economic player is likely overblown. It is constrained by the same institutional, political

and social forces that affect other investors, and its activities are shaped to a similar degree by the local political economy. What its arrival has done, however, is to reignite certain debates, both in international circles and in African communities across the continent, about African agency and sovereignty, corporate conduct and economic and political development. One of these debates is that over African industrialisation, which until recently had been widely dismissed as untenable in an era defined by Asian manufacturing dominance and liberalised trade regimes.

China's Nigerian ETCZs sit at the centre of questions over the role of FDI in catalysing productive sector growth, the suitability of the SEZ institution in the African context, and future prospects for industry in one of Africa's largest economies. The establishment of SEZs played a tremendously significant role in China's own economic development strategy, providing a gateway to integration with the global economy for a country that had previously been almost completely isolated. Nigeria's political and economic history is very different from China's, and whether the SEZ strategy will have a similar catalysing effect remains to be seen. However, ETCZs offer interesting case studies in controlled experimentation with Chinese foreign investment in a particular host country context.

Both Chinese zones in Nigeria are still in the early stages of development and operation, and as such offer a useful site from which to examine the political dynamics of the policy-making process and its implementation. While at this stage it is premature to assess the long-term success of these zone initiatives—this project does not attempt to do so—the timeliness of the study provides an opportunity to observe the political economy of a particular policy instrument as it is built and to scrutinise the motives and relationships of differentiated actors and institutions that represent a microcosm of a larger global phenomenon.

Chapter Two

FLYING GEESE AND ENCLAVE CAPITALISTS: SPECIAL ECONOMIC ZONES AND INDUSTRIALISATION IN THEORY AND PRACTICE

Few policy tools have been as controversial as the SEZ. In the 40-plus years since the first zones took off in the developing world, there has been a massive shift in global production as manufacturing activities moved to successive generations of rapidly industrialising Asia. Import substitution strategies have lost out to a nearly ideological pursuit of export-expansion models of industrial development. In general, debates over SEZs tend to mirror broader debates over how states should best manage their interaction with the global economy. How does international trade and foreign investment affect diversification and growth? Should barriers to entry be liberalised or buttressed? Is FDI predatory or altruistic? Are social and environmental costs the unavoidable result of capitalist development? Much of the theoretical work on zone initiatives, their objectives and their impacts is influenced by where authors sit on these larger ideological questions.

In general, there has been widespread expansion of the zone institution over the last few decades and a very recent renewed interest in their potential as economic development tools. Today there are approximately 3,000 zones in 135 countries, which account for over 68 million direct jobs and over \$500 billion in direct trade-related value added.¹ These employment and export benefits are concentrated in a small number of countries in Asia, Latin America and Central Europe. Most zones are engaged in labour-intensive manufacturing and assembly activities, and there is a considerable gender dimension to employment—over 60% of zone employees are women, although this effect lessens as zone activities move up the value chain.²

This chapter engages with theoretical debates on the SEZ as a policy tool within the larger context of globalised production. It argues that the neoliberal bias in much of the theoretical literature on SEZs leads to singular emphasis on the SEZ as a tool of international trade, which overlooks analytical dimensions like the state, the firm and the political economy of SEZ development. Reframing the SEZ in industrial policy terms highlights the political and economic linkages between the zone institution and various layers of the host state. Introducing insights from firm theory and clustering literature shifts the focus to the international actors that populate the zones—and their differentiated motivations, origins and linkages to home and host countries. And global chain and network approaches are useful in defining the SEZ as a transnational institution simultaneously embedded in multiple political and economic environments.

This theoretical discussion is organised in three parts. The first section addresses definitional issues in characterising zones and their outcomes, and then reviews theoretical

¹ FIAS, Special economic zones: Performance, lessons learned, and implications for development (Washington, DC: World Bank Group, 2008).

² Ibid.

and empirical work on the SEZ. It covers some of the strongest critiques against them in terms of social and environmental costs, and draws attention to several limitations of the current technocratic framework for the purposes of this study. The second section surveys a number of related conceptual literatures on industrial policy, theories of firm internationalisation, and global production in order to situate the SEZ discussion within wider international and regional trends. This serves to highlight the role of differentiated actors—globalised firms as well as states and others—in the domestic economy and articulate the stratified nature of their interactions. Section three knits these insights together into an expanded theoretical framework for investigating the political economy of Chinese SEZ planning and development in Nigeria. It then introduces the empirical case material that serves as the subject of this dissertation, outlines the methodology of this study and reflects on some of the limitations in the data and the method.

A REVIEW OF THE LITERATURE

Discussions of the evolution of the SEZ usually begin with mention of an early zone experiment in Shannon, Ireland in the late 1950s. However, Asia's success with export-led industrial development in the 1970s and 1980s provided the main impetus for interest in zone initiatives as an economic policy tool in developing countries. By the mid-1980s, rapid catch-up industrialisation—buttressed by successful export processing zone programmes—in Taiwan, Singapore and Korea, and maturing export processing regimes from Malaysia to Mexico, had shifted the theoretical discussion on SEZs firmly to the developing world. Most of Africa's zones did not come online until the 1990s, when global manufacturing had already undergone a tremendous relocation to Asia. They are primarily state-owned and operated—although this has shifted in recent years—and have

had limited success and uneven outcomes.³ There is considerable variation in zone types and objectives, as well as policy frameworks, ownership arrangements and desired outcomes.

Definition and typology

The considerable issues associated with defining, describing and assessing the wide variety of zone projects and programmes worldwide are partially responsible for some of the contestation over their effectiveness. There is a number of types of zone initiatives, which differ in terms of explicit goals, size, economic activities supported and markets served. ‘Special economic zone’ has come to be used as a general term for any kind of economic zone in which the policy framework inside the zone differs from that of the country in which it is located.

SEZs are generally defined as geographically delimited areas—often fenced-in—which are administered by a single body offering certain incentives, a separate customs area and streamlined procedures to businesses which are physically located within the zone.⁴ Recent World Bank publications expand upon this definition slightly to characterise SEZs as:

[...] demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.⁵

³ See Thomas Farole, Special economic zones in Africa: Comparing performance and learning from global experiences (World Bank Publications, 2011) for the only extensive comparative treatment of African zones, their history and their prospects.

⁴ FIAS, Special economic zones: Performance, lessons learned, and implications for development (Washington, DC: World Bank Group, 2008).

⁵ Farole, p. 23.

In addition to a streamlined regulatory regime and a separate administrative body, zones also often have dedicated infrastructure—often subsidised by the state—to support their economic activities. This broad definition leaves space for a wide variety of zone types.⁶

Free trade zones: Small, fenced, duty-free areas located in many international ports. They feature warehousing, storage and distribution services to facilitate trans-shipment and re-export operations. The primary purpose of these zones is to enhance international trade rather than support manufacturing activities.

Export processing zones: EPZs have traditionally been the most common zone framework. They are industrial estates aimed at supporting exports through an incentive framework for EPZ-licensed firms. A related form—referred to as a ‘hybrid EPZ’—includes a more general industrial zone open to all enterprises combined with a separate area for EPZ-licensed firms. The main purpose of these zones is expanding exports to foreign markets through labour-intensive manufacturing, processing and assembly operations.

Single-unit EPZ schemes: Alternatively referred to as ‘free enterprises’, ‘single-factory EPZs’, or ‘export-oriented units’, these types of schemes extend EPZ-style incentives to single factories regardless of their location in the national economy. The goal of these schemes is to facilitate export expansion for individual firms.

Freeports/comprehensive SEZs: Freeports—also referred to as comprehensive or wide-area SEZs to distinguish them from smaller EPZs—are generally much larger than the

⁶ FIAS, Special economic zones: Performance, lessons learned, and implications for development (Washington, DC: World Bank Group, 2008).

other types of zones surveyed here and have a more expansive mandate. In addition to manufacturing and export processing activities, they often have a resident population and provisions for housing, tourism, logistics and other services. The comprehensive SEZs in China, as well as the Chinese zones in Africa that form the basis of this dissertation, fall in this category. The main focus of these zones is enhancing overall industrial and economic capacity, and they cater to both domestic and foreign markets.

In deference to the dominant consensus, this study uses the term SEZ as a general definition that encompasses all these types of zones, and reference to particular types of zone initiatives will be clearly noted. However, it also acknowledges that this generalisation obscures key analytical differences between models, their objectives and their impacts. There are several important differences between the EPZ model—which serves as the basis of much of the theoretical and case study literature on zones—and the comprehensive SEZ—popularised by China and increasingly the model of choice for new zone programmes. This distinction mainly has to do with the relationship between the zone and the domestic economy, with EPZs structured more as export processing enclaves without links to domestic markets, and the comprehensive SEZs as more domestically integrated spaces, which serve foreign and domestic markets.

Preferences for particular kinds of zones have shifted over the past three decades from traditional export processing zones to more comprehensive SEZs. Similarly, the explicit objectives of zone programmes have grown more expansive—from solely employment and export enhancement to include wider structural change and economic diversification. Most zones are designed to attract FDI, but other policy goals may differ. Some—like those in Tunisia and the Dominican Republic—are structured as economic enclaves in order to reduce widespread unemployment. Others—like those in Mauritius, Korea and

Taiwan—were developed as part of a wider economic liberalisation strategy. Finally, comprehensive SEZs like China’s serve as confined spaces where new policies can be piloted and tested prior to being scaled up nationally.⁷

The incentive framework available in zones varies by country, but the levers usually include some combination of the following:⁸

- Extra-territoriality
- Taxation incentives
- Export and import restrictions
- Foreign ownership and repatriation of profits
- Infrastructure provision
- Logistics and administration

The generosity of a zone’s incentive structure in terms of taxation avoidance and profit repatriation is often assumed to be the main attraction for foreign investors. However, there has recently been some question about how much the policy framework really matters, and indications that foreign firms are more concerned with other locational factors—like infrastructure and political stability.⁹ This is considered in some detail in reference to Nigeria’s zones in chapter five.

⁷ Ibid.

⁸ Andrew Cheesman, *Special economic zones & development: Geography and linkages in the Indian EOU scheme*, Development Planning Unit, University College London, 2012).

⁹ Howell H. Zee, Janet G. Stotsky, and Eduardo Ley, ‘Tax incentives for business investment: A primer for policy makers in developing countries’, *World Development* 30.9 (2002).

Theoretical considerations

Theoretical literature on SEZs exhibits a strong neoliberal bias and has always been responsive to the actual establishment of zones and zone policy—largely attempting to model and explain the successes of some projects and the failures of others from the vantage point of history. The main theoretical debate within this literature concerns whether the zone institution’s primary purpose for the host economy is the facilitation of international trade or the generation of wider economic development. Zone theory can be broadly divided into three strands: neoclassical, cost-benefit—both of which take the former view—and catalytic, which takes the latter and has come to dominate over the past two decades.

Early zone theory from the 1970s was highly theoretical and focused on the use of a particular economic policy tool in already industrialised countries. These texts use the language of neoclassical economics and international trade theory to argue that economic zones are generally distortion-creating and welfare-reducing for host countries.¹⁰ Later work in this strand, based on more realistic pricing assumptions, indicated that EPZs may be FDI-attracting and welfare-enhancing, yet the focus remains on zones as a second-best policy, with liberalisation of the entire economy the more attractive option.¹¹

Cost-benefit analysis emerged as a primary analytical method in the late 1980s. A variety of empirical case studies weighs the benefits of zones to the host country—in terms of employment, foreign exchange, tax revenues and export expansion—against their

¹⁰ Koichi Hamada, ‘An economic analysis of the duty-free zone’, *Journal of International Economics* 4.3 (1974). Carl Hamilton and Lars EO Svensson, ‘On the welfare effects of a ‘duty-free zone’, *Journal of International Economics* 13.1 (1982).

¹¹ Kaz F. Miyagiwa, ‘A reconsideration of the welfare economics of a free-trade zone’, *Journal of International Economics* 21.3 (1986). Leslie Young and Kaz F. Miyagiwa, ‘Unemployment and the formation of duty-free zones’, *Journal of Development Economics* 26.2 (1987). Leslie Young, ‘Intermediate goods and the formation of duty-free zones’, *Journal of Development Economics* 25.2 (1987). Leslie Young, ‘Unemployment and the optimal export-processing zone’, *Journal of Development Economics* 37.1 (1991).

substantial administrative and capital costs.¹² Peter Warr's oft-cited contributions introduce the enclave model to conceptualise the relationship between EPZs and the domestic economy.¹³ He argues that capital and financial flows between zones and the international economy are not relevant to the domestic impact of zones due to their enclave status, and thus the only relevant benefits generated by zones in Indonesia, Malaysia and Pakistan came from foreign exchange earnings and employment. He concluded that these benefits are minimal and zones are far from engines of economic development. He also highlights the 'footloose' nature of firms that locate within the zones. Using an updated enclave model, Kankesu Jayanthakumaran found that internal rates of return were quite high in a subset of East and Southeast Asian zones, and thus the welfare benefits of zones may be quite substantial.¹⁴ Like neoclassical analyses, cost-benefit ones focus almost exclusively on the primary outcomes of zones as tools of international trade; they gauge whether a zone is profitable, not whether it is beneficial.¹⁵

Herbert Grubel—in a 1982 paper on advanced country zones—was the first to argue that zones may have secondary effects on the domestic economy beyond revenue and employment.¹⁶ However, it was not until the mid-1990s that the potential catalysing effect of the zone institution was taken up in an analytically sustained fashion. Helena Johansson argues from a growth theory perspective that multinationals in EPZs offer domestic firms access to international distribution channels and knowledge. This demonstration effect may catalyse the export supply response and push policy liberalisation in the wider

¹² For an overview of this literature, see Kankesu Jayanthakumaran, 'Benefit–cost appraisals of export processing zones: A survey of the literature', *Development Policy Review* 21.1 (2003).

¹³ Peter G. Warr, 'The Jakarta export processing zone: Benefits and costs', *Bulletin of Indonesian Economic Studies* 19.3 (1983). Peter G. Warr, 'Export processing zones: The economics of enclave manufacturing', *The World Bank Research Observer* 4.1 (1989).

¹⁴ Kankesu Jayanthakumaran, 'Benefit–cost appraisals of export processing zones: A survey of the literature', *Development Policy Review* 21.1 (2003).

¹⁵ Other contributions include Jinghan Chen, 'Social cost–benefit analysis of China's Shenzhen Special Economic Zone', *Development Policy Review* 11.3 (1993). Ulrich Hiemenz and D. Spinager, *Export processing zones and free ports: Overview, role, and impact* (1987).

¹⁶ Herbert G. Grubel, 'Towards a theory of free economic zones', *Weltwirtschaftliches Archiv* 118.1 (1982).

economy.¹⁷ Johansson and Lars Nilsson offer formal modelling of this process in a later contribution.¹⁸

Over the past two decades, zone theory has shifted to emphasise this catalytic potential of zones through FDI spillovers—turning from examining the relationship between the EPZ and the international economy to its structural impact on the domestic economy. Steven Radelet—in a wide, cross-country analysis—conceptualises EPZs as export platforms that support the establishment of export-led growth through linkages between foreign and domestic exporting firms.¹⁹ Wei Ge models relationships between firms under particular EPZ regimes in order to argue that the catalytic benefits of zones are enhanced when they are designed to invite considerable domestic participation.²⁰

This reflects the evolution of the zone from trade policy alternative to economic development agent²¹. However, many of the resulting studies—investigations of backward and forward linkages and technology and skills transfer—have criticised zones for remaining economic enclaves and failing to provide promised benefits or contribute to structural change in their host countries.²² It is worth noting that the lever of this structural change is still perceived to be policy liberalisation combined with export-led growth, with the zone effect being to catalyse and hasten this shift.²³

¹⁷ Helena Johansson, 'The economics of export processing zones revisited', *Development Policy Review* 12.4 (1994).

¹⁸ Helena Johansson and Lars Nilsson, 'Export processing zones as catalysts', *World Development* 25.12 (1997).

¹⁹ Steven Radelet, 'Manufactured exports, export platforms, and economic growth', *Cambridge, Mass.: Harvard Institute for International Development Consulting Assistance on Economic Reform II* 43 (1999).

²⁰ Wei Ge, 'Export-processing zones, multinational firms, and economic system transformation', (1993).

²¹ John M. Litwack and Yingyi Qian, 'Balanced or unbalanced development: special economic zones as catalysts for transition', *Journal of Comparative Economics* 26.1 (1998).

²² Karima Omar and William Stoeber, 'The role of technology and human capital in the EPZ life-cycle,' *Transnational Corporations* 17.1 (2008). Aradhna Aggarwal, *Impact of special economic zones on employment, poverty, and human development* (Indian Council for Research on International Economic Relations New Delhi, 2007). Jean-Pierre Cling and Gaelle Letilly, 'Export processing zones: A threatened instrument for global economy insertion', *DIAL, documento de trabajo, DT/2001/17* (2001).

²³ Dorsati Madani, *A review of the role and impact of export processing zones* (World Bank, 1999).

A recent renewal of interest in SEZs by international development organisations has given rise to a new, very technocratic literature as well as a series of cross-country analyses and case study data investigating their potential as agents of economic development.²⁴ Thomas Farole builds on previous analytical work by distinguishing between static and dynamic measures of zone impacts. Static measures include the traditional economic outcomes—employment generation, foreign exchange, tax revenues and the like—that were the focus of neoclassical and cost-benefit zone theory. Dynamic measures, on the other hand, refer to the catalytic effects zones may have on the domestic economy, such as structural change, technology and skills transfer and socioeconomic benefits. This new work seeks convergence between the trade-based conceptions of SEZs (welfare-reducing enclaves that restrict or delay national liberalisation) and the development-based approach (beneficial enclaves that catalyse wider liberalisation), by identifying conditions that avoid the former and lead to the latter.

Critiques and outstanding questions

What all these strands of zone theory have in common is the operating premise that economic liberalisation (combined with export-led growth) is the main lever of economic development. Therefore, the primary value of the SEZ institution is as a tool of policy liberalisation. This uncritical assumption—regardless of whether or not it is accurate—obscures salient analytical dimensions of economic zone development and leads to three considerable shortcomings of this literature having to do with industrial policy, actors and political economy.

²⁴ FIAS. Jean-Pierre Singa Boyenge, 'ILO database on export processing zones (revised)', Sectoral Activities Programme Working Paper (2007). Thomas Farole and Gokhan Akinci, Special economic zones: Progress, emerging challenges, and future directions (World Bank Publications, 2011).

Firstly, the characterisation of economic zones as solely tools of policy liberalisation overlooks their role as tools of industrial policy. As will be discussed in the following chapter in reference to Chinese zones, the most successful zone programmes have not necessarily been in countries with the best track records on liberalisation, but where they form part of a broader industrial development strategy. Contrary to the perception that the true value of the SEZ is that the state gets out of the way and allows the market to work, in many cases it is precisely an active industrial policy framework that enables zones to contribute to economic transformation in a meaningful way. Thus, any useful investigation into the catalysing effects of zone projects needs to put the state back into the analysis and engage with wider debates on industrial policy and economic liberalism.

Secondly, while there is a good deal of emphasis on zone structure and diverse policy frameworks, there is minimal attention paid to actors. Chief among these are the firms that locate within zones—and in recent years frequently develop them either alone or in partnership with national or local governments. For the most part zone literature assumes the fungibility of multinational firms inside zones and the uniformity of their motives and impacts. However, all multinationals are not the same, and a firm's behaviour and relationship to the host economy may be shaped by origin, size or other factors. There are indications that SEZs tend to attract inexperienced multinationals and those from developing countries. Johansson notes this trend in passing.

The well-established and experienced 'old' MNCs did not need the incentives offered in the EPZs and instead based their locational decisions on other factors. For emerging MNCs, on the other hand, the secure EPZ environment reduced some of the risks associated with foreign production.²⁵

²⁵ Johansson 1994.

She thus suggests that the catalysing benefits of zones may operate in two dimensions: for domestic firms learning to produce for export, and for inexperienced multinationals from other developing countries learning to operate internationally. This marks one of the few brief discussions of the interface between foreign and domestic firms in zone theory; however, it is not picked up in any sustained fashion. Further reflection on these economic actors—their size, motives, country of origin and types of links to global production networks—is a clear gap in SEZ literature.

Similarly, zone theory provides no framework for analysis of the role of other non-state actors and social forces in shaping the institutional environment and facilitating or protesting against zone projects. Local communities who agitate for employment rights or compensation for land is a common challenge for zone projects, as is grappling with the social and environmental impacts of rapid industrialisation. Some of the strongest critiques against zone programmes come from labour groups, who criticise EPZs for the footloose nature of the firms they attract, increased casualisation of the workforce, prohibitions against unionisation and strikes, and lower labour standards than the domestic economy.²⁶ The differentiated ways zones interact with host societies—with workers, with markets, with residents and with the environment—needs space in the dialogue.²⁷

Finally, there is little attention paid to the political economy of zone development and operation. Theoretical work on SEZs has for the most part been concerned with measurable economic outcomes only. This is problematic for two reasons. One, the capital-intensive nature of zone development means that, especially for larger,

²⁶ International Confederation of Free Trade Unions, Export processing zones: Symbols of exploitation and a development dead-end (Brussels: ICFTU, 2003). International Confederation of Free Trade Unions, Behind the brand names: Working conditions and labour rights in export processing zones (Brussels: ICFTU, 2004).

²⁷ Debates on social and environmental costs associated with industrial development in general and SEZs in particular are increasingly prominent in particular contexts—China being a main example.

comprehensive zones, it might take up to a decade of development before these outcomes materialise. Two, an overreliance on zone outcomes comes at the expense of observing the process of SEZ development. As we will see in the following empirical chapters, this is a process that is often highly politicised, rooted in domestic political economy, and also reliant on international economic trends.

Jing-dong Yuan and Lorraine Eden's work is a singular attempt to build a political economy model for the assessment of SEZs. They sketch a simple and stylised analytical framework that isolates the factors that impact zone performance in three dimensions: international environment, domestic conditions and role of the state.²⁸ This framework is applied to argue that the role of the state was central to zone success in a set of East Asian countries. However, in general, zone theory leaves little scope for framing the study of new zone programmes and prospects, the political economy of their development, and their varied interactions with shifting global and local realities. This narrow focus tends to restrict policy recommendations to a 'one size fits all' recipe of best practices that removes the politics.²⁹

Traditional zone theory falls short in terms of assessing the roles and motives of diverse stakeholders engaged in building a global economic institution in a particular local environment. The next section turns to other conceptual contributions that may be useful in addressing these gaps and building a more nuanced model of state-firm-society interaction from which to view the political economy of economic zone development.

²⁸ Jing-dong Yuan and Lorraine Eden, 'Export processing zones in Asia: A comparative study', *Asian Survey* 32.11 (1992).

²⁹ There is a wide case study literature on individual zones, some of which do explore these political and institutional issues in reference to particular zones. See, for example, John Kuada, 'Linkages and upgrading in Ghana's export processing zones', *Internationalization and enterprise development in Ghana* (2005). Jean-Pierre Cling, Mireille Razafindrakoto and François Roubaud, 'Export processing zones in Madagascar: An endangered success story', (2004).

OTHER CONCEPTUAL CONTRIBUTIONS

The last section highlighted some of the main shortcomings in conceptual literature on SEZs in terms of industrial policy, non-state actors like firms and host societies, and the political economy of zone development. This section explores some theoretical arguments related to these dimensions that may prove useful in a more expansive and nuanced analysis of SEZs, the actors that build and populate them, and their links to the global economy.

Bringing in the state: special economic zones as industrial policy

The debates over drivers of industrialisation and growth in the developing world are highly contested and fiercely ideological. Neoclassical economists call for the continual reduction of tariff and trade barriers and argue that the role of the state should be confined to that of facilitator—one that focuses on creating a good environment for trade and investment and lets the market do the rest. Proponents of more structural and institutional approaches contend that an active state is paramount if increased global integration is to lead to broad-based economic development. At the crux of this debate is the question of industrial policy.

Industrial policy is defined by one of its foremost champions as ‘a policy aimed at *particular industries* (and firms as their components) to achieve the outcomes that are *perceived by the state* to be *efficient for the economy as a whole*’.³⁰ Kotaro Suzumura expands on this to identify four categories of industrial policies: those focused on the nation’s industrial structure; those focused on technology development and addressing

³⁰ Ha-Joon Chang, The political economy of industrial policy (London: Macmillan, 1993).

information failures; administrative intervention in the organisation of specific industries; and those that are politically rather than economically motivated.³¹ In practice, these distinctions are often lost in a more general argument over the efficacy of any industrial policy at all.

The argument for or against industrial policy is often presented in black and white terms, where both sides marshal data from the same case studies to buttress their stance. In the Asian context, proponents of industrial policy emphasise the active role of strong states that managed foreign competition and massively subsidised domestic industry to explain the success stories of Japan, Korea, Taiwan and, more recently, China. Advocates for liberalisation highlight the outward orientation of these same economies and their wholesale adoption of international trade as the primary drivers of economic development, despite meddling by the state.³²

The same debate rages in regard to explaining Africa's economic failures. The pro-industrial policy side maintains that post-independence import-substitution strategies in many African countries were slowly working, and blames the shock liberalisation of structural adjustment in the 1980s for the consistent decline of African manufacturing in the ensuing decades. The pro-liberalisation camp uses the same evidence to argue the exact opposite: that protectionist policies crippled African economic development and the insufficient application of adjustment policies is responsible for anaemic growth since.³³

³¹ Kotaro Suzumura, 'Industrial policy in developing market economies', Development Strategy and Management of the Market Economy 1 (2000).

³² For a more nuanced version of this debate using the case of Korea, see Justin Lin and Ha-Joon Chang, 'Should industrial policy in developing countries conform to comparative advantage or defy it? A debate between Justin Lin and Ha-Joon Chang', Development Policy Review 27.5 (2009).

³³ For overviews of this debate see Ha-Joon Chang, Kicking away the ladder (London: Anthem Press, 2002). Anne O. Krueger and Andrew Berg, Trade, growth, and poverty: A selective survey (International Monetary Fund, 2003). David Dollar and Aart Kraay, Trade, growth, and poverty (World Bank, Development Research Group, 2001). For its relevance to Africa, see Charles C. Soludo, Michael Osita Ogbu, and Ha-Joon Chang, The politics of trade and industrial policy in Africa: Forced consensus? (IDRC, 2004). P. Thandika Mkandawire, Our continent, our future: African perspectives on structural adjustment (IDRC, 1999).

This ideological debate tends to treat industrial policy—and economic liberalisation more widely—as an on/off switch. Analytical treatments focus on a series of dichotomies: free trade versus industrial policy; import-substituting versus export-led industrialisation; foreign versus domestic production; outward- versus inward-facing economies. Admittedly, this is an oversimplification; however, the black and white character of much of this literature ignores the fact that all industrialised countries have used some combination of industrial policy and gradual integration with the global economy to facilitate their development. A more substantive focus should rather be on issues of application and degree: which types of industrial policy work and which do not; which sectors of the economy benefit most from support and how that support should be targeted; whether different rules should apply to production for the domestic market versus that for export; and how the speed and sequencing of economic liberalisation can best be managed.

Rather than an on/off switch, a more apt metaphor for industrial policy might be that of a large number of policy toggles that can be moved along an intervention spectrum from high to low depending on a country's particular needs. Sanjaya Lall discusses the interplay of incentives, capabilities and institutions in order to create a framework for industrialisation and technological change in latecomer countries.³⁴ He argues that the application of targeted incentives—or industrial policy—is necessary for national economic upgrading, but they must be the right interventions. Other nuanced contributions focus on the fusion of foreign technology and domestic capacities in the pursuit of technology acquisition for industrialisation.³⁵ And more recent work has conceptualised

³⁴ Sanjaya Lall, 'Technological capabilities and industrialization,' *World Development* 20.2 (1992).

³⁵ Carl J. Dahlman, Bruce Ross-Larson, and Larry E. Westphal, 'Managing technological development: lessons from the newly industrializing countries', *World Development* 15.6 (1987).

industrial policy as the tools states use to finance learning, rather than as a synonym for protectionist policies.³⁶

Discussions of industrial policy often focus on financial transfers—like subsidies, tariffs, import bans and quotas—that are increasingly outlawed in a post-WTO world. However, in his discussion of the East Asian experience, Chang identifies a number of other ways in which the state supported the emergence of domestic industry:³⁷

- Coordination of complementary investments (the ‘big push’)
- Coordination of competing investments through entry regulation, investment cartels and negotiated capacity cuts in declining industries
- Policies to ensure scale economies, such as conditional licensing, export support for infant industries and state facilitation of mergers and acquisitions
- Regulations on technology imports
- FDI regulations such as entry and ownership restrictions, local contents requirement, technology transfer requirements and export requirements
- Mandatory worker training for larger firms
- State incubation of high-tech firms
- Export promotion through subsidies, loan guarantees and marketing support
- Government allocation of foreign exchange to prioritise capital goods for export industries rather than luxury consumption goods

He advocates a mix of free trade, export promotion and infant industry protection that uses highly targeted industrial policy to enhance productive capability and lower barriers to

³⁶ Lindsay Whitfield, ‘The politics of production in Ghana’, paper given at African History and Politics Seminar, Queen Elizabeth House, 11 February 2013.

³⁷ Ha-Joon Chang, ‘Industrial policy: Can we go beyond an unproductive confrontation?’ (2009).

entry for important sectors and firms. Thus, the goal of industrial policy is to offset some of the costs of globalisation for latecomers while channelling its benefits into catching up as quickly as possible.

Within this context, SEZs can best be viewed as an industrial policy tool. Economic zones have always been most successful in places where they have been well integrated into national industrial development planning. Similarly, as will be argued in the next chapter with regard to SEZs in China, the particular incentive and policy framework offered within zones has often been linked to these wider domestic goals. Ideally, it thus addresses many of the issues listed above rather than simply providing a friendly, unregulated space for foreign multinationals engaged in international trade. However, this role of the SEZ as domestic industrial policy is complicated when foreign firms, rather than the state, are the zone architects.

Focus on the firm: origin, size, and behaviour

Although the SEZ is fundamentally an industrial policy tool focused on structural change in the domestic economy, the primary actors involved often are foreign firms. Differentiating these actors and their various relationships with the domestic economy is essential. This includes large multinational corporations that are increasingly designing, constructing and operating SEZs as FDI projects in developing countries. It also includes the smaller, more inexperienced firms that locate within the zones in the hopes of reducing the risks associated with internationalisation. Useful theoretical work on the firm can be divided, relatively neatly and based on firm size, into that which treats the intrafirm dynamics of the multinational corporation as the loci of analysis, and that which addresses the interfirm dynamics of SMEs in a geographical cluster.

There is a wide interdisciplinary literature on traditional multinational corporations versus those from developing countries that is rapidly growing in response to the increased salience of emerging market firms in international commerce. Early work on ‘the new multinationals’ theorised that despite their institutional immaturity, emerging multinational corporations can develop advantage vis-à-vis traditional multinational corporations in low-income host countries through localised and appropriate technology, and product and marketing strategies exported from their own domestic experience.³⁸ Newer contributions on the internationalisation strategies of firms from emerging markets,³⁹ and Chinese firms in particular,⁴⁰ explores the challenges and opportunities for new arrivals to the international business economy. Most of this work explores the competitiveness of young multinational corporations versus mature ones in established markets in a pre-crisis world.⁴¹ It is valuable for its focus on intrafirm behaviour and organisation.

In recent years, there has been a trend in the international business literature towards ‘looking out from the MNEs into the societies in which they are operating’⁴² in order to assess the role of multinationals as ‘socially responsible citizens’. Klaus Meyer builds an agent-oriented framework in order to focus on empirical evidence of positive or negative externalities as a result of FDI spillover in developing countries. This includes linkages between the parent company, the FDI project and domestic firms, as well as including

³⁸ Sanjaya Lall, ed. *The new multinationals: the spread of third world enterprises* (Chichester: Wiley/IRM Series on Multinationals, 1983).

³⁹ John Mathews, ‘Dragon multinationals: New players in 21st century globalization’, *Asia Pacific Journal of Management* 23.5 (2006). Andrea E. Goldstein, *Multinational companies from emerging economies: composition, conceptualization and direction in the global economy* (Basingstoke: Palgrave Macmillan, 2009).

⁴⁰ Peter Nolan, *China at the crossroads* (Cambridge: Polity, 2004).

⁴¹ Ravi Ramamurti, ‘What is really different about emerging market multinationals?’ *Global Strategy Journal* 2.1 (2012). Karl P. Sauvant, Geraldine A. McAllister, and Wolfgang A. Maschek, *Foreign direct investments from emerging markets: the challenges ahead* (Palgrave Macmillan, 2010).

⁴² Klaus E. Meyer, ‘Perspectives on multinational enterprises in emerging economies’, *Journal of International Business Studies* 35.4 (2004) offers an excellent review of this literature and a research agenda.

analytical categories for the natural environment, social issues, macroeconomy and institutions. Ravi Ramamurti adds a discussion of the particular effects of firms from emerging markets versus traditional ones to this analysis, as well as rightly demanding that other agents, such as strong home country governments, be included in the analysis.⁴³ This research agenda is very welcome as questions of FDI spillover have largely been pursued by economists in the past, and tended to focus on productivity effects rather than firm characteristics and relationships.⁴⁴

For our purposes, the other relevant literature on firm behaviour is the sizeable one on clusters and networks and their catalysing effects.⁴⁵ Michael Porter defines clusters as ‘geographic concentrations of interconnected companies and institutions in a particular field, linked by commonalities and complementarities’.⁴⁶ Cluster theory investigates the benefits of geographical proximity on firm success, arguing that it lowers input costs, confers agglomeration advantages and generates knowledge spillover.⁴⁷ Douglas Zhihua Zeng, in his work on African clusters, identifies two types: spontaneous and constructed. Most cluster theory examines the former; however, economic zones obviously fall into the latter category⁴⁸ in that they attempt to engineer the environment in which these spontaneous economic processes can occur.

⁴³ Ravi Ramamurti, ‘Developing countries and MNEs: extending and enriching the research agenda’, *Journal of International Business Studies* 35.4 (2004). Ravi Ramamurti and Jitendra V. Singh, *Emerging multinationals in emerging markets* (Cambridge: Cambridge University Press, 2009).

⁴⁴ Xiaming Liu, et al, ‘Productivity spillovers from foreign direct investment: evidence from UK industry level panel data’, *Journal of International Business Studies* 31.3 (2000). Peter J. Buckley, Jeremy Clegg, and Chengqi Wang, ‘The impact of inward FDI on the performance of Chinese manufacturing firms’, *Journal of International Business Studies* 33.4 (2002). Galina Hale and Cheryl Long, ‘Are there productivity spillovers from foreign direct investment in China?’ *Pacific Economic Review* 16.2 (2011). For an exception, see Yan Zhang, et al, ‘FDI spillovers in an emerging market: the role of foreign firms’ country origin diversity and domestic firms’ absorptive capacity’, *Strategic Management Journal* 31.9 (2010).

⁴⁵ For a comprehensive overview of this literature, see, for example, Hal Wolman and Diana Hincapie, *Clusters and cluster-based development: A literature review and policy discussion* (Washington DC: George Washington Institute of Public Policy, 2010).

⁴⁶ Michael E. Porter, *Clusters and the new economics of competition* (Harvard Business Review, 1998). Paul R. Krugman, *Geography and trade* (Cambridge: MIT press, 1991).

⁴⁷ Tyler Biggs and Manju Kedia Shah, ‘African SMEs, networks, and manufacturing performance’, *Journal of Banking and Finance* 30 (2006). Meine Pieter van Dijk and Roberta Rabellotti, eds. *Enterprise clusters and networks in developing countries* (London: Frank Cass, 1997).

⁴⁸ Douglas Zhihua Zeng, *Knowledge, technology, and cluster-based growth in Africa*, (World Bank, 2008).

Yet, even spontaneous clusters do not automatically provide local linkages and innovation benefits as a result of geography alone,⁴⁹ but require institutional and physical infrastructure in order to scale up. This is especially true if cluster firms are producing for the international market and thus need to insert themselves into global production networks. There are several notable examples of informal African clusters that benefitted from links with Asian production networks, including the Otigba and Nnewi clusters in Nigeria⁵⁰ as well as textile clusters in South Africa and Mauritius.⁵¹ This literature is valuable in revealing interfirm relationships, especially among smaller firms, as well as defining the microprocesses that facilitate and obstruct knowledge transfer between them.

Understanding both these small and large actors is important because of the differentiated roles of each in SEZs. As is argued in chapter six, large Chinese multinational firms are developing and operating SEZs as FDI projects in Africa; they then act as mediators for smaller Chinese firms seeking to reduce the risk of their initial forays into foreign markets. The emerging-market multinationals literature is instructive in framing the motives and behaviour of the former, the cluster literature in analysing the linkages between the latter and the domestic economy. These multinational corporations are not only seeking new production sites to serve traditional markets, but are attempting to build new production networks to serve African markets.

⁴⁹ Lynn K. Mytelka and Lou Anne Barclay, 'Using foreign investment strategically for innovation', The European Journal of Development Research 16.3 (2004).

⁵⁰ Deborah Brautigam, 'Substituting for the state: Institutions and industrial development in eastern Nigeria', World Development 25.7 (1997). Boladale Oluyomi Abiola, 'The Otigba computer village cluster in Nigeria', Knowledge, technology, and cluster-based growth in Africa, Douglas Zhihua Zeng, ed. (World Bank, 2008).

⁵¹ Rojiti Sawkut, 'The Western Cape textile and clothing cluster in South Africa', Knowledge, technology, and cluster-based growth in Africa, Douglas Zhihua Zeng, ed. (World Bank, 2008). Deborah Brautigam, 'Close encounters: Chinese business networks as industrial catalysts in sub-Saharan Africa', African Affairs 102 (2003).

Regional perspectives

The developmental trajectories of East Asia and Africa have been quite different in terms of endowments, insertion into the global economy and ideology. Unsurprisingly, the dominant regional theoretical discourses on industrialisation, industrial policy and the role of the state, and the character of firms and foreign capital also diverge widely. The discussion below—by no means an exhaustive one—highlights some of these differences in the review of two salient regional traditions.

Flying geese and the East Asian experience

The East Asian discourse on economic development has largely been focused on growth and the success of rapid export-oriented industrialisation. For our purposes, certainly the most relevant theoretical framing of the role of states and international firms in East Asian industrialisation is that of the ‘flying geese’. The flying geese paradigm of economic development is one used to model the regional transmission of industrial production in East Asia in particular. Kaname Akamatsu’s 1930s work on industrial development in pre-war Japan was published in English in the 1960s, and popularised in a 1985 address by Saburo Okita.⁵² It has remained a useful explanatory framework for the experience of successive generations of East Asia’s newly industrialising countries. He explains catch-up industrialisation in latecomer economies due to an evolving ‘international economic relationship with the advanced countries’ that proceeds in four stages:⁵³

- Stage one: Export of primary commodities and importation of industrial and consumer products

⁵² S. Okita, Special presentation: prospect of Pacific economies. Korea Development Institute. Pacific cooperation: issues and opportunities. Report of the Fourth Pacific Economic Cooperation Conference, Seoul, Korea, (1985).

⁵³ Kaname Akamatsu, ‘A theory of unbalanced growth in the world economy,’ Weltwirtschaftliches Archiv (1961).

- Stage two: Domestic production of economic goods for domestic market. This is due to a combination of market forces—the concentration of purchasing power makes it profitable and draws domestic capital—and industrial policy, which facilitates this trend. Consumer goods imports fall and machinery imports rise
- Stage three: Domestic consumer goods develop into export industry, and domestic production of imported machinery begins
- Stage four: Exports of consumer goods decline as production moves to other less-developed countries, and capital goods exports rise

In this way, more advanced countries lead less-advanced ones—mimicking the V-shaped pattern of geese in flight—in a process of industrial development marked by growing regional economic integration. This provides a framework for industrial upgrading at the level of the national economy, rather than at the firm level. This process is driven by the necessities of economic restructuring in the lead country. However, firms are the primary mechanism of transmission as they make decisions to shift production and transfer technology to less-developed countries. ‘The [flying geese] paradigm presents large firms as “benevolent” conveyors of industrial knowledge—mostly industry-specific rather than firm-specific—from one national economy to another.’⁵⁴ New flying geese theory focuses on this role of the transnational firm.

Kiyoshi Kojima argues that the flying geese model has been conflated with arguments for pro-trade FDI-led growth. Thus it has come to be used to define the regional transmission of goods, technology and capital rather than as a framework for the catch-up

⁵⁴ Shigehisa Kasahara, ‘The flying geese paradigm: a critical study of its application to East Asian regional development,’ (2004). p. 7.

industrialisation that is the goal of that transmission.⁵⁵ Certainly, the original model establishes the role of the state both in the lead countries—in facilitating structural change—and in the following countries—in supporting domestic production. Lai Si Tsui-Auch discusses this link as well as the developmental impact of firms from different origins in Asian regional production networks,⁵⁶ in other words, this is clearly the marriage of foreign investment and industrial policy. However, new flying geese contributions tend to focus more on the role of FDI as an alternative to industrial policy, rather than as a complementary influence, and the geese have often been recast as leading and following firms rather than nations.⁵⁷

This framework has recently been revived with regard to rebalancing in Asia and the offshoring of Chinese manufacturing capacity. Justin Lin and others have expanded on the concept and introduced the ‘leading dragon’ framework to describe this process in reference to Chinese firms in particular.⁵⁸ They argue that China’s sheer size meant that it absorbed nearly all labour-intensive jobs, hindering attempts of other developing countries to catalyse low-skilled manufacturing. Rising wages and increased industrial upgrading in China will cause the shedding of these jobs, and the transfer of manufacturing FDI to low-income countries. They add the idea of comparative-advantage-following (CAF) versus comparative-advantage-defying (CAD) industries. In keeping with the World Bank’s theoretical bias against industrial policy, they argue that protectionist policies are not necessary as long as countries pursue industries in which they have comparative advantage.

⁵⁵ Kiyoshi Kojima, ‘The “flying geese” model of Asian economic development: origin, theoretical extensions, and regional policy implications,’ *Journal of Asian Economics* 11.4 (2000).

⁵⁶ Lai Si Tsui-Auch, ‘Regional production relationships and developmental impacts: A comparative study of three production networks,’ *International Journal of Urban and Regional Research* 23.2 (1999). Lai Si Tsui-Auch, ‘Unpacking regional ethnicity and the strength of ties in shaping ethnic entrepreneurship,’ *Organization Studies* 26.8 (2005).

⁵⁷ Kasahara, Terutomo Ozawa, ‘Foreign direct investment and economic development,’ *Transnational Corporations* 1.1 (1992).

⁵⁸ Chandra, Lin and Wang.

Marx versus the World Bank in Africa

Historically, two competing economic development ideologies have been most prominent in Africa: the dependency discourse promoted by heterodox academics, and the neoliberal discourse promulgated by international development institutions like the World Bank and the International Monetary Fund (IMF). The wide development literature on dependency theory and underdevelopment⁵⁹—emerging in the 1970s as a critique of modernisation theory and based on the development experience of Latin America—is rooted in a Marxist critique of the asymmetrical relationships between industrial capitalist countries and developing countries. In terms of economic development, the debate revolves around whether developing world industrialisation is even possible given the constraints of the current capitalist system, in which foreign capital and unfavourable terms of trade distort and hamper industrial development.⁶⁰

A related body of work on the development of capitalism in the African context takes issue with dependency theorists' concern with 'foreign scapegoats',⁶¹ and utilises a Marxist framework to examine the emergence of domestic capitalist classes in response to shifts in the global capitalist system.⁶² While there is discussion of the emergence of the multinational corporation, and of foreign firms versus local firms,⁶³ the characteristics of

⁵⁹ Andre Gunder Frank, *Capitalism and underdevelopment in Latin America: Historical studies of Chile and Brazil* (Harmondsworth: Penguin, 1969). Fernando Henrique Cardoso, *Dependency and development in Latin America*, ed. Enzo Faletto (Berkeley: University of California Press, 1979).

⁶⁰ For a concise overview of these debates see Gabriel Palma, 'Dependency: A formal theory of underdevelopment or a methodology for the analysis of concrete situations of underdevelopment?' *World Development* 6 (1978). For examples of its application to the African context, see Samir Amin, *Maldevelopment: Anatomy of a global failure* (London: Zed, 1990). Walter Rodney, 'How Europe underdeveloped Africa', *Beyond borders: Thinking critically about global issues* (1972). Björn Beckman, 'Imperialism and capitalist transformation: Critique of a Kenyan debate', *Review of African Political Economy* 7.19 (1980).

⁶¹ John Sender, *The development of capitalism in Africa*, ed. Sheila Smith (London: Methuen, 1986).

⁶² Colin Leys, 'African capitalists and development', *African capitalists in African development*, ed. Bruce Berman and Colin Leys (London: Lynne Rienner Publishers, 1994). Janet MacGaffey, *Entrepreneurs and parasites: The struggle for indigenous capitalism in Zaire* (Cambridge: Cambridge University Press, 1987).

⁶³ Peter B. Evans, *Dependent development: The alliance of multinational, state, and local capital in Brazil* (Princeton: Princeton University Press, 1979).

these actors are not under study. Rather, the primary focus is political and concerned with partnerships with domestic elites, internal change and class formation. Another strand of literature based on the role of state policy in supporting or hindering industrialisation critiques the ramifications of neoliberal structural adjustment policies—and their focus on open markets and a limited state—for African industrialisation.⁶⁴

The familiar neoliberal position has been ascendent in African policymaking for the last two decades, and touts the benefits of open economies, minimal regulation and a limited role for the state. These approaches have been tremendously influential in international development organisations, and were largely responsible for guiding much maligned structural adjustment policies (SAPs) in many developing countries throughout the 1990s. They treat the populations of developing countries as rational consumers and argue that unrestricted interaction with the global economic system will eventually balance asymmetries between countries. Thus, the presence of foreign capital and foreign goods in a developing economy helps rather than hinders economic development goals. The impacts of these theoretical discourses on African economic policymaking are considered in a more sustained discussion of the politico-institutional environment in Nigeria in chapter four.

Thus, discussions of industrialisation in Africa over the last several decades have largely been subsumed by this wider development discourse—especially against a backdrop of deindustrialisation and economic stagnation in many African countries. However, there are whispers of a renewed interest in structural change in Africa, and belated recognition

⁶⁴ Kate Meagher, 'A back door to globalisation? Structural adjustment, globalisation and transborder trade in West Africa', *Review of African Political Economy* 30.95 (2003). Paul Bennell, 'Industrial restructuring in Africa during the 1990s: Outcomes and prospects', *Paper prepared for the African Development Report* (1998). Thandika Mkandawire, 'Maladjusted African economies and globalization', *Africa Development* 30.1 (2005).

of the centrality of manufacturing and industry to economic development.⁶⁵ A recent special feature of the *Journal of African Economies* argued for a new emphasis on industrialisation; its contributions focus on addressing infrastructure and skill gaps,⁶⁶ appropriate roles for the state in promoting industrialisation, and incorporating industrial policy lessons from the East Asian experience.⁶⁷ However, these mark a departure from a regional discourse that has long ignored industrialisation, manufacturing and the levers of structural economic change.

This stylised overview of a few key regional discourses on the role of foreign capital in industrial development in East Asia and Africa is not meant to be an exhaustive investigation of competing theoretical visions. Its purpose is rather to highlight a few examples of the ways in which the framing of economic processes and actors differs markedly: Akamatsu's 'benevolent firm' and the strong enabling states that feature in East Asian economic literature versus African discussions of colonial exploitation, patrimonial elites and kleptocratic states. As will be seen in later chapters, these differences in perception and expectation are often echoed by policymakers and are quite powerful when it comes to defining partnerships between Asian and African actors.

Linking it up: chain and network approaches

This theoretical discussion now turns from particular units of analysis—namely, states and firms—to the ways they are linked together in global chains and networks. Over the past several decades, the expanding scope, scale and geographic complexity of global production, trade and distribution has necessitated new ways of looking at states, markets,

⁶⁵ John Page, 'Should Africa industrialize?' *Pathways to industrialization in the twenty-first century: New challenges and emerging paradigms* (2013).

⁶⁶ John Page, 'Can Africa industrialise?' *Journal of African Economies* 21.2 (2012).

⁶⁷ Celestin Monga, 'Shifting gears: Igniting structural transformation in Africa', *Journal of African Economies* 21.2 (2012).

firms and the relationships between them. Transnational actors and processes that are not encompassed by sovereign states—but cut across them in numerous ways—have become increasingly central to articulations of global capitalism. In response, various chain and network models have emerged that seek to characterise and frame the economic links between states and how capital, labour and technology move along them.

Although there have been other chain and network concepts,⁶⁸ the dominant literature grew out of work on commodity chains from within the world-systems tradition of development theory.⁶⁹ Global commodity chain (GCC) literature took insights from multinational corporation theory and organisational sociology to focus on linkages between developing country exporters and global markets in modern agricultural and manufacturing industries.⁷⁰ ‘GCC researchers understand commodity chains as sets of interfirm networks which connect manufacturers, suppliers and subcontractors in global industries to each other, and ultimately to international markets, and they are principally concerned with the question of how participation in commodity chains can facilitate industrial upgrading for developing country exporters.’⁷¹ Gary Gereffi identifies five analytical dimensions of these chains: an input-output structure—for examining how raw materials are transformed into final products; territoriality—or the ways these chains ‘touch down’ in particular places; governance—the relationships between lead firms and supplier firms; institutional context; and upgrading—to examine the processes that allow firms to move up value chains.⁷²

⁶⁸ For an extensive genealogy of these literatures, see Jennifer Bair, ed. *Frontiers of commodity chain research* (Stanford: Stanford University Press, 2009).

⁶⁹ Terence K. Hopkins and Immanuel Wallerstein, ‘Patterns of development of the modern world-system’, (1977). Terence K. Hopkins and Immanuel Wallerstein, ‘Commodity chains in the world-economy prior to 1800’, (1986).

⁷⁰ Gary Gereffi, ‘The organization of buyer-driven global commodity chains: How US retailers shape overseas production networks’, *Contributions in Economics and Economic History* (1994).

⁷¹ Jennifer Bair, ‘Global capitalism and commodity chains: Looking back, going forward’, *Competition and Change* 9.2 (2005).

⁷² Gary Gereffi, ‘International trade and industrial upgrading in the apparel commodity chain’, *Journal of International Economics* 48.1 (1999). Gary Gereffi, John Humphrey, and Timothy Sturgeon, ‘The governance of global value chains’, *Review of international political economy* 12.1 (2005).

The next generation of work on GCCs—now reimagined as global value chains (GVC)—merges with theories of international business and competitiveness⁷³ and adds an increased emphasis on sectoral differences in the governance and industrial upgrading dimensions of chain analysis. The value of the GVC framework is in its focus on international production instead of trade, creating analytical space for the study of interfirm power relations and how they are articulated across multiple geographies and institutional contexts. Useful work links literature on industrial clusters and value chains in order to argue that the ways in which an industrial cluster is inserted into a particular global chain impacts upgrading channels for domestic firms.⁷⁴ Other contributions discuss the impact of ‘market making’ retail firms creating supply networks of producer firms in East Asia,⁷⁵ and the agency of developing country actors creating markets for their primary goods in the case of the coffee trade in Brazil.⁷⁶

However, in practice, case studies in the GCC and GVC tradition have focused primarily on the issue of chain governance with a narrow focus on the relationship between the lead firm and first-tier suppliers. There has been some work on the political economy of the ways value chains implant in particular contexts—such as Paul Gellert’s work on state-industrialist relations in Indonesia’s timber industry,⁷⁷ and interesting contributions on the effects of buyer-driven global value chains on African firms.⁷⁸ However, the political and institutional contexts at the origin, the production sites and the final market that anchor

⁷³ Michael E. Porter, *The competitive advantage of nations* (London: Macmillan, 1990).

⁷⁴ John Humphrey and Hubert Schmitz, ‘How does insertion in global value chains affect upgrading in industrial clusters?’ *Regional Studies* 36.9 (2002). John Humphrey and Hubert Schmitz, ‘Governance and upgrading: Linking industrial cluster and global value chain research’, (2000).

⁷⁵ Gary Hamilton and Gary Gereffi, ‘Global commodity chains, market makers, and the rise of demand-responsive economies’, *Frontiers of commodity chain research* (2009).

⁷⁶ Steven Topik, ‘Historicizing commodity chains: Five hundred years of the global coffee commodity chain’, *Frontiers of commodity chain research*, ed. Jennifer Bair (Palo Alto: Stanford University Press, 2009).

⁷⁷ P. K. Gellert, ‘Renegotiating a timber commodity chain: Lessons from Indonesia on the political construction of global commodity chains’, *Sociological Forum* 18.1 (2003).

⁷⁸ Peter Gibbon, *Trading down: Africa, value chains, and the global economy*, ed. Stefano Ponte (Philadelphia: Temple University Press, 2005). Primo.

value chains have been largely ignored in the empirical literature thus far. Also, the emphasis on upgrading only at the level of the firm overlooks questions of economy-wide structural transition. As Bair argues, the upgrading discourse thus ‘sheds a very partial light on the critical question of winners and losers in today’s global economy’.⁷⁹

A related literature on global production networks (GPNs) has evolved in dialogue with the GCC-GVC material and attempts to address some of these critiques. GPN proponents take issue with the vertical and linear nature of chain analyses, arguing that ‘such processes are better conceptualised as being highly complex network structures in which there are intricate links—horizontal, diagonal as well as vertical—forming multi-dimensional, multi-layered lattices of economic activity’.⁸⁰ Conceptually, GPN analysis picks up the dimensions identified but then largely ignored by GCC theorists—issues of territoriality, institutions in locations along the production chain, and the articulation of transnational activities within the confines of the nation state—and expands on their multi-scalar nature.⁸¹

Henderson and others identify three conceptual categories: value (creation, enhancement and capture); power (corporate, institutional, collective); and embeddedness (territorial and network). These categories are crosscut by four conceptual dimensions: firms, sectors, networks and institutions.⁸² This is useful in that it provides a framework for analysis of how chains are simultaneously embedded in their home institutional environment and anchored in their host institutional environment, while allowing for the stratified nature of those institutions and the differentiated actors that inhabit them. There is also an emphasis

⁷⁹ Bair.

⁸⁰ Jeffrey Henderson, et al, ‘Global production networks and the analysis of economic development’, Review of International Political Economy 9.3 (2002), p. 442.

⁸¹ M. Hess and H. Yeung, ‘Whither global production networks in economic geography: Past, present and future’, Environment and Planning A 38 (2006). Peter Dicken, et al, ‘Chains and networks, territories and scales: Towards a relational framework for analysing the global economy’, Global Networks 1.2 (2001).

⁸² Henderson et al.

on GPNs as contested spaces, where ‘each major set of actors in the global economy is involved in *both* cooperation and collaboration *and* in conflict and competition’.⁸³ While theoretically more expansive, in practice empirical work in the GCC and GPN traditions tend to take a similar methodological form: detailed case studies of value chains in particular sectors.⁸⁴ However, it is a promising framework for revealing how economic actors—like SEZ developers—are linked in diverse ways to their countries of origin, international production networks and host country environments. This application will be returned to in the final section.

This section surveyed some theoretical contributions that are useful in moving beyond the ideological debate between closed versus open economies, between import-substitution versus export-led growth; and between the primacy of the state versus that of the market. In fact, all successful countries have used a combination of both targeted industrial policy and gradual integration with the global economy in their economic development trajectories. A more robust analysis of the value of the SEZ in supporting the national industrialisation project requires a nuanced discussion of state capacity, firm behaviour and the role of stratified political and economic environments in both origin and host countries. This chapter now turns to the theoretical and empirical justification of this dissertation.

ANALYTICAL FRAMEWORK AND METHODOLOGY

For the purposes of this dissertation, the SEZ is conceptualised as a transnational industrial policy institution, embedded in one national context, anchored in another, and populated

⁸³ Neil Coe, ‘Global production networks: Realizing the potential’, *Journal of economic geography* 8.3 (2008).

⁸⁴ For a stylised application of this framework to greater China chains, see Jeffrey Henderson and Khalid Nadvi, ‘Greater China, the challenges of global production networks and the dynamics of transformation’, *Global Networks* 11.3 (2011).

by differentiated foreign and local actors. Drawing on the literatures surveyed in the previous sections, this section builds a process-oriented framework for the study of a particular type of SEZ: the Chinese overseas economic and trade cooperation zones that form the basis of this dissertation.

Towards an integrated model of zone development

This study highlights four conceptual spheres that impact on the SEZ institution—and could theoretically apply to any large-scale FDI project—as a general framework for analysis. Each of the four empirical chapters that follow takes up one of these dimensions in detail in reference to the Nigerian case. The first two are geographical, examining the ways in which national institutions manage global economic integration in the home country—or origin context—and the host country—or anchor context—respectively. The third is the structure of the zone institution itself and the ways in which it interacts with successive layers of international, federal, state and local institutions. The final dimension is the actors that build and populate the SEZ, namely, firms and their goals, organisation and links with domestic and international markets. In all cases, there is explicit focus on the often-substantial gap between policy and practice.

Both the origin context and the anchor context are concerned with how states manage integration with the global economy and the ways in which domestic priorities shape foreign policy on either side of the production chain, FDI project or zone. The origin context emphasises the institutional environment of the home country on foreign zone development decisions and prospects. China's overseas zone programme is explicitly backed by the central government and linked to domestic economic goals. Additionally, the strong formal and informal links between the Chinese government and large state-

owned and private firms makes the origin context especially significant in the Chinese case. In cases where private multinational corporations develop zones as part of their corporate expansion strategy alone, or where host country states build and manage zones themselves, this category might be less relevant. Chapter three examines the origin context by discussing the evolution of the SEZ in the Chinese context. It frames the SEZ as a globalisation-themed industrial policy tool used domestically, that is now being repurposed as a foreign policy institution in order to serve shifting domestic priorities.

The anchor context is concerned with the political, institutional and economic environment in which the project is embedded, or anchored. This dimension is particularly interested with the interface between the domestic economy and the international one, and seeks to characterise that relationship, both in terms of policy and practice. Chapter four addresses the anchor context with a sustained analysis of historical trends in industrial and economic policy in Nigeria, the political economy of investment and trade policy implementation, and the ways the nature of Nigeria's political-institutional environment shapes the evolving Nigeria-China relationship more broadly.

The structure and actor dimensions are concerned with the processes of institutional embedding—of the zone institution itself and of firms that lead and populate it, respectively—within the origin and anchor contexts. The structure dimension takes the SEZ itself as the analytical unit, and examines both the organisational structure and mechanisms of SEZ development in the case study zones, as well as both horizontal and vertical linkages and partnerships that emerge as the zone crosses national, state and local borders. Chapter five addresses zone structure, organisation and linkages in the Lekki and Ogun SEZs in Nigeria. These linkages are characterised as either horizontal—those that

enhance interaction between the zone and the domestic economy—or vertical—those that enforce the borders between them.

The actor dimension takes the firm as its primary unit of analysis. It differentiates between large developer firms and smaller zone enterprises in terms of motive, market and institutional linkages to home and host economies. Chapter six examines the prospects for Nigerian manufacturing both inside and outside the case study zones by assessing the interface between the Nigerian institutional environment and manufacturing firms—both Chinese and domestic on the one hand, and the links between firms and international and domestic markets on the other. It also compares several models of zone development in the Nigerian context with particular attention to the ways in which diverse models facilitate distinct patterns of production. It distinguishes between vertical production, where firms insert into established global production networks, and horizontal ones, where groups of firms are transplanted to the host country to establish new production networks for domestic populations.

The case study: Chinese zones in Nigeria

Due to the limited amount of data publically available on China's overseas zones, as well as the rather early stage in their development, this study stands as a preliminary exploration of a new phenomenon. As such, a single descriptive case study was selected as the primary method for two reasons, one analytical and one practical. First, a case study treatment allows for the examination of a particular transnational institution—and a particular set of international actors—as it crosses multiple borders, engages with stratified levels of policymaking and bureaucracy, and creates linkages that are both rooted in and transcend their geographic origins. This kind of fine-grained analysis of ongoing processes

and actors would not be possible in a quantitative comparative context. Second, the paucity of reliable data as well as the logistical challenges of multi-site fieldwork made multiple case studies of zones in several countries impractical for this project.

Nigeria was selected as the primary country of study for several reasons. One, the country's large market, vast resource base and regional political and economic clout make it one of China's most important partners on the continent, both at the state level and at the firm level. It is the only African country to have received two official Chinese ETCZs—the Lekki Free Trade Zone in Lagos State and the Ogun Guangdong Free Trade Zone in Ogun State, with a total projected investment of \$500 million committed by the developers—out of the five zones awarded to sub-Saharan Africa.⁸⁵ In addition to these official zones, there are at least three further industrial zones either already in operation or being developed by private Chinese companies in Nigeria: the Lee Group Industrial Zone, the Ogun-Shandong Industrial Park and the Yuemei Textile Park, as well as a large number of established Chinese industrial firms and new arrivals in the manufacturing sector. This allows for a comparative dimension to be added to the research within the same national context.

Two, despite the mediocre performance of zones established by the federal government in the 1990s, in recent years Nigeria has embarked on an ambitious nationwide zone development plan. Out of 22 zones listed in Nigeria, 12 are still in the planning or construction phases of development, making zone initiatives a significant part of the country's current industrial policy regime. Thus, in addition to the particularities of the

⁸⁵ The other sub-Saharan zones were discounted for various reasons: Mauritius Jinfei because the island has little in common with the rest of sub-Saharan Africa, and the designation of virtually the entire island as a free zone with little variation in incentive schemes offered to investors makes the Chinese simply another player on a crowded, and level, playing field; Zambia Chambishi because it is exclusively devoted to mining and metals processing (although a Lusaka processing and manufacturing subzone is currently under development, but not yet operational), and this project is more interested in manufacturing activities outside of the resource extraction sector; and Ethiopia Oriental because it has been very slow to start and is thus still in the preliminary stages of construction.

Chinese projects, questions surrounding the efficacy of zone initiatives in general—in terms of policy, institution building and outcomes—are currently very prominent in the Nigerian context.

Three, Nigeria is the only sub-Saharan African country with an official Chinese zone for which detailed data was also collected for both the recent FIAS report on SEZs, as well as Farole's World Bank monograph on African zones. This provides a certain amount of quantitative data on the evolution of its zone programme and the performance of its non-Chinese zones in comparison to those in other developing countries.

Finally, and more generally, Nigeria is one of Africa's largest and most populous economies; it is a regional leader with a tremendous amount of growth potential that is nonetheless often overlooked in academic circles because of its maddening political and business environment. The managing of the Chinese presence in Nigeria will likely set a precedent for Chinese engagement with the rest of the continent, and thus a better understanding of the nuances of that relationship will contribute valuably to the wider debate on China in Africa.

Methods and limitations

The transnational nature of the institutions and actors under study here demanded a research design that takes into account international economic and political trends, the institutional environment and policy-making process in two countries in two very different regions, as well as the motivations of diverse state and non-state actors on two continents. This allows for a nuanced view of the complex process of establishing a particular large-

scale, greenfield foreign investment project: the Chinese industrial zone. However, it also presents a number of practical and analytical challenges.

The main methods utilised include historical and documentary analysis, semi-structured elite interviews and enterprise surveys. I made two trips to Nigeria—in November-December 2011 and March-April 2012—to carry out field research in Abuja, Lagos, Lekki and Ogun. I also travelled to China in June-July 2012 to further contextualise the links between domestic Chinese policy and the overseas zone programme and to do follow-up interviews with the head offices of zone developers, Chinese officials and academics. Descriptions of methods and data sources appear where necessary in the chapters that follow; however, I have included an overview here of my general methods and the challenges associated with researching this dissertation.

I conducted over 70 interviews with officials, policymakers, zone developers, managers, directors of business organisations, as well as some well-connected academics, consultants and business leaders in both China and Nigeria. Interviews were primarily conducted in English, although a few were in Chinese. Because of the candid and sensitive nature of the discussions, and to facilitate access to well-placed individuals, I assured all my sources that I would not identify them by name in any published materials.⁸⁶ In the text, interviews are cited by location and a number (Lekki 1 for example). However, I have indicated in appendix the general title and organisation of each source, as well as particulars of when and where each interview took place.

In both Nigeria and China, I initially had limited success establishing contact through formal channels. In Nigeria this was exacerbated by the fact that telephone networks are

⁸⁶ However, I supplied a detailed list of source names and positions to the examiners so as to legitimise my method and allay any fears regarding credibility.

often down and thus most business is conducted on private mobile phones rather than office landlines. However, from a small number of personal contacts, I was able to work through informal networks, using referrals and the like to negotiate access to most senior officials and managers with whom I had hoped to speak. Where possible I interviewed multiple people within the same organisation so as not to rely on the perceptions of a single individual. I also independently confirmed information on contracts, statistics, policy, and so on, cited by informants wherever possible. When such claims were unable to be confirmed, I have either stated clearly that the material is speculation or omitted it altogether.

Similarly, I was able to gather a fair amount of data, for example, unpublished working drafts of new policy documents, internal databases kept by federal agencies and lists of investor firms in the zones. In many cases this material was given to me with the request that I avoid publishing any identifying information of particular individuals or companies. I have honoured those requests. Some of this data is very valuable and not in the public domain; however, in cases where it was clearly of questionable quality or incomplete, I have refrained from using it in my analysis. In the course of my research it became clear that record-keeping capacity in government institutions at every bureaucratic level is very low, making official data very problematic especially in terms of financial flows, industrial capacity and investment statistics.

I also developed a survey instrument for use with Chinese firms both inside and outside the zones. My plan was to administer this enterprise survey to a wide sample of Chinese firms in order to better assess their origins, ownership and management structures, perspectives and long-term goals. On my first trip to Nigeria it became clear that the Lekki zone—with only two manufacturing firms as yet on site and no actual production—was

not yet developed enough to offer the sample I had expected. The Ogun zone had approximately 15 enterprises on site; however, I was only able to administer the survey to two firm managers when I visited the zone. The other managers were either not on site or not willing to speak with me. The zone management offered to forward the survey on my behalf to the head offices of the remaining firms—most of which were in southern China. However, none of these were returned.

Regarding Chinese firms outside the zones, I had established a very close relationship with a contact in the commercial consular office in Lagos. They had generated an unofficial database of 400 firms of all sizes and sectors in the Lagos area. They were unwilling to share the contact information of these firms, but agreed to administer the survey by post on my behalf if I would allow them to proof it before sending and share my results with them. I was happy to do so. However, when I returned with the completed survey, my contact had been suddenly called back to China. I was unable to establish the same relationship with the replacement officer, though he assured me he would ‘pass them out to the companies who came to his office’. This predictably came to nothing. I then attempted to administer these surveys over the phone to the head offices in China of companies I had identified as active in Nigeria both inside and outside the zones. I employed native Chinese-speaking research assistants to canvass a sample of approximately 85 firms over the course of three weeks. However, for the most part managers were unwilling to answer questions over the phone, and I was unable to add significantly to my survey data.

Despite all these attempts to gather firm-level data, I ultimately ended up with fewer than 10 completed surveys from Chinese firms both inside and outside the zones. Because of the small number of survey responses received, using them to extrapolate anything about

Chinese firm characteristics in general is problematic. I have instead chosen to incorporate them into my data as additional interviews, and have indicated thus where appropriate. I acknowledge that one of the limitations of this dissertation is the relative lack of firm-level data—especially pertaining to the small- and medium-sized firms that populate the zones. As a result, my analytical focus in the final empirical chapter has shifted towards the role of the large developer firms. This partially reflects the much better access I had to these firms; however, given the early stages of development of both zones, I believe this approach is also analytically better suited to the circumstances.

CONCLUSION

This chapter identified a number of shortcomings in theoretical literature on SEZs, namely, those associated with industrial policy, actors and the political economy of zone development. It presented several other insights from industrial policy, firm and clustering theory, and chain and network approaches in order to reframe the SEZ as a transnational industrial policy institution and to highlight the roles of diverse state and firm actors in the process of its development. The final section introduced a four-part theoretical framework that emphasises the interface between domestic and international priorities in home and host countries, and the articulation of the SEZ institution as it stretches between them. The four empirical chapters that follow assess the dimensions of SEZ development identified here, namely, the origin and anchor contexts, structures and institutions, and firms and markets. The next chapter turns to the origin context, and examines the overseas SEZ from the standpoint of Chinese industrial and trade policy.

Chapter Three

ORIGIN CONTEXT: THE INTERNATIONALISATION OF CHINESE INDUSTRIAL POLICY

After 20 years of slow and incremental integration of foreign capital into its domestic economy, pioneered by experiments in its SEZs, in 2001 China began a significant push of its own companies and investment abroad as part of the ‘going out’ policy (*zou chuqu*) inaugurated that year. Again, SEZs are a part of the government policy toolkit, but this time China is the foreign investor establishing 16 official ETCZs in low-income countries in Africa, Asia and Latin America.

With the exception of some preliminary work on a few of the African zones,¹ there has been very little research on China’s overseas zones and minimal reporting in mainstream

¹ Deborah Brautigam, Thomas Farole, and Tang Xiaoyang, ‘China’s investment in African special economic zones: Prospects, challenges and opportunities’, *Economic Premise* 5 (2010). Gregory Mthembu-Salter, ‘Chinese investment in African free trade zones: Lessons from Nigeria’s experience’, *SAIIA China in Africa Project Policy Briefing* 10 (2009). Ana Cristina Alves, ‘Chinese economic and trade co-operation zones in Africa: The case of Mauritius’, *China in Africa Project Occasional Paper* (2011).

media in either Chinese or English. A recent and timely contribution by Brautigam and Tang Xiaoyang² is the only academic overview of the Chinese overseas zone programme to date. They consider the motivations of Beijing's economic statecraft overseas, and argue that the zone programme represents the internationalisation of the East Asian developmental state—as the government guides commercial forces outside its borders.

Zone initiatives have consistently been a central policy tool of the Chinese government in managing its increasing integration with the global economic system. In the last decade, China's domestic priorities have evolved from the importation of capital, technology and low-cost manufacturing capacity to include exportation of the same. In reference to the framework elaborated in chapter two, the goal of this chapter is to explore the ways in which China's domestic experience influences its outward investment framework generally, and the structuring of its overseas zone programme in particular. It identifies three spheres in which China's experience managing globalisation within its borders shapes its behaviour abroad—economic strategy, institutional innovation, and foreign diplomacy—and argues that the ETCZs can best be viewed not as a foreign policy tool, but as an extension of domestic economic planning that exhibits continuity at both the state and firm levels. However, the internationalisation of the SEZ institution has overlaid it with a foreign policy dimension that may complicate its economic goals.

Section one focuses on the strategic drivers of China's emerging role as an FDI exporter by considering the links between domestic industrial restructuring and the evolving outward investment policy focus on manufacturing. Section two situates the overseas zones within a broader trend of institutional repurposing—wherein Beijing takes the tools developed for managing the forces of globalisation domestically and begins to export them

² Deborah Brautigam and Xiaoyang Tang, 'Economic statecraft in China's new overseas special economic zones: Soft power, business or resource security?' *International Affairs* 88.4 (2012).

abroad. Section three examines the ETCZs in more detail and discusses the foreign diplomacy challenges presented by their dual framing as firm-led FDI projects as well as state-backed agents of economic transformation. Data comes from in-depth analysis of a number of policy documents associated with outward investment, primary source documents and zone publicity literature, as well as interviews with Chinese government officials and senior executives in a number of Chinese financial institutions.

ECONOMIC STRATEGY: DOMESTIC DRIVERS OF OUTWARD FOREIGN DIRECT INVESTMENT POLICY

In his 2011 Report on the Work of the Government, Prime Minister Wen Jiabao asserted that, ‘We will accelerate the transformation of the pattern of economic development and economic restructuring,’ and stated that, ‘China’s economy needs to be quickly put on the path of endogenous growth driven by innovation.’³ This is consistent with the focus in the last three five-year plans on engineering a more balanced economic growth model that is less dependent on exports in favour of increasing domestic consumption.

In terms of domestic industrial restructuring, the goal of the 12th five-year plan is to transition from processing activities to high-tech manufacturing and research and development—with a shift in focus from the speed of growth to the quality of industrial activities and attracted FDI—in order to expand the value chain in China. State support will shift towards research and development, high-tech and service industries in the dynamic coastal region. This has implications for outward investment priorities in that mature manufacturing and processing industries will be forced inland and abroad if they are to remain profitable and competitive.

³ Wen Jiabao, Report on the work of the government, speech delivered at the fourth session of the eleventh National People’s Congress on March 5, 2011 (Beijing: NDRC, 2011). p. 22.

The policy link between this domestic industrial upgrading and China's evolving outward investment framework is often overlooked, especially in discussions of Chinese investment in low-income countries in Africa, Asia and Latin America. The motivation for China's activities in the developing world is widely assumed to be securing access to natural resources for a rapidly expanding economy. However, a closer look at the policy goals of Beijing's outward investment framework makes it clear that this is far from the whole story.

Outward foreign direct investment flows and figures

There is no doubt that Chinese OFDI has grown rapidly over the past decade. Chinese OFDI flows are notoriously difficult to quantify, not least because the Chinese government only began publicising OFDI data in an internationally standardised format in 2003. The Ministry of Commerce tracks only government-approved projects and capital flows originating in China, and thus is prone to significant understatement. Additionally, a good deal of OFDI is channelled through tax havens, Hong Kong or foreign subsidiaries of Chinese firms, making it problematic to identify its ultimate destination.⁴ According to Ministry of Commerce statistics, Chinese global OFDI stocks stood at \$424.78 billion and flows totalled \$74.65 billion in 2011.⁵ While this represents just over two per cent of global FDI stock, the speed with which Chinese OFDI flows are growing is notable—Chinese global stocks totalled less than \$30 billion in 2002. Asia is by far the largest recipient, although the degree may be somewhat overstated due to the massive proportion of Chinese flows stored in or channelled through Hong Kong by mainland firms. In 2011

⁴ OECD FDI Newsletter, (OECD 2011); Nargiza Salidjanova, *Going out: An overview of China's outward foreign direct investment* US-China Economic & Security Review Commission Staff Report, March (USCESR 2011).

⁵ Chinese Ministry of Commerce, *2011 Statistical bulletin of China's outward foreign direct investment* (Beijing: Ministry of Commerce, 2012).

Chinese firms invested in 3,125 overseas companies in 129 countries, and FDI flows rose by 36 per cent over the previous year.⁶ Chinese FDI stock in Africa (including North Africa) was estimated at \$9.3 billion in 2009, and by the end of 2011 had grown to over \$16 billion—with South Africa, Sudan and Nigeria accounting for over 40 per cent of that total.

The Heritage Foundation Global Investment Tracker is another source of Chinese OFDI data. It began recording contracted and actual Chinese investments of over \$100 million internationally in 2005, using media reports of large deals. Heritage Foundation data records over \$56 billion (\$53 non-financial) actual investment—as opposed to \$88 billion contracted—in 2010, and an FDI stock of \$224 billion for the period 2005-2010 alone.⁷ However, Heritage Foundation numbers put cumulative Chinese FDI in Africa from 2005-2010 at \$30 billion, or 13 per cent of total stock over the same period, which is much higher than Ministry of Commerce statistics indicate. Outward FDI is dominated by SOEs and heavily weighted in monetary terms towards the primary resource sectors, although this may not take into account smaller, private companies in non-resource sectors characterised by smaller transaction amounts.

Official statistics categorise overall flows by sector, but do not provide sectoral breakdowns by destination. According to the Ministry of Commerce's 2009 statistics, over half of OFDI stocks globally are channelled into trade, retail, transport and warehousing, and business services that support the consumption of Chinese exports abroad; 16 per cent of stock is in mining, and six per cent in manufacturing.⁸ In Africa, mining is the largest sector—at 30 per cent of FDI stock—followed by manufacturing at 22 per cent and

⁶ Ministry of Commerce statistics.

⁷ Heritage Foundation Global Investment Tracker (Heritage Foundation, 2011).

⁸ Chinese Ministry of Commerce 2009.

construction at 15 per cent.⁹ However, the number of manufacturing investments is growing rapidly, and is largely driven by private companies. A 2011 report from the China Council for the Promotion of International Trade stated that the majority of China's overseas investments in 2010 were in manufacturing sectors, followed by distribution, farming, fisheries and construction.¹⁰ What is clear is that Chinese OFDI—in addition to resource exploitation—is targeting the expansion of Chinese firms in international markets as well as the extension of international production networks. Manufacturing and service industries are a substantial share of Chinese FDI, and it is interesting to note that despite the emphasis on China-Africa resource deals, the proportion of investment in manufacturing in Africa is statistically higher than in the world more generally.

In terms of wider economic restructuring, export-led growth has continued to surge while domestic consumption rises much more slowly. There is some evidence that Chinese exports are becoming increasingly sophisticated and are coming to more closely resemble the export mix of high-income countries.¹¹ However, it is also argued that China's role in global GPNs is still in final assembly and processing activities. Perhaps the products are more frequently computers instead of garments, but the value added in China is generally still in labour-intensive, medium-skilled processing activities rather than high-tech design and manufacture.¹² China's industrial composition has shifted significantly over the past decades. In 1980, 40 per cent of production was in light manufactures—mainly food products and textiles; in 2005, textiles, apparel, food and leather made up just one-fifth of

⁹ Charles Robertson and Lucy Corkin, *China in Africa, economics and strategy research update* (Renaissance Capital, 2011).

¹⁰ 'Africa becomes hotspot for Chinese Outbound Investment-Report', *Xinhua* 27 April 2011. Retrieved 15 July 2011. This seems to leave out mining altogether, but mining certainly accounts for a substantial proportion of OFDI.

¹¹ Zhi Wang and Shang-Jin Wei, 'What accounts for the rising sophistication of China's exports?' *NBER Working Paper No. 13771* (2008).

¹² Barry Naughton, *The Chinese economy: Transitions and growth* (MIT Press, 2007). Edward Steinfeld, *Playing our game: Why China's rise doesn't threaten the west* (Oxford: Oxford University Press, 2010).

output and more sophisticated sectors like electronics, transport equipment, metals and chemicals continue to show impressive growth.¹³

However, while low-skilled sectors comprise a diminishing proportion of total production, China's global share is still on the rise, meaning that—at least in broad economic terms—it does not appear that low-cost manufacturing is moving out of China to a significant extent—or at least not yet. There has been a gradual decline in manufacturing employment—in 1995, 98 million people were employed in manufacturing enterprises; in 2002 that number had dropped to 83 million. However, that decrease is almost exclusively attributable to gains in industrial productivity. This data prompted a recent World Bank publication to conclude that 'China and India will remain competitive producers of labour-intensive light manufactures, as well as assembled or processed medium- and high-tech manufactures for which market share depends upon price competitiveness' for the next decade and beyond.¹⁴

Yet, there is certainly anecdotal evidence that rising labour costs are undermining China's low-cost model of manufacturing and pushing domestic firms to upgrade or move abroad,¹⁵ and government attempts to cool the economy and funnel credit towards high-tech industries is precipitating a painful restructuring among manufacturing firms.¹⁶ Cut-throat competition among firms in China is prompting many business owners to look abroad, and surveys of Chinese businesses indicate that they are keen to expand their international holdings, especially in the manufacturing sector.¹⁷ There are also high hopes

¹³ Shahid Yusuf, *Changing the industrial geography in Asia: The impact of China and India* (World Bank Publications, 2010).

¹⁴ Shahid Yusuf, *Changing the industrial geography in Asia: The impact of China and India* (World Bank Publications, 2010).

¹⁵ 'Wenzhou factories adapt to the times', *Financial Times*, 10 July 2011.

¹⁶ 'Credit squeeze drives change at China's SMEs', *Financial Times*, 14 July 2011.

¹⁷ 2005 Survey quoted in Deborah Brautigam, *The dragon's gift: The real story of China in Africa* (Oxford: Oxford University Press, 2009).

that as China sheds manufacturing jobs they will relocate to Africa and other low-income regions and catalyse industrial development there.¹⁸ Chinese firms are internationalising operations quickly, and creating economic patterns that link new countries and regions to Chinese production networks. The next section turns to the ways in which Beijing is attempting to support these trends in order to drive economic restructuring at home.

Go out and manufacture?

According to the outward investment guidance policy released by the Ministry of Commerce in 2006, the stated goals of Chinese OFDI are threefold: the obtainment of resources and raw materials required by the Chinese economy; the facilitation of exports of Chinese products, equipment and technology into new markets; and the upgrading of China's technological capacity and research and development ability.¹⁹ Here is found the familiar narrative of China's motives abroad: resource extraction, floods of cheap exports and acquisitions of foreign firms. However, a closer examination of the evolving OFDI policy framework reveals a prominent role for manufacturing investment overseas, demonstrating an alignment between shifting domestic economic goals and the aspirations of outward investment.

In 2004, the ministries of commerce and foreign affairs jointly published the *Country and Sector Guidance Catalogue*, and have since released two additional supplements.²⁰ In 2009, they began issuing annual overseas investment country and sector guidance with

¹⁸ 'Africa can gain from dearer Chinese labour: World Bank', Reuters 4 July 2011, <http://af.reuters.com/article/topNews/idAFJOE7630HN20110704?pageNumber=1&virtualBrandChannel=0&sp=true>, retrieved 12 July 2011.

¹⁹ Ministry of Commerce, *Jingwai touzi chanye zhidao zhengce [Outward Investment Guidance Policy]* (Beijing: Ministry of Commerce, 2006), 15 July 2011 <http://www.tech110.net/policy/html/article_382215.html (Chinese)>.

²⁰ Ministry of Commerce, Ministry of Foreign Affairs, *Duiwai touzi guobie chanye daoxiang mulu yi [Country and Sector Guidance Catalogue for Outward Investment 1]* (Beijing: MOFCOM/MFA, 2004). Ministry of Commerce, Ministry of Foreign Affairs, *Duiwai touzi guobie chanye daoxiang mulu er [Country and Sector Guidance Catalogue for Outward Investment 2]* (Beijing: MOFCOM/MFA, 2005). Ministry of Commerce, Ministry of Foreign Affairs, *Duiwai touzi guobie chanye daoxiang mulu san [Country and Sector Guidance Catalogue for Outward Investment 3]* (Beijing: MOFCOM/MFA/NDRC, 2007).

specific country information to supplement and update the catalogue.²¹ The following discussion is based on an analysis of these policy documents (collectively referred to as ‘the catalogue’), which provide an overview of encouraged sectors for investment in over 100 preferred countries around the world. While they say nothing of actual capital flows, they do reveal several trends in the government’s attempts to pursue domestic restructuring goals through shaping the outward investment choices of companies.

Collectively, the catalogue’s investment destinations are relatively evenly dispersed, both in terms of region and income level. Thirty-six of the countries are in Europe and Central Asia, 27 in sub-Saharan Africa, 22 in East Asia and the Pacific, 19 in the Americas and the Caribbean, 16 in the Middle East and North Africa, and five in South Asia. Twenty-one countries are low-income, 32 low-middle income, 34 middle-high income, and 38 high-income.²²

Investment opportunities are grouped under four general headings: agriculture, mining, services and manufacturing. The first two categories include a variety of activities related to raw materials and primary resource extraction. Predictably, these are mainly focused in comparatively resource-rich developing countries, although high-income resource-rich states like Australia and parts of the Middle East are included as well. Seventy per cent of the countries catalogued have some kind of primary resource indicated, and over one-third of the countries listed have oil and gas exploration indicated as a sector of interest. Clearly there is a strong policy focus on the acquisition of primary resources.

²¹ Ministry of Commerce, Duiwai touzi guobie changye zhiyin [Overseas Investment Country and Sector Guidance] (Beijing: MOFCOM/MFA/NDRC, various years).

²² Regions adapted from World Bank classification system. Income level designations follow GNI-based World Bank classification as follows: low income (under \$1,005); low-middle income (\$1,006-\$3,975); middle-high income (\$3,976-\$12,275); high income (above \$12,276). Developing countries refer to all but high-income countries. The remainder of the figures are a result of the author’s own analysis of the policy documents under discussion.

In terms of services, trade and distribution sectors are dominant and target mostly middle- and high-income countries. This is consistent with the desire to facilitate consumption of Chinese exports in international markets—one of the formal stated objectives of Chinese OFDI. Building and construction services are nearly as prevalent, especially in low- and middle-income countries, which is perhaps not surprising given the high visibility of infrastructure contracts won by Chinese companies in developing countries in recent years. Tourism and travel services are also prominent in countries of all income levels, as are telecommunications services.

Perhaps more surprisingly, multiple manufacturing industries are indicated for nearly every country in the catalogue, and over a quarter of encouraged investment destinations have no resources or commodities of interest at all. Electrical machinery and equipment, textile and garment, and electronics are the manufacturing industries recommended for OFDI investment in the largest number of destinations. These are also very central to the Chinese domestic economy, making up over 26 per cent of domestic manufactures.²³ The manufacture of electrical machinery and equipment—such as air conditioners, refrigerators, generators and the like—is suggested most often as an industry for OFDI in nearly 50 countries, most of them middle-income. Textiles, garment and footwear manufacturing is recommended nearly as frequently, primarily—but not exclusively—in developing countries. Manufacture and assembly of electronics such as televisions, household appliances and computers is recommended primarily for high middle-income and high-income countries, mainly those in Europe and Central Asia.

Other prominent industries include processing of food and agricultural products, agricultural and transport machinery and equipment manufacture, as well as plastics,

²³ Yusuf.

chemicals, pharmaceuticals and building materials. Metals, wood processing and leather and paper products manufacture are also mentioned somewhat frequently. With the exception of a few high-tech industries recommended in high-income countries, the manufacturing sectors mentioned here are generally low-skilled, labour-intensive activities—precisely those mature industries that China would like to move offshore.

Figure 3: Recommended sectors for manufacturing outward foreign direct investment

<i>World*</i>	<i>Africa</i>
Electrical machinery and equipment Textile and garment Electronics Agricultural and food processing Agricultural and transport machinery Plastics Chemicals Pharmaceuticals Building materials	Agricultural and food processing Transport equipment manufacture Textiles and garment Pharmaceuticals Building materials Agricultural machinery Plastics Metals Electrical machinery and electronics

* By number of times listed in Catalogue

Source: Author's calculations derived from Country and Sector Guidance Catalogue for Outward Investment 1, 2, and 3

For the 27 African countries on the list, the picture of recommended investment is slightly different, reflecting the larger proportion of low-income, resource-rich countries, and the needs of local markets. In manufacturing, the prominent industries are processing of food and agricultural products, transport equipment and textiles and garment manufacturing. Pharmaceuticals manufacture is also recommended quite frequently—perhaps reflecting the local need for medications to combat malaria, tuberculosis, HIV and other diseases—as is building materials manufacture. Other recommended manufacturing activities (in descending order) include agricultural machinery, plastics, metals, electrical machinery and electronics, enamels and ceramics, and wood and leather processing. In terms of

services, building and infrastructure services figure most prominently; otherwise there is minimal focus on investment in services in African countries.

Several trends in China's OFDI policy goals emerge from this analysis. One, while resource acquisition is a prominent concern of China's FDI policy architecture, manufacturing and service activities appear to be at least equally important. Two, the countries in the catalogue span every region and every income level, and activities are recommended all along the value chain. Taken together, these observations indicate that—at least in policy terms—China's interest in the developing world should be seen as part of a broad global strategy that is much more multifaceted than solely the exploitation of primary resources.

Three, from the policy standpoint, OFDI serves different purposes in developing countries than it does in advanced ones. This illustrates the dual objectives of China's economic concerns, both linked to wider attempts at industrial restructuring. In advanced countries, Chinese firms are encouraged to invest in high-tech industries in order to pursue technological upgrading and learning in industries in which China hopes to become a world leader in the future. Chinese firms in low-skilled and mature manufacturing industries are encouraged to invest in low- and middle-income countries where they have a competitive advantage, which creates new production networks and new markets for Chinese goods.

In sum, the policy ambitions of China's OFDI framework in the developing world are much more multifaceted than often assumed, and are linked to domestic industrial development goals. Just as the pressure for economic transformation impelled China's initial opening to the forces of globalisation three decades ago, similar demands for

structural change are pushing the globalisation of Chinese firms and institutions abroad. In this way, domestic economic planning—and domestic industrial policy—drives outward investment policy. Similarly, domestic FDI institutions are being repurposed for use internationally. The next section looks at this process of institutional innovation, and explores some of the practical challenges of encouraging firms to ‘go out and manufacture’.

INSTITUTIONAL INNOVATION: SUPPORT FOR FIRMS ‘GOING GLOBAL’

The first reference to a ‘go out’ or ‘go global’ strategy (*zou chuqu zhanlue*) was in China’s 10th five-year plan (2001-2005). It encouraged competitive enterprises to develop transnational operations in processing trade and resource acquisition. The 12th and most recent five-year plan (2011-2015) calls for an acceleration of the ‘go out’ strategy as well as more parity between incoming and outgoing investment. This policy position is referred to as balancing both domestic and foreign resources and markets, or comprehensive planning of incoming and outgoing investment (*tongchou yin jinlai yu zou chuqu*). Beijing perceives managing incoming and outgoing FDI as two sides of the same coin, with the ultimate goal being a domestic one: the transformation of the Chinese national economy.

As Chinese firms internationalise, they require new types of policy and institutional support. This section argues that China’s experience as an FDI importer is shaping its emerging role as an FDI exporter, as it repurposes the globalisation-themed tools it uses successfully domestically and exports them abroad. This is visible both in terms of the institutional structure governing OFDI as well as the policy levers, both of which exhibit China’s characteristic attention to cautious experimentation, piloting and slow relaxation of controls. However, this institutional repurposing also carries substantial challenges

associated with targeting, monitoring and controlling the behaviour of international actors as they go abroad in increasing numbers.

Managing globalisation: policy versus practice

The institutional structure of Chinese OFDI sets forth a system of government incentives and approvals that mimics that governing incoming FDI. Facilitating outward FDI is a process controlled by the centre, but characterised by experimentation, devolution of powers to the local level and gradual and cautious relaxation of controls. Government targets and objectives are encouraged through a series of financial and policy incentives and the pace of change is managed by requiring government approval at either the national or local level for all outward investment.

For the most part, the institutions and agencies that manage incoming FDI have simply expanded their mandate to include the regulation of outgoing investment as well. The National Development and Reform Commission articulates an overall vision of economic and industrial policy. It also determines the general objectives of OFDI and the credit support available from the government for enterprises operating abroad. Overseas investments over \$30 million in the resource sector and over \$10 million in other sectors require the commission's approval. Projects requiring Chinese investment of over \$200 million in the resource sector and over \$50 million in other sectors must be reported by the commission to the State Council and approved at the highest level.²⁴

The Ministry of Commerce is the primary government entity responsible for implementing China's international trade and investment objectives (as well as for managing foreign

²⁴ Duncan Freeman, China's Outward Investment: A Policy Overview (BICCS Policy Paper, 2008).

investment into China). It is also eclipsing the Ministry of Foreign Affairs in managing overseas diplomacy more generally in Africa.²⁵ The commerce ministry drafts OFDI policy, approves large projects and engages in bilateral and multilateral economic negotiations. Under the commerce ministry umbrella, the agencies formally responsible for managing foreign aid and investment flows into China now manage capital flows travelling in the opposite direction.

The department of foreign cooperation approves OFDI projects and coordinates the overseas zone programme. The department of foreign aid is responsible for China's overseas development assistance programme. And a number of regional departments manage bilateral economic relations with other countries and oversee economic and commercial counsellor offices in embassies abroad. Just as all foreign enterprises investing in China require Ministry of Commerce approval, so do all state-owned enterprises that wish to invest abroad, as do all investments that incorporate a business entity outside of China. The ministry also oversees foreign economic relations and trade offices at the provincial level—private companies need only this office's approval to invest overseas.

Over the past decade, OFDI regulation has proliferated, targeting foreign exchange controls, credit support for various types of enterprises, and offering policy incentives and guidance for foreign-invested firms. The policy levers utilised by the central government again mirror those used in its domestic FDI regime. The pace of foreign investment into China during its opening up was largely the result of meticulous control over flows of foreign exchange into the country.²⁶ This has also been one of the preferred mechanisms

²⁵ Lucy Corkin, 'Redefining foreign policy impulses toward Africa: The roles of the MFA, the MOFCOM and China Exim Bank,' *Journal of Current Chinese Affairs* 40.4 (2011).

²⁶ Naughton.

for managing the pace of outward investment and the profile of the firms who do ‘go global’.

The State Administration of Foreign Exchange (SAFE), together with the People’s Bank of China, sets and enforces monetary and foreign exchange rate policy at the national level. Provincial SAFEs assess the foreign exchange requirements of overseas investment projects locally. Until 2006, SAFE enforced strict quotas governing the amount of foreign exchange allocated for investment abroad. Now, companies no longer require SAFE approval for OFDI, although they do need an opinion or assessment from SAFE prior to being granted Ministry of Commerce or foreign economic relations and trade office approval.²⁷ However, easy access to foreign exchange in practice has meant that many firms go abroad without the ministry’s approval, leading one ministry official to remark, ‘These days we don’t know where they get the foreign exchange from, they just go.’²⁸

Access to credit is another primary tool underpinning China’s OFDI regime. China has taken the lessons of domestic financial reform and begun to experiment abroad with a mix of old and new types of finance. In 1994, Beijing founded two policy banks to provide financing for the activities of Chinese firms abroad. The self-stated mission of China Export-Import (Exim) Bank is to facilitate the import and export of mechanical, electronic and high-tech products, to assist Chinese contractors with projects abroad, and to promote Sino-foreign economic cooperation. It provides government concessional loans abroad as well as commercial loan facilities and import and export credits and guarantees.

²⁷ Yadong Luo, Qiuzhi Xue, and Binjie Han, How emerging market governments promote outward FDI: Experience from China (Greenwich: JAI, 2010).

²⁸ Beijing 5.

The bank's senior leadership states that this mix of flexible mechanisms and financing vehicles is uniquely innovative, and 'all parties concerned simply like them; they become addicted to them!'²⁹ Exim Bank is very active in Africa; it provides the bulk of infrastructure finance available to African governments, and regularly engages directly with national governments in both a political and commercial capacity. Exim representatives claim that foreign policy considerations never trump economic ones, and that 'Exim would never fund a non-viable project';³⁰ however, it is clear that this dual role may become problematic as Exim continues its attempts to commercialise.

Although Exim is most dominant in Africa, China Development Bank (CDB)—with assets of over \$1 trillion—is by far China's largest and most active international policy bank. It establishes government-backed financing agreements abroad, and provides financing to major Chinese companies outside China. It also recently established a loan facility designed to support the development of African SMEs and operates the China-Africa Development Fund, which is a long-term equity investment vehicle designed to support Chinese and Sino-foreign joint ventures in African agriculture and industry (including several zone projects).

Like Exim, CDB espouses explicit win-win rhetoric in relation to its international efforts, and is attempting to build a global brand based on sustainable investment and corporate social responsibility. It engages in a variety of capacity building and training activities in addition to provision of finance: the bank has trained 3,000 developing country officials, executives and policymakers in 50 countries.³¹ However, it is clear that domestic economic priorities are the primary driver of its overseas operations. One senior

²⁹ Beijing 1.

³⁰ Beijing 1.

³¹ Beijing 15.

representative states that CDB's mandate has 'two inseparable parts: one is to aid the transition from a planned to a market economy; the other is to [get firms to] go out, to open the economy'.³² Despite their quasi-political status, senior management at Exim and CDB, as well as at the China-Africa Development Fund, all state that their ultimate goal is to function according to market principles and mechanisms like any other international financial institution. However, all are candid about the challenges associated with this, especially with regard to institutional capacity and lack of international experience.³³ 'We have a lot of money—we didn't even know how big we were until [multilateral organisations] told us—but we are still learning what to do with it and how to be effective.'³⁴

In addition to financing from these policy banks and domestic commercial banks, companies that seek overseas investment in encouraged sectors may also be eligible for certain subsidies through a fund for foreign economic and technical cooperation, which was established in 2005 and is administered by the commerce ministry. There are two types of subsidies: direct support for costs and interest subsidies for medium- and long-term loans drawn on domestic Chinese banks.³⁵ China has also approved additional subsidies for up to 20 per cent of costs accrued in the transport of raw materials to China, as well as for personal accident insurance for expatriate workers.³⁶ Provincial governments offer additional incentives for internationalising firms.

In practice, these extensive mechanisms for approving, tracking and incentivising the behaviour of internationalising firms are not always effective. First, policy and financing

³² Beijing 19.

³³ Beijing 1; Beijing 8; Beijing 15.

³⁴ Beijing 19.

³⁵ 'jinnian qiye jingwai touzi daikuan tiexi shenbao kaishi' [This year's subsidies for overseas investing enterprises declared], *Caixin* 19 July 2012, available at <http://economy.caixin.com/2012-07-19/100412942.html>

³⁶ Freeman.

incentives often target state-owned and very large private firms with close government ties, but outward investment is increasingly being driven by smaller private companies which prefer to keep their distance from the state. Surveys of private internationalising firms indicate that government incentives are often low on the list of reasons cited for going overseas.³⁷ Secondly, despite the image of a powerful central state directing the commercial behaviour of companies, the government's economic priorities do not always align with the profit motives of firms. 'You would not imagine how difficult it is to induce companies to go to Africa... We work very, very hard.'³⁸ Finally, although much of the institutional and incentive framework set forth above mimics that used domestically, it must also be reactive to the changing reality of integrating into new markets and managing new risks. This is clear from the rising concern with the provision of insurance for overseas investments and workers, and the formulation of evacuation plans for large populations of Chinese labourers and citizens abroad.

The institutional continuity between Beijing's management of the forces of globalisation inside and outside its borders is nowhere more visible than in the repurposing of the SEZ. This chapter now turns to the role of the SEZ in Chinese economic planning in order to explore some of the opportunities and risks associated with this institutional repurposing.

³⁷ X. Fu, S. Liu, and T. Li, Determinants and impact of outward direct investment from China: Evidence from firm-level survey in Guangdong, (Oxford: Technology and Management for Development Centre, Oxford University, 2013).

³⁸ Beijing 19.

The evolution of the zone institution in China

Early SEZs were structured as enclaves without formal links to the domestic economy in order to experiment with foreign capital in a controlled environment. China's first SEZ was initiated in 1979 by China Merchants Steam Navigation Company, a Hong Kong-based SOE owned by the Chinese Ministry of Transport. This zone, Shenzhen, was shortly followed by three others: Zhuhai, Shantou and Xiamen, all located along China's southern coast in Guangdong and Fujian provinces. Geographically, each of these zones was located so as to separate the zone experiment from domestic economic centres, as well as to encourage investment from a particular group of overseas Chinese. Shenzhen was a fishing village near Hong Kong, Zhuhai a town across from Macao, and Shantou and Xiamen ports that face Taiwan. The proximity effect of these booming economies in the early success of the initial zones cannot be understated. Virtually all early investment into Shenzhen came from Hong Kong and other overseas Chinese investors; less than four per cent came from Europe and North America.³⁹

These zones were initially modelled on EPZs in Taiwan, Korea and Singapore, but because of the administrative hurdles they presented to a closed, command economy, they had to be more comprehensive in scope with greater administrative autonomy.⁴⁰ As a result, China's SEZs were much larger than EPZs in other countries—ultimately encompassing entire cities and their populations—and their goals and powers were more expansive. They included provisions for housing, tourism and a variety of services in addition to industrial activities and export processing. Administratively, SEZs were given

³⁹ George Crane, The political economy of China's special economic zones (London: Armonk, 1990). Weiping Wu, Pioneering economic reforms in China's special economic zones: The promotion of foreign investment and technology transfer in Shenzhen (Aldershot: Ashgate, 1999).

⁴⁰ Thomas Chan, E. K. Y. Chen, and Steve Chin, 'China's special economic zones: Ideology, policy and practice', China's special economic zones: Policies, problems, and prospects, ed. Y. C. Jao, Chi-Keung Leung, and C. H. Chai (Oxford: Oxford University Press, 1986).

powers similar to provincial governments, were able to formulate and implement economic legislation, and initially were able to retain much of the tax, foreign exchange and customs revenue generated within their borders; Shenzhen was particularly active in terms of policy innovation, and pioneered legislation related to the structuring of contracts, technology transfer, financial regulation as well as employment and land law.⁴¹ This comprehensive SEZ model is qualitatively different from the enclave EPZ, as discussed in chapter two.

The evolution of China's early SEZs is often presented as an unequivocal success story, a case where the careful crafting of a conducive policy environment generated the predicted industrial development and economic growth. In fact, the establishment of the SEZs was an uneven and uncertain process that demanded a significant amount of political will as well as a flexible and reactive policy framework. One contemporary analysis illustrates the widespread belief that the zone experiment might be suspended at any time. 'In sum, Shenzhen's 1987 performance was still far from the desired goal. The future was therefore uncertain. If costs cannot be controlled and benefits enhanced, it is likely that pragmatic leaders in Beijing will lose patience with the SEZ experiment.'⁴² Throughout the 1980s, SEZs remained a risky flirtation with foreign investment, and suffered from a variety of administrative, economic, and political challenges that called their efficacy—as well as economic liberalisation more generally—into question.

These challenges point to three general points about the political economy of early SEZ development in China that remain relevant as the institution matures. One, zone initiatives necessitate a long-term economic vision, and usually require at least a decade of sustained,

⁴¹ Karl Herbst, 'The regulatory framework for foreign investment in the special economic zones,' and Victor FS Sit, 'Industries in Shenzhen: An attempt at open-door industrialisation', both in China's special economic zones: Policies, problems, and prospects, ed. Y. C. Jao, Chi-Keung Leung, and C. H. Chai (Oxford: Oxford University Press, 1986).

⁴² Crane.

capital-intensive development before they can be deemed successful or not. As a result, stability in terms of national economic policy and consistent, high-level political support is a necessary prerequisite to a successful zone programme.⁴⁷ While Chinese SEZs began as peripheral experiments, within a few years SEZ policy became ‘an issue of national importance’ to reformers within the central government,⁴⁸ and has continued to receive persistent political support at the highest levels.

Two, the SEZs were oriented to appeal to a specific group of investors, namely overseas Chinese populations in countries at a slightly higher level of industrial development. These seed investors catalysed industrial development in the zones, and decades later remain a significant driver of growth. Investors are not fungible, and successful zones cater to particular groups of firms. Three, the nature of the SEZ policymaking process is dynamic, prone to setbacks, and needs continual evaluation and revision. Especially in the early years, this process in China was more reactive than proactive and the demands of foreign investors played a significant role.⁴⁹

Finally, despite political support, links to overseas investors, and constant policy revision, the development trajectories of these first four SEZs were still uneven and unpredictable: Shenzhen was always the biggest success story, while Zhuhai suffered from overinvestment in infrastructure, and Shantou and Xiamen—despite decent economic outcomes—were beset by corruption and scandal.⁵⁰ Early SEZs represented a way for the Chinese government to draw a perimeter around the unpredictable forces of globalisation

⁴⁷ Douglas Zhihua Zeng, *Building engines for growth and competitiveness in China: Experience with special economic zones and industrial clusters* (World Bank Publications, 2010).

⁴⁸ Chan, Chen, and Chin.

⁴⁹ R. Y. W. Kwok, ‘Structure and policies in industrial planning in the Shenzhen special economic zone,’ *China’s special economic zones: Policies, problems, and prospects*, ed. Y. C. Jao, Chi-Keung Leung, and C. H. Chai (Oxford: Oxford University Press, 1986). Steinfeld.

⁵⁰ Yue-man Yeung, Joanna Lee, and Gordon Kee, ‘China’s special economic zones at 30’, *Eurasian Geography and Economics* 50.2 (2009). D.K.Y. Chu, ‘The special economic zones and the problem of territorial containment’, *China’s special economic zones: Policies, problems, and prospects*, ed. Y. C. Jao, Chi-Keung Leung, and C. H. Chai (Oxford: Oxford University Press, 1986).

in order to learn how to best manage foreign capital and technology and to channel them towards wider structural transformation.

Despite their challenges, SEZs remained a popular policy prescription in China. They offered a bounded and controlled space in which reforms could be piloted and tested before being extended to the larger economy, which suited the cautious and incremental nature of modern China's leaders. They also played an important symbolic role in signalling Beijing's commitment to economic opening. The zones served as platforms for subsequent waves of liberalisation. The entire island of Hainan became a fifth comprehensive SEZ, a number of high-tech industrial development zones (HIDZs) were inaugurated, and the number of economic and technical development zones mushroomed (there were 69 by 2010). Free trade zones (FTZs) began to appear in the 1990s in order to experiment with free trade prior to China's accession to the WTO in 2001, and 61 EPZs have materialised since 2000 to develop particular industries and increase foreign exchange earnings. There are also zones within zones, especially in the original comprehensive SEZs; within the borders of the Shenzhen SEZ, for example, there are several industrial zones as well as a high-tech industrial development zone, an EPZ and three FTZs.

The centrality of zone initiatives to Chinese industrial and trade policy cannot be overstated. This discussion has concerned only national-level zones, but provincial and local government initiatives have also proliferated quickly. By 2004 the number of zones planned or operated by all levels of government exceeded 7,000, at which time the central government began to curtail zone expansion. As a result, by 2006 that number had

dropped to 1,568, 222 of which were national-level zones.⁵⁷ Zones continue to make a significant contribution to China's export-led growth. The national-level zones attracted nearly half of all incoming FDI, employed over 10 per cent of urban workers, and accounted for 18.5 per cent of total GDP and 60 per cent of exports in 2006.⁵⁸ When provincial and lower-level zones are included, their share of total GDP and total trade jumps to 68 per cent and 87 per cent respectively.⁵⁹ Clearly, zone initiatives lie at the centre of the Chinese productive economy.

Throughout its economic evolution, zones of all kinds have remained a central policy instrument in China's national economic development strategy. The shifting priorities of that economic strategy are evident in the types of enterprises encouraged and investment courted in each succeeding generation of zones. The first SEZs attracted low-skilled processing and assembly activities in sectors like textiles, garments and electronics assembly in order to create an industrial base; economic and technical development zones and high-tech industrial development zones have aimed to promote industrial upgrading of domestic firms and generate a national research and development industry; and FTZs piloted increasingly liberal trade policies prior to WTO accession. Most recently, China's concern with its rapidly increasing energy requirements is illustrated in the designation of the Baoding high-tech industrial development zone as an industrial base for the development of renewable energy (China hopes 12 per cent of its energy needs will be met by renewables by 2020)⁶⁰ as well as the establishment of the Poyang Lake ecological economic zone and the announcement of a massive energy 'golden zone' in the

⁵⁷ China Knowledge, <http://www.chinaknowledge.com/Default.aspx>, retrieved 30/7/2011.

⁵⁸ Zeng.

⁵⁹ Fu and Gao.

⁶⁰ 'China's Clean Energy Valley is Strong Competitor for America's Silicon Valley', *Green Technology World* 22 June 2011, <http://green.tmcnet.com/channels/renewable-energy/articles/188996-chinas-clean-energy-valley-strong-competitor-americas-silicon.htm>, retrieved 10 July 2011.

northwestern part of the country that focuses on increasing production of coal, oil and natural gas.⁶¹

Over the last 30 years, zone initiatives have consistently been utilised by the central government to channel foreign capital and technology in support of evolving national economic development aims. They have also served as a powerful symbol both domestically and internationally of government support for economic reform. China's new overseas zone initiatives can best be viewed within this context, as an extension of domestic economic planning—rather than a foreign policy tool—with two central goals: to mitigate the risks of globalisation for Chinese firms internationally, and to contribute to continued economic transformation domestically. The next section turns to the overseas zone programme in more detail, and some of the foreign policy challenges associated with the internationalisation of this domestic industrial policy tool.

FOREIGN DIPLOMACY: FROM SPECIAL ECONOMIC ZONE TO ECONOMIC AND TRADE COOPERATION ZONE

In early 2006, Beijing announced that it planned to establish 50 overseas ETCZs. The stated objectives of these zones were to reduce trade friction, support exports, utilise some of China's vast foreign exchange reserves, and enhance international economic cooperation. There was no time period given in which these zones were to be completed, but the commerce ministry did indicate that 10 or so would be built in the first year. To be clear, it is not the Chinese government developing these zones directly, but Chinese firms. They are structured as profit-seeking ventures; however, they do receive official backing and limited financial support from central and provincial governments. Early media

⁶¹ 'China approves plan for energy "Golden Zone"', *Xinhua* 7 July 2011, http://news.xinhuanet.com/english2010/business/2011-07/07/c_13970352.htm, retrieved 10 July 2011.

reports announced that each would be eligible for 200-300 million yuan (\$31-\$46 million) in subsidies, and up to 20 billion yuan (\$3.1 billion) in long-term loans⁶² from the Ministry of Commerce—Beijing’s characteristic use of incentives and access to finance.

Like China’s original SEZs, most of these zones are to be much more than simply EPZs, including a wide range of industry, services and often housing and leisure activities as well. Zone locations were decided through two rounds of tendering in 2006 and 2007. Competition was fierce among Chinese companies, with 60 submitting preliminary proposals in 2006; eight proposals were finally selected. These were in Pakistan, Zambia, Thailand, Cambodia, Nigeria (Ogun), Mauritius and Russia (two). In 2007, in a separate round of tendering, 11 more proposals were selected for zones in Venezuela, Nigeria (Lekki), Vietnam (two), Mexico, Ethiopia, Egypt, Algeria, South Korea, Indonesia and Russia.⁶³ Since then, four zone projects have withdrawn from the official programme, leaving 15 total active zones.⁶⁴

Comparative information is relatively scarce, but it is possible to make some general observations about the zone programme and the Chinese companies that are leading it. One of the most striking characteristics is the extent to which the zones vary. There is no mandated ownership structure or industrial focus for the official zone projects and they take a wide range of forms. Many zones were new initiatives, but some—like Egypt Suez—were expansions of projects already in operation. Most of the zones are being developed in phases, with the first being a small start-up area of one to three square kilometres. The projected (virtually none of them are completed) final size of the zones

⁶² ‘Zhongguo jiang jianli 50 jingwai jingmaohezuoqu jianshao maoyi moca’ [China will establish 50 overseas economic and trade cooperation zones to reduce trade friction], Sina.com, 19 June 2006.

⁶³ Brautigam; Beijing 2; Beijing 20.

⁶⁴ Brautigam and Tang.

also varies widely: Thailand Rayong covers only four square kilometres while Nigeria Ogun is slated to be 100 square kilometres in size.

The 19 initial zone locations are equally diverse. There were four zones awarded in Cambodia, Vietnam (two) and Thailand—countries that are already integrated into Asian manufacturing and production networks—and three in neighbouring Russia. Two zones were planned in more experimental locations like Venezuela and Mexico; however, these projects have now withdrawn from the official zone programme. Africa is very prominent, with seven zones allocated—two in northern Africa and five south of the Sahara. These zones are by far the most institutionally supported, being developed, publicised and monitored within the FOCAC multilateral framework.

The zones are structured as commercial enterprises, with Chinese companies taking on the majority of risk and responsibility for their success. However, their status as official zone projects makes them simultaneously tools of foreign diplomacy. Many of the zones are integrated into foreign cooperation framework agreements between China and their host countries—with signing ceremonies featuring heads of state—and marketed in a way that highlights their links to the Chinese state.

Institutional continuity and divergence

There are clear and obvious continuities between China's domestic zone development strategy and its overseas zone initiative at the policy, institutional and firm levels. However, there is also substantial divergence as the zones adapt to new requirements and environments. In policy terms, Similar to early SEZ experiments in China, there is the same emphasis on experimentation and autonomy at the zone level. Government support

takes the form of a system of incentives and regular monitoring, but Beijing seems reluctant to interfere directly. In several cases the government has stepped in to mediate disputes between consortium partners as well as between Chinese investors and host governments, or to bring in additional investors and negotiate shifts in ownership. In all cases, these interventions appear to have been requested either by the host country or by the developers themselves.⁶⁵

There are also obvious parallels between the policy focus on encouraging manufacturing OFDI discussed in section two and the industry focus of the zones. With a few exceptions—Zambia Chambishi focuses on copper and cobalt processing (although a Lusaka subzone will focus on light manufactures) and Russia Tomsk on timber and forestry—the industry concentration of the zones is in manufacturing. The four projects that have withdrawn from the programme—Algeria Jiangling, Mexico Geely, Russia Pearl and Venezuela La Cua—were also the only ones without an emphasis on light manufacturing and processing activities. There is some variation in subsectors across the zones, and manufacturing activities are not always the sole focus; however, most specialise in some combination of garments and textiles, electronics, appliances and machinery, and chemicals and pharmaceuticals.

⁶⁵ Beijing 2; Lagos 7; Lekki 1

Figure 4: Official overseas economic and trade cooperation zones

Country	Zone	Lead Developer	Ownership¹	Joint Venture²	Industry focus
Algeria*	Jiangling	Jiangling Automobile	Private		Automobile assembly,
Cambodia	Sihanoukville	Hongdou	Private	JV	Textile, clothing, machinery, electronics.
Egypt	Suez	Tianjin TEDA	SOE (Municipal)	JV	Textile, petroleum equipment, electronics
Ethiopia	Eastern	Qiyuan Investment Group	Private		Machinery, metals, construction materials, leather
Indonesia	Indonesia-China	Guangxi Nongken	SOE (Provincial)		Appliances, machinery, agricultural processing
Mauritius	Jinfei	Taiyuan Iron&Steel; Shanxi Coking Coal	SOE (Provincial)		Textile, garment, machinery, high-tech industries, services
Mexico*	Geely	Geely	Private	JV	Automobile manufacture
Nigeria	Lekki	CRCC/ CCECC	SOE (National)	JV	Textile, light industry, furniture, appliances
Nigeria	Ogun-Guangdong	Guangdong Xinguang	SOE (Provincial)	JV	Ceramics, footwear, furniture
Pakistan	Haier-Ruba	Haier	Private	JV	White goods manufacture
Russia	Ussuriysk	Kangnai International	Private		Shoes, apparel, timber, household appliances
Russia*	Pearl	Shanghai Industry Group	SOE (Municipal)		Real estate
Russia	Tomsk	AVIC/ Northwest Forestry	Private		Timber and forestry
S. Korea	Korea-China	Dongtai Huaan International	Private	JV	Electronics, IT, new materials, real estate
Thailand	Rayong	Holley Group	Private	JV	Auto parts, machinery, appliances, electronics
Venezuela*	La Cua	Inspur Group	SOE (Provincial)		High tech; software
Vietnam	Longjiang	Shenzhen Shenyue	SOE (Municipal)		Electronics, garments, machinery
Vietnam	Shenzhen-Haiphong	Hailiang Qianjiang Investment Ltd	Private	JV	Light industry, garment, electronics, chemicals, construction
Zambia	Chambishi	China Nonferrous Metals Corp.	SOE (National)		Copper and cobalt mining and processing

* These zones have since withdrawn from the official zone programme.

¹ Private means the Chinese state does not own a controlling share of the company; this includes both privately owned and publically traded companies.

² With local company or local government.

Source: Brautigam and Tang 2012, Author research

Several zone authorities explicitly describe this industrial mix as Chinese ‘traditional industries’ and define the zone’s objective as creating an overseas cluster and manufacturing base for these industries in support of the ‘go global’ strategy.⁶⁶ This seems consistent with the policy objectives of moving mature industries offshore, creating clustering opportunities abroad for Chinese companies, and reducing trade friction and accusations of Chinese dumping. Chinese companies can manufacture consumer goods with Made in Vietnam or Made in Russia stamps for both new and traditional markets.

In terms of institutional linkages, there are substantial formal ties between domestic and international zones themselves. Representatives of successful domestic zones and academic experts were included from the start, and interviewed applicants at length during both tendering rounds.⁶⁷ The Ministry of Commerce, the International Poverty Reduction Centre in China (a prominent government organisation) and even some domestic zones themselves have hosted multiple trainings and knowledge-exchange events designed to share lessons from China’s domestic zone development strategy with representatives from overseas zone host countries.⁶⁸ These training sessions emphasise both the contribution of zones to China’s development experience as well as the challenges associated with adapting the institution to overseas locations. A 2013 training co-sponsored by UNDP China and the International Poverty Reduction Centre highlighted the role of the government in supporting zones, management modalities, building effective public-private partnerships and linking zone industrial structure and upgrading to global trends as primary areas for knowledge sharing.⁶⁹

⁶⁶ Vietnam Shenzhen—Haiphong Zone website, www.szshenyue.com.cn accessed 15 July 2011; Thailand Rayong Zone website, www.sinothaizone.com accessed 15 July 2011.

⁶⁷ Beijing 2, Beijing 9.

⁶⁸ Beijing 5, Beijing 13.

⁶⁹ Summary Report of the China-Africa Seminar on Economic and Technological Development Zones and Sustainable Development: Beijing and Chongqing, 16-22 January 2013 (Beijing: UNDP China, 2013).

Additionally, many of the winning zone developers had significant experience developing and managing (or at least operating) within one or more of China's many domestic zones. In fact, there are several examples of Chinese domestic zones themselves developing overseas zones.

- An overseas arm of the Tianjin economic-technological development area, one of China's most successful zones, is the lead developer of Egypt Suez
- Zhangjiagang FTZ—which in China has a foreign trade value over \$8.6 billion—was brought in as a non-share holding partner for Ethiopia Eastern
- Guangxi Nongken, developer of the China-Indonesia ETCZ is also jointly developing an industrial park with Singapore in Guangxi province, China
- The municipal government of Shenzhen—China's largest zone and one of its four original SEZs—together with the Guangdong provincial government formed the Shenzhen Shenyue Joint Investment Co. Ltd in order to develop Vietnam Shenzhen-Haiphong
- China Nanjing Jiangning Development Zone holds an 18 per cent stake in China Africa Lekki Investments Ltd, the Chinese partner developing Nigeria Lekki

This expertise confers advantages, both in the technical and administrative expertise necessary for building and operating the zones, as well as in networking capacity when it comes to marketing and populating them. However, this kind of expertise does not always transfer easily from the Chinese context to foreign environments. In Nigeria Lekki, for example, Nianjing Jiangning Development Zone's earlier majority stake in the zone was reduced to a minority share following friction within the consortium and between the zone and the local government over Nanjing's lack of international experience. China Railway

Construction Corporation—and its subsidiary, China Civil Engineering Construction Company (CCECC), with decades of experience in Africa—instead took the lead.⁷⁰

At the firm level, host country experience may be more valuable than China-specific zone development expertise. Most winning zone developers had a history of doing business in their host countries and were familiar with the local business environment. The first zone proposal approved was that of Haier, a home appliances company (which incidentally had originated as a Chinese-German joint venture before becoming one of China's most successful SOEs) for a joint venture with Ruba, a Pakistani privately owned company. Haier had been operating internationally since 1996, had previously developed zones in the US and in Pakistan, and had been manufacturing appliances in Pakistan since early 2002. Similarly, China Nonferrous Metals Corporation had operations in Africa for over a decade before it proposed the Zambia Chambishi zone; Holley had been producing electric products in Thailand since at least 2000; and Jixin Industry and Trade Group from Heilongjiang province had been active in the border area between Russia and China long before partnering with a Zhejiang-based leather manufacturer to develop Russia Urruriysk.

Ownership structures also vary significantly. Many of the zones—like Zambia Chambishi, Mauritius Jinfei, Vietnam Shenzhen-Haiphong and Indonesia CIETCZ—are developed and operated solely by Chinese companies, either a single corporation or a consortium. Others, such as Pakistan Haier-Ruba, Thailand Rayong, Cambodia Sihanoukville and both Nigeria zones—are joint ventures between Chinese companies and either local governments or local companies. Just over half of the Chinese lead companies are state-owned, although—with the exception of Zambia and Nigeria (Lekki)—these are provincial and municipal SOEs rather than centrally controlled companies. A number of

⁷⁰ Beijing 2.

private companies also won zone development bids, like Holley Group for Thailand Rayong and Geely Automotive for Mexico Geely. Most of the manufacturing firms that have located in the zones—indeed most internationalising Chinese manufacturing firms in general—appear to be private firms of all sizes, many small and medium-sized ones without links to the government.

Profit versus development in overseas zones

There is a Chinese proverb often cited by Chinese firms operating in challenging environments: ‘A mighty dragon cannot subdue a local snake’ (*qiang long bu an ditoushe*). Both the commercial and developmental promise of ETCZs are as yet unproven, and it is not clear which of these two rationales takes precedence if they come into conflict. By taking the zone institution overseas, the Chinese government and its firms add a foreign diplomacy dimension to an economic institution, while simultaneously ceding much of the control over its success. This foreign policy dimension—framed in terms of win-win cooperation with developing countries—generates additional pressure for the zones to succeed.

However, unfamiliar institutional settings, poor infrastructure, unpredictable policy regimes and political and security threats create new challenges for zone developers as well as the firms that locate in the zones. Section three discussed risk management and economic transformation as two of the major contributions of China’s domestic zone programme. These remain drivers of the international projects as well, but both the risks as well as the nature of economic transformation have changed with the internationalisation of the zone institution. As with early experiments with incoming FDI in China, the goal of the central government again seems to be building a (literal) perimeter around

unpredictable commercial forces and economic activity in order to better manage their risks. And those risks are substantial.

Zone projects have experienced a range of delays and setbacks due to relations with local communities, volatile political and policy environments and solvency issues as a result of the financial crisis. Securing land for the zones, often farmland, has been contentious in several instances and has sparked popular protest in a number of zones. In Mauritius resettling farmers caused substantial delay;⁷¹ Nigeria Lekki has signed a memorandum of understanding detailing a host of concessions to the local community after organised protests caused substantial construction delays;⁷² and farmers in Vietnam have complained that they were poorly compensated for their land, and it now lies fallow while construction on Vietnam Longjiang is delayed.⁷³

In many zones—especially the African ones—an unpredictable policy environment and concerns over the application of preferential policies for the zones have slowed investment and threatened the short-term viability of the projects. Both Nigeria zones stalled temporarily while issues with the national customs authority were resolved,⁷⁴ and Ethiopia does not have a formal legislative regime for export zones at all, contributing to uncertainty there.⁷⁵ Similarly, Algeria Jiangling was suspended due to changing investment legislation that requires foreign investors to form joint ventures with local partners,⁷⁶ before cancelling the zone project altogether. Changing fortunes of developer firms have also slowed progress. Mexico Geely first made plans to downsize as a result of

⁷¹ Deborah Brautigam and Tang Xiaoyang, 'China's Investment in African Special Economic Zones,' *PRMTR Working Paper* (2010).

⁷² Lekki 1; Lekki 4.

⁷³ 'Farmers strike over planned golf courses, industrial parks', *Viet Nam News* 20 July 2011.

⁷⁴ Lekki 1, Ogun 2.

⁷⁵ World Bank, *Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned, Final Report* (World Bank, 2011).

⁷⁶ Brautigam, Farole, and Tang.

the global financial crisis,⁷⁷ then withdrew from the official zone programme. These difficulties highlight the commercial orientation of the zones, as corporate strategy shifts and investment slows based on the potential profitability of the projects.

Most of the zone projects are proceeding much more slowly than expected as a result of these challenges. CAD Fund, an investor in several of the African zones, has revised its investment horizon from five to eight years to eight to 10 years on the zone projects to reflect this.⁷⁸ In late 2011, the Ministry of Commerce and Sinosure—China’s official export credit insurance corporation—jointly hosted a risk management workshop for overseas zone developers at which they launched a new risk prevention and control system for going global, and announced that risk prevention planning would now be included in zone performance assessment.⁷⁹ This event included presentations on security risks, like civil unrest and political instability, as well as social risks, or those related to integrating successfully with host communities. These issues highlight both the economic challenges for Chinese companies of operating in less familiar and higher-risk environments as well as the potential political difficulties the Chinese government may face in maintaining the win-win rhetoric surrounding these projects. In spite of the largely commercial orientation of the zones and the supposed autonomy of developer and resident firms, scandals over treatment of workers, environmental controversies, and delays and setbacks in development timelines creates diplomatic problems for the Chinese state.

This points to a central question regarding the suitability of the SEZ—a massively capital-intensive top-down industrial policy institution— both for supporting Chinese diplomatic

⁷⁷ ‘Geely may downsize Mexico assembly project: Chairman’, ChinaKnowledge.com, 6 March 2009, retrieved 9 August 2011.

⁷⁸ Beijing 8.

⁷⁹ Beijing 20; Report on Risk Prevention and Control in Overseas Economic and Trade Cooperation Zones: Harbin, 13-14 October, 2011 (Beijing: MOFCOM/SINOSURE, 2011).

efforts abroad as well as the commercial goals of Chinese manufacturing firms. Surveys in China of internationalising firms point to large numbers of manufacturers going overseas, fleeing increasing competition in China and seeking new markets.⁸⁰ There is also an emerging trend among private firms towards establishing overseas production sites and industrial zones,⁸¹ effectively transplanting entire production chains to new countries and regions. The official zone programme seeks to lend support to this trend while simultaneously contributing to industrial development in host countries and linking them to Chinese production networks. However, the characteristics of Chinese manufacturing investment—large numbers of smaller transactions by privately owned small- and medium-sized firms—make it difficult to track, monitor or control. And private firms with minimal links to the state are operating purely in their own economic interests.

Chinese officials express concern over the conduct of these firms, most with little international experience and willing to take outside risks.⁸² However, the capacity of either the Chinese government or the zone developers to advocate on behalf of the zones and the interests of the firms within them with host country governments and others is questionable. The extent to which any foreign investor can influence local institutional obstacles is limited—through either economic or diplomatic channels. And there are indications that in some of the African zones at least, manufacturers would prefer to take their chances outside the official zones, citing high leasing costs and uncertain zone policies as prohibitive.⁸³ Regarding the value of the overseas zones to host countries, as became clear in section two, China's zones were successful largely because of their integration with domestic industrial policy and planning. The catalysing capacity of the

⁸⁰ Fu, Liu, and Li.

⁸¹ China International Chamber of Commerce for the Private Sector, *Survey of Internationalising Firms* CICCPS (Unpublished, 2012).

⁸² Beijing 5; Beijing 20; Lagos 6.

⁸³ Shen.

zone institution for other countries may be problematic when structured as a large-scale FDI project rather than a domestic industrial policy tool. These issues are taken up in detail in reference to the Lekki and Ogun zones in chapters 6 and 7. Thus, both the commercial and developmental potential of the zone experiment falls largely outside the control of officials in Beijing.

The overseas zones represent a novel kind of government-business development partnership: enterprise-led, with profit incentives, but within a political framework with both a domestic policy and foreign policy stake in its success (especially in Africa as a result of the FOCAC mechanism and a good deal of media attention). The domestic policy priority of ‘going global’ is at the forefront of China’s international zone programme; however, it is by no means the only objective. China has invested considerable political capital in the export of parts of its developmental model abroad and the explicit structuring of win-win economic relationships with developing countries. Beyond the rhetoric there are clear political and economic incentives for the Chinese state and Chinese companies to make these zones successful, both in productive and developmental terms. However, the political and economic definitions of success might not always align, and whether Chinese ambitions dovetail with the political and economic objectives of host country decision makers and populations—again not always in agreement—is another question altogether.

CONCLUSION

This chapter discussed the ways in which China’s domestic experience in managing inward foreign investment—particularly in reference to its use of zone initiatives—has shaped the way it is structuring its new role as an FDI exporter. It argued that China’s international activities—especially those in developing countries—do indeed have a strong

strategic motivation rooted in domestic economic priorities. However, those domestic priorities are more complex and wide-ranging than solely resource acquisition for an expanding economy.

China's international zones can best be viewed as an extension of domestic economic policy that shows remarkable continuity with attempts to manage international integration from within China. However, the internationalisation of the zone institution overlays it with a foreign policy dimension that may not always align with government objectives or the profit-seeking calculations of firms. This state-business partnership is further complicated by the addition of host country governments and new and challenging political and economic climates. The overseas zones are first and foremost a tool of domestic economic restructuring, rather than a charitable development initiative, however the Chinese government has a foreign policy stake in making sure they deliver in terms of providing opportunities for host countries. Yet Beijing's ability to ensure the economic and political success of the zones is relatively constrained, not least by the government's own insistence that the projects be firm-led and profit-orientated. This does not mean that they cannot create win-win economic partnerships with host countries. Of course, it does not mean that they automatically will do so either.

Chapter Four
**THE ANCHOR CONTEXT: NIGERIA, CHINA AND THE POLITICS OF
PRODUCTION**

Foreign control of industrial assets and an outward orientation towards global markets have always been features of Nigerian capitalism. However, the origin of those foreign actors has changed over time. Following successive rounds of divestment by Western firms, emerging market actors have slowly increased their presence in the country; this trend has accelerated in the last decade, led by rapid expansion by Chinese and Indian firms.

This chapter explores the interface between Nigeria's policy and institutional environments and the global economy in reference to the development of the country's non-oil productive sector. In reference to the framework set forward in chapter two, the previous chapter discussed the origin context of the SEZ institution with regard to China's goals for structural transformation and the repurposing of domestic industrial policy into

foreign policy. This chapter concerns itself with the anchor context, or the political economy of industrial development in Nigeria, and the ways in which a deepening relationship with China may impact its formal and informal functioning.

The following discussion is organised in three parts. The first gives a brief overview of Nigeria's industrial policy history with an emphasis on three central debates that continue to dominate both policy and practice, namely, foreign versus domestic ownership of productive assets, financing industrial investment, and the role of the state in economic development. The second investigates two competing trends acting on the Nigerian trade and investment environment—growing technical capacity and diminishing political stability—and argues that the sizeable disconnect between policy and implementation is often a signal that the pressures from the latter are taking precedence over the demands of the former. The final section turns to the unique challenges and opportunities China poses as an economic partner within Nigeria's particular political-institutional context. It identifies three overlapping relationships—in terms of trade, finance and investment—and discusses the distinct long- and short-term prospects of this multi-level engagement.

Nigerian trade and investment policy is set primarily at the national level, and the key implementing agencies discussed here—customs, ports, business registration and standards and monitoring organisations—are overseen by the centre. However, Nigeria's federal system ensures the central role of state and local governments and institutions in any broad-based economic change. This chapter acknowledges these multiple levels of administrative complexity, in addition to the web of vested interests they produce, as well as the important political economy of relations between the centre and the states. However, it confines itself here to the interface between foreign investors and national-

level institutions as a backdrop to the state-level case study material in chapters six and seven.

A VOLATILE HISTORY: NIGERIAN INDUSTRY AND THE GLOBAL ECONOMY

Nigeria's economy has in practice always been largely open to foreign firms and capital and very closely linked to the global economy, both in terms of its reliance on imports as well as its dependence on volatile oil revenues for foreign exchange and domestic spending. This is especially true of an industrial sector where, in the final days of colonial rule and the early days of independence, 'free entry to foreign capital, foreign entrepreneurship and foreign technical skills has been of central importance to industrial development'.¹ However, this openness has always been contested. The country's orientation towards global markets, as well as its relationship with foreign capitalists within its borders, has consistently been controversial.

In terms of development of the non-oil economy, three central debates have dominated policy and practice: foreign versus domestic ownership of productive assets, financing industrial investment, and the role of the state in industrial planning and economic development more broadly. These debates have waxed and waned over the decades since independence against a backdrop of extreme political volatility characterised by recurring periods of military rule. They remain salient in Nigeria today, within a national political economy where the political project of ensuring stability through elite patronage often takes precedence over the priorities of economic planning.

¹ Peter Kilby and Sarah Kilby, Industrialization in an open economy: Nigeria, 1945-1966 (Cambridge University Press, 1969).

The indigenisation decrees and ownership of productive assets

From the 1960s onward, government industrial policy was focused on a shift to intermediate and capital goods driven by public sector investment in capital-intensive industries like steel and petrochemicals. Although this structural shift failed to materialise, large government expenditures fuelled considerable growth in the industrial sector over the next two decades. Until 1972, an average of 65 per cent of total capital in Nigeria was in foreign hands, largely through the activities of European trading conglomerates—which were involved primarily in manufacturing and large-scale wholesale trade—and retail and small-scale distribution firms with owners of Lebanese, Syrian and Indian origin.²

In that year, increasing resentment of foreign control of the economy among the local business community and determined lobbying by the same resulted in the Nigerian Enterprises Promotion Decree (NEPD), also known as the first indigenisation decree. The purpose of the NEPD was to limit foreign ownership of economic assets in favour of increasing the stake of Nigerians in the productive economy. It divided commercial and industrial activities into two schedules. The first comprised 22 categories of retail trade, services and small industry that were reserved for Nigerians. Import and wholesale trade were excluded from this schedule, allowing large European firms to preserve their traditional dominance in that sector, but Lebanese traders and other small foreign firms were negatively impacted. In 1977, the second NEPD further limited the sectors in which foreigners could hold majority shares and introduced an additional schedule of activities that required at least 60 per cent indigenous equity ownership. However, there were

² Rajneesh Narula, 'The Role of Developing Country Multinationals in the Acquisition of Industrial Technology in Nigeria: A Pilot Study,' *MERIT Research Memoranda 1997-008* (1997).

exceptions, and certain high-tech industries as well as textiles, pharmaceuticals and tobacco were allowed to retain majority foreign ownership.³

The impact of the NEP decrees was mixed. There was substantial equity and share transfers to Nigerians. However, by most accounts, benefits accrued primarily to the state and a small group of indigenous businessmen and did not translate to increased Nigerian control over foreign firms. There were some measured shifts in particular sectors, primarily banking and manufacturing. In the manufacturing sector, although foreign firms continued to control the sector overall, there was a gradual decline in their relative share.

By 1980, indigenous businessmen had increased their position in the furniture and electronics-assembly industries to a point where they dominated those activities. They were at parity with foreign capital in the printing, publishing, and rubber-processing industries and they were strongly competitive with multinationals in the production of household goods and appliances, textiles, packaging materials, paints, plastics and shoes.⁴

Some policy analyses argue that the indigenisation decrees prompted a significant drop in FDI as well as divestment by a number of large foreign corporations.⁵ However, since foreign firms were largely able to retain operational control and investment flows did not collapse until several years after the legislation was introduced, this decline is more likely in response to the global recession in the early 1980s. More detailed analyses indicate that the net effect of the NEPD on both domestic and foreign firms was minimal, and foreign firms largely retained control over the productive economy.⁶

³ Nigerian enterprises promotion decree (1972); Nigerian enterprises promotion decree (1977).

⁴ Thomas Biersteker, Multinationals, the State, and Control of the Nigerian Economy (Princeton: Princeton University Press, 1987). p. 251.

⁵ UNCTAD, Investment Policy Review: Nigeria (Geneva: United Nations, 2009).

⁶ Thomas Biersteker, Multinationals, the State, and Control of the Nigerian Economy (Princeton: Princeton University Press, 1987). Tom G. Forrest, Politics and economic development in Nigeria (Boulder: Westview Press, 1993).

What the NEPD did do, however, was create conditions wherein shares of the productive economy were transferred not to Nigerian industrialists, but to Nigerian political elites. Firms chose their partners carefully—often approaching the politically well-placed in order to enhance their access to state contracts and policy deliberations—and employed a number of strategies to ensure that their operations were not generally affected.⁷ This strengthened the partnership between Nigerian political elites and foreign producers—a partnership that persists to this day—without necessarily creating more productive linkages between domestic and foreign industry. Therefore, beyond the debate over foreign versus domestic ownership of productive assets in Nigeria is a deeper one over which domestic actors control the productive economy and whether these actors possess the skills and resources necessary to build industrial capacity.

Fiscal crises and financing industrial investment

In general, the 1970s was an optimistic period in Nigerian industry. The civil war had ended, global oil prices were high and foreign exchange was flowing into the country. Between 1975 and 1980 manufacturing grew on average 14 per cent annually⁸ and FDI increased nearly fourfold, 25 per cent of which came from other developing countries.⁹ It was during this period that Sayre Schatz labelled Nigerian capitalism ‘nurture capitalism’ characterised by a combination of private enterprise and indigenous capital strongly supported by the state.¹⁰ Of course, much had changed by 1984, when the same author rechristened the country’s economic system ‘pirate capitalism’¹¹ in response to high levels of corruption against a backdrop of increasing public debt. In the early 1980s, a

⁷ For a very detailed treatment of the indigenisation decrees and their impacts, see Thomas Biersteker, *Multinationals, the State, and Control of the Nigerian Economy* (Princeton: Princeton University Press, 1987).

⁸ UNCTAD, *Investment Policy Review: Nigeria* (Geneva: United Nations, 2009).

⁹ Rajneesh Narula, ‘The Role of Developing Country Multinationals in the Acquisition of Industrial Technology in Nigeria: A Pilot Study’, *MERIT Research Memoranda 1997-008* (1997).

¹⁰ Sayre P. Schatz, *Nigerian capitalism* (Berkeley: University of California Press, 1977).

¹¹ Sayre P. Schatz, ‘Pirate Capitalism and the Inert Economy of Nigeria,’ *The Journal of Modern African Studies* 22 (1984).

precipitous drop in oil revenues substantially increased public borrowing, triggered a widespread recession and revealed the industrial sector's crippling structural problems.

During the boom years, increased government revenues and large foreign exchange flows contributed to massive public expenditure, the erosion of tariffs and continued appreciation of the naira. A very high exchange rate had incentivised imports of raw materials with which to fuel the infant industrial sector as well as of finished goods for a rapidly expanding domestic market. This led to the growth of a productive sector focused on final assembly and secondary processing for the domestic market, and overly reliant on imported inputs financed by foreign exchange earnings. For example, completely knocked down kits comprised 95 per cent of inputs for the transport-equipment manufacturing sector during this time.¹² This is not unusual for countries in the early stages of industrialisation. However, more problematically, 'the positive flow of net direct foreign investment in industry was now totally eclipsed by the flows of profit and dividends abroad and payments of management, technology and consultancy fees'.¹³ This contributed to a very foreign exchange-intensive pattern of production financed by volatile oil revenues, which were subject to the wild fluctuations of the global marketplace.

The decline of oil revenues in the early 1980s made this economic pattern patently unsustainable and initiated a balance of payments crisis. This fiscal crisis, combined with the virtual absence of a non-oil export industry to cushion the blow to foreign exchange flows, contributed to substantial declines in both domestic and foreign investment as well as industrial production. Net non-oil inflow of FDI was near zero in the period 1980-

¹² Rajneesh Narula, 'The Role of Developing Country Multinationals in the Acquisition of Industrial Technology in Nigeria: A Pilot Study,' *MERIT Research Memoranda 1997-008* (1997).

¹³ Tom G. Forrest, *The makers and making of Nigerian private enterprise* (Spectrum Books, 1995).

1983,¹⁴ and manufacturing output fell an average of two per cent per year between 1982 and 1986. Corruption and capital flight reached new heights. European firms began to divest themselves of their holdings in manufacturing—despite repeated relaxation of the indigenisation decree—and these enterprises either disappeared altogether or were taken over by firms from other developing countries, namely, those from India, Pakistan, Lebanon, Hong Kong and Taiwan.¹⁵

In theory, a resource-rich country like Nigeria can use foreign exchange profits from its extractive sectors to finance the purchase of technology and inputs from abroad in support of its productive sector development. This bypasses the need to generate substantial non-oil export earnings, but it also closely links domestic manufacturing—and financing economic development more broadly—to global commodity markets. In practice, oil and mineral wealth often leads to increased trade volatility, overvalued exchange rates and poor institutional quality—the effects of which are collectively termed the resource curse.¹⁶ In Nigeria's case, the fiscal crises resulting from volatile international oil prices made sustained investment in the productive sectors impossible. This was exacerbated by poor political choices regarding prioritising the uses of foreign exchange—channelling it towards luxury goods and consultancy services as well as personal accounts in London, rather than industrial inputs, machinery and infrastructure. Yet, in Nigeria in the early 1980s, this balance of payments crisis was arguably a temporary setback in terms of the state's ability to finance the productive economy. However, this crisis situation was then made permanent as a result of exchange rate manipulation and other reforms introduced as part of structural adjustment policies.

¹⁴ Tom G. Forrest, *The makers and making of Nigerian private enterprise* (Spectrum Books, 1995).

¹⁵ Narula.

¹⁶ Jeffrey D. Sachs and Andrew M. Warner, 'The curse of natural resources,' *European Economic Review* 45.4 (2001) . Michael L. Ross, 'The political economy of the resource curse,' *World Politics* 51 (1999). Xavier Sala-i-Martin and Arvind Subramanian, *Addressing the natural resource curse: An illustration from Nigeria* (2003).

Structural adjustment and the role of the state

In 1986, despite widespread opposition by labour and industry interests as well as several state governors, Nigeria reluctantly embarked on a World Bank-supported structural adjustment programme (SAP) in exchange for rescheduling its international debt.¹⁷ Implemented in many African countries in the late 1980s and early 1990s, SAPs emphasised rapid trade liberalisation, exchange rate devaluation, privatisation and deregulation of economic assets and financial markets, and severe cuts in government spending with a concomitant rollback of the state's role in the economy.

The long-term impact of SAPs is still hotly contested, but their rapid implementation had the immediate effect of exacerbating pressures on livelihoods and contributing to rising unemployment and declining industrial output in a number of African countries.¹⁸ Country-level surveys in the 1990s showed that, despite GDP growth, there was a drop in the share of industrial activities in many countries, and almost everywhere the manufacturing sector had been devastated by competition from imports and a sudden lack of inputs and financing.¹⁹ Similarly, while there were net increases in total foreign investment, this was accompanied by extensive divestment by manufacturing firms from the UK, US and Europe, and a general decline in manufacturing employment and output.

¹⁷ World Bank, *The Nigerian Structural Adjustment Programme: Policies, Impact and Prospects*, (Washington DC: World Bank, 1988).

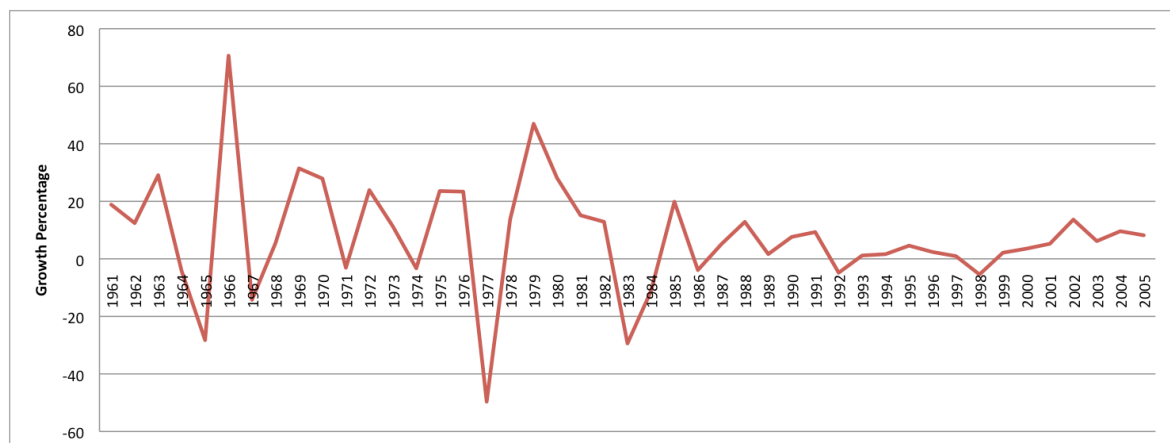
¹⁸ The literature on the effects of Structural Adjustment is quite vast, for West Africa, see Farhad Noorbakhsh and Alberto Paloni, 'Structural Adjustment Programs and Industry in Sub-Saharan Africa: Restructuring or De-Industrialization?' *The Journal of Developing Areas* 33.4 (1999). and Kate Meagher, 'A Back Door to Globalisation? Structural Adjustment, Globalisation and Transborder Trade in West Africa,' *Review of African Political Economy* 30.95 (2003).

¹⁹ Paul Bennell, 'Industrial Restructuring in Africa During the 1990s: Outcomes and Prospects,' *Paper prepared for the African Development Report* (1998).

In Nigeria—against a backdrop of falling oil revenues, declining imports and industrial output, rising unemployment and falling living standards—the SAP was implemented slowly, erratically and unevenly. State assets began to be haltingly privatised (a process that is still ongoing more than 25 years later), import licences were abolished, some import duties and tariffs were reduced, and a second-tier foreign exchange market was introduced to facilitate the rapid devaluation of the naira.

The purpose of currency devaluation was to stimulate domestic production of non-oil exports, but with the absence of an industrial export sector, the immediate effect of devaluation was to increase the costs of local production in a sector heavily reliant on imports while simultaneously removing import protections. The consequence was an immediate and precipitous decline in domestic production. By 1989 there was some indication of a slight recovery in the industrial sector as some producers began to diversify into exports, mainly agricultural products, leather, textiles, plastics and other light industrial products.²⁰ However, investment was minimal, growth in the export sector was slow, and manufacturing output largely stagnated throughout the next decade.

Figure 5: Nigerian manufacturing value added growth over time



Source: World development indicators database

²⁰ Forrest.

In general, there was very little popular or official support for SAP reforms, and their haphazard policy implementation—characterised by frequent reversals combined with continuing political mismanagement and economic volatility—continued to erode credibility and investor confidence throughout the 1990s. Non-oil FDI flows remained minimal and manufacturing languished at between four and five per cent of GDP, where it remains today. As discussed in chapter two, liberal economists blame poor implementation of reforms and the inability to effectively disentangle the state—and its corruption and inefficiency—from the economy for Nigeria’s disappointing performance. More heterodox approaches emphasise the debilitating nature of those reforms themselves—as well as the volatility generated by their sudden introduction—on productive sector development.

Nevertheless, economic liberalism has remained ascendant in African policymaking since the 1980s, and Nigeria is no exception. This has resulted in a withdrawal of the state from industrial policy, economic planning, and productive sector investment in favour of a private sector and FDI-led growth strategy. A 1995 policy push for economic reform through encouraging FDI included the establishment of the Nigerian Investment Promotion Commission Decree of 1995 and the abolishment of any limits on foreign ownership of firms. At least in policy terms, this made Nigeria one of the most liberal regimes in Africa in terms of openness to FDI and the rights of foreign investors. However, the toxic political environment under the Abacha military regime—labelled one of the most corrupt in the world—deterred any substantial domestic or foreign investment in Nigeria’s economic future. It wasn’t until the return to civilian rule under President Olusegun Obasanjo in 1999 that a new reform agenda began to gather speed.

The transformation agenda: economic policy in Nigeria today

In 2003, the Obasanjo regime initiated a series of economic and structural reforms emphasising poverty reduction through private sector growth and FDI attraction. This framework—the national economic empowerment development strategy and its state and local counterparts—featured a shrinking of the state and ‘hence the pie of distributable rents’ and a new role for government as business regulator and facilitator.²¹ This emphasis on the private sector and the attraction of FDI has remained a feature of Nigerian national economic planning under the abbreviated Yar’Adua administration and the current Jonathan administration.

Nigeria also settled its external debt in 2005 and was awarded a BB– credit rating from international ratings agencies.²² GDP growth surged from 2.8 per cent per annum in the early part of the decade to six per cent by 2006. FDI accelerated substantially as well over the first decade of civilian rule. From 2001 to 2007, Nigeria attracted more than 70 per cent of FDI inflows to the Economic Community of West African States (Ecowas) region, largely due to investment in the oil sector, and more than half of gross fixed capital formation is attributable to FDI (compared to an average of 15 per cent in the rest of Africa) over the same period.²³

However, in the non-oil sector, per capita FDI flows to other African countries have exceeded those to Nigeria over the past decade. This is an indication both of Nigeria’s much larger population and that institutional and infrastructural constraints may be hindering the country’s ability to attract its share of non-oil investment. And despite strong growth and improved fiscal governance, and a number of ‘infrastructure for oil’ contracts

²¹ National economic empowerment development strategy (Abuja: Federal government, 2003).

²² This has since been upgraded, most recently to B+/B in December 2011.

²³ UNCTAD.

with Chinese firms that largely failed to bear fruit, power and transport infrastructure have remained poor and benefits of economic growth have been slow to transfer to the population at large.

In 2011, Goodluck Jonathan began his first full term as president after campaigning on a national transformation agenda that prioritised job creation, agriculture, infrastructure renewal, education and healthcare. The administration's overarching development strategy is articulated in its Nigeria Vision 2020 document, the explicit aim of which is to bring Nigeria into the league of the world's top 20 economies by the year 2020.²⁴ It envisages average annual growth rates of 13.8 per cent, more than a trebling of income per capita, and a structural shift in the real economy driven by rapid industrialisation and a significant expansion in manufacturing and services. Priority sectors for investment are agriculture, solid minerals, exports and manufacturing.

This economic transformation will be financed by a combination of public and private sector investment in nearly every sector of the economy—from agriculture to education to infrastructure—through direct investment, ongoing privatisation, and public-private partnership (PPP) programmes. The price tag is estimated at N34 trillion (\$211 billion) over the 2011-2015 planning period, split between public and private sources: N10 trillion (\$64 billion) from the federal government, N9 trillion (\$58 billion) from the states, and N13 trillion (\$84 billion) from private investors, both domestic and international.²⁵

²⁴ Vision 2020 Policy Document (Abuja: Federal government, 2011).

²⁵ Currency conversions all use the rate 1USD=155NGN as that is the rate used in the 2012 budget. At the time of writing the rate was 1USD=161NGN. For the sake of comparison, total federal expenditure in the 2012 National Budget Proposal is allocated at N4.7 trillion (\$30 billion), of which capital expenditure makes up 28 per cent at N1.3 trillion (\$8.5 billion). With current allocation levels, all non-recurrent expenditure over the five-year planning period totals \$42 billion—or only 66 per cent of the federal government's share of projected investment—so in order to meet its investment target, the federal government will have to significantly increase total revenues as well as the proportion of capital expenditure in the budget as a whole. Similarly, total FDI flows into Nigeria in 2009 were \$8.6 billion, leaving a shortfall of nearly 50 per cent of projected investment to be filled from domestic sources and increases in foreign ones over the five-year-plan period.

These goals are exceedingly ambitious—as is the timeframe of the Vision 2020 document—and there will likely be many shortfalls and delays. Currently, agriculture contributes 40 per cent of GDP, petroleum and natural gas nearly 16 per cent, wholesale and retail trade just under 19 per cent, and manufacturing and telecommunications contribute just over four per cent each.²⁶ Over the next several years, the explicit policy goal is to see the relative importance of these sectors nearly swap places, with manufacturing, industry and services contributing the majority of GDP growth while agriculture's contribution declines to a maximum of 15 per cent despite continued growth.²⁷ This entails a tremendous revival of the manufacturing sector and the virtual creation of a non-oil exports sector.

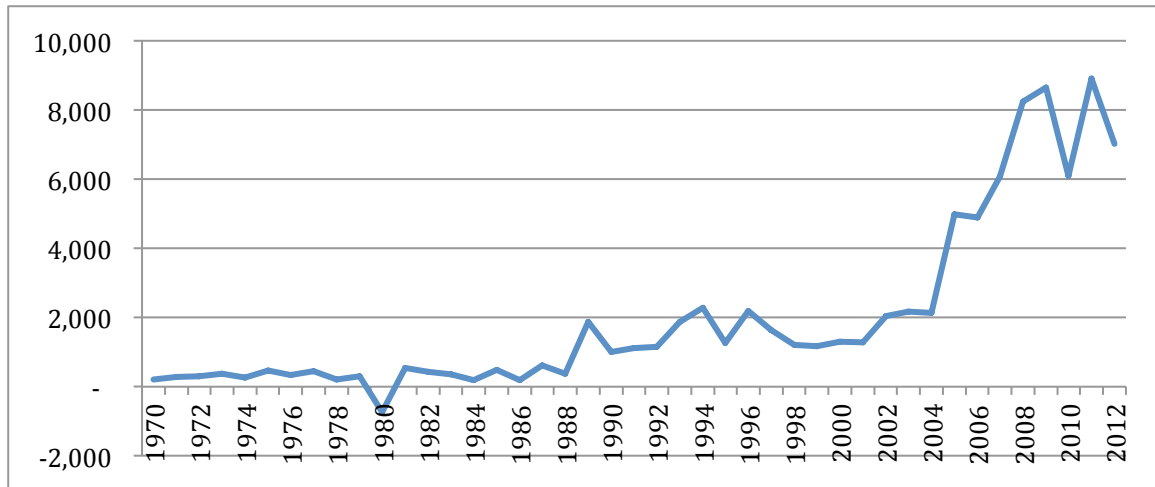
In order to effect this structural transformation, Nigeria in 2013 has made an explicit decision as to the three debates discussed above. In policy terms, the country is backing free foreign ownership of productive assets, an economic development strategy largely financed by private sector investment, and a reduced facilitator role for the state. And the international business and development communities are optimistic. The Nigerian economy has been growing at between seven per cent and eight per cent annually over the past five years, with the non-oil economy growing at upwards of nine per cent per annum and certain subsectors like telecoms (34%), retail trade (11%) and construction (12%) comfortably in double digits.²⁸ For better or for worse, Nigeria has taken on board recommendations from foreign governments and international agencies, as well as its own private sector; and the federal government has shown an impressive appetite for widespread policy and institutional reform.

²⁶ National Bureau of Statistics, *The Review of the Nigerian Economy* (Abuja: NBS, 2010).

²⁷ According to Vision 2020, the share of manufacturing in national output is targeted to rise from four per cent to between 15 and 30 per cent; industry from 24 per cent to between 30 and 50 per cent; services from 34 per cent to between 45 and 75; while agriculture's relative contribution declines to a maximum of 15 per cent.

²⁸ Nigerian National Bureau of Statistics, *Review of Nigerian Economy* (Abuja: NBS, 2010).

Figure 6: Incoming foreign direct investment flows 1970-2012 (USD millions)



Source: UNCTAD database

However, underneath the optimistic statistics run the same interconnected concerns over ownership of productive assets, financing structural change and the role of the state in driving development that have dogged Nigerian economic history for decades. Policy that favours foreign producers (or domestic elites) may come at the expense of nurturing home-grown national champions, putting at risk the ability of Nigerians to accumulate wealth and technology for the population's long-term development needs. In terms of financing, there is the very real issue of the country's ability to attract the amount of investment necessary for this kind of developmental push, as well as its capacity to channel this capital into priority sectors and industries—which must be able to provide short-term profit opportunities for firms. Underpinning all these issues is the dismal state of the country's power, transport and port infrastructure due to decades of underinvestment.²⁹ Finally, national economic goals are complicated by a state that—despite its attempted reinvention as business facilitator—must prioritise (and finance)

²⁹ Although in recent years Nigerian national budgets have seen substantial decreases in recurrent expenditure in favour of an increase in capital expenditure to nearly 30 per cent of total outlay.

national political stability first and foremost, often at the expense of economic development.

COMPETING PRIORITIES: POLICY VERSUS POLITICS IN NIGERIAN INSTITUTIONS

The focus of this chapter is Nigeria's experience with industrial development and the economic project of structural change. However, Nigeria is also engaged in a complex political project of state building, one with its own historical context and formal and informal rules of conduct. These two projects regularly come into conflict and compete for resources, resulting in a sizeable gap between explicit economic policy goals and the political economy of policy implementation. This conflict between policy and practice, and how it impacts the construction and functioning of Nigeria's investment architecture, is the subject of this section. It argues that economic change in modern Nigeria is a function of two competing trends. On the one hand there has been great progress in terms of policymaking and planning, institution building and technical capacity; on the other, political plurality and instability at the centre require scarce political and financial resources to be expended on consolidating power. The result is two parallel trade and investment regimes, one governed by formal mechanisms and institutions and the other by informal patterns and networks.

Policy: Nigeria's investment and trade architecture

The main institutional drivers in terms of economic development in Nigeria at the federal level are the ministries of finance and trade and investment, with support from the Central Bank of Nigeria. As a reflection of the importance of these organisations in reforming the

institutional environment and repairing Nigeria's reputation abroad, their leaders are all progressive, liberal reformers with respected international credentials.

Dr Olusegun Aganga, a former managing director of Goldman Sachs, one of the world's largest investment banks, was appointed head of the Ministry of Trade and Investment in May 2011 and that ministry (previously the Ministry of Commerce and Industry) was given an expanded mandate. Aganga previously served as minister of finance where he oversaw the creation of Nigeria's Sovereign Wealth Fund and launched the country's first Eurobond, which was oversubscribed in international capital markets. The Ministry of Trade and Investment oversees trade policy, bilateral trade agreements and investment promotion agreements, regional trading schemes, as well as Nigeria's membership of multilateral trade organisations and agreements like the WTO and the African Growth and Opportunities Act.

The parastatals under its umbrella include the Corporate Affairs Commission (CAC), which is responsible for registering all businesses that wish to incorporate in Nigeria; the Standards Organisation of Nigeria, which regulates the standards of commercial products imported, exported, bought and sold in the country; as well as the Nigerian Export Processing Zones Authority (Nepza), which oversees all non-oil and gas enterprise zones;³⁰ and the Small and Medium Enterprises Development Agency of Nigeria (Smedan), which is reportedly now responsible for administering a new \$500 million capital fund for loans to SMEs.³¹

In 2011, Ngozi Okonjo-Iweala, former vice-president of the World Bank, replaced Aganga as minister of finance after lengthy negotiations with the new Jonathan administration. She

³⁰ The Oil and Gas Free Zone Authority (OGFZA) regulates Onne Oil and Gas Free Zone.

³¹ 'FG Creates Investment Ministry, Targets Creation of Three Million Jobs Annually', *Vanguard* 12 July 2011.

was also made coordinating minister of the economy, and given expanded powers to shape economic policy and implementation and make appointments. The Ministry of Finance oversees the Federal Inland Revenue Service, which is the country's national tax authority; the customs authority, which regulates all import and export activity in the nation's ports; the Nigerian Export Promotion Council, which is tasked with expanding Nigeria's non-oil export sector; and the Department of Budget and Planning, which establishes policy guidelines on import/export duties and tariffs. The finance ministry also coordinates with the Central Bank of Nigeria (CBN) on fiscal and monetary policy.

The head of the CBN, Mallam Lamido Sanusi, is also a determined reformer who tends to emphasise the role of a strong, activist state in economic change. In 2009, following the collapse of Nigeria's financial sector, he embarked on extensive financial sector reform that included bailing out several of Nigeria's commercial banks, and jailing many of their chief executive officers for insider lending, fraud and money laundering. Under Sanusi's leadership, the CBN has refocused on the ways in which the financial sector can finance and support the real economy, expanding credit to power-generating firms and facilitating long-term lending to manufacturers and SMEs. Together, the ministries of Trade and Investment and Finance are responsible for the economic and trade architecture of the country—while the CBN concentrates on the financial infrastructure—and their mandates tend to overlap, especially with regard to trade and export policy as well as navigating the troubled relationship the customs authority has with other state agencies as well as the private sector.

Much of investment policy formation as well as investment promotion and business is under the provenance of the Nigerian Investment Promotion Commission (NIPC), which was moved out of the Ministry of Commerce and Industry several years ago on the advice

of the UN Conference on Trade and Development and now is in the office of the president (although Ministry of Trade and Investment officials believe it will soon be ‘returned to its home’ there as a result of the ministry’s expanded mandate).³² The NIPC drives investment policy, including the drafting of a new sector-specific incentives document, which is meant to streamline incentives and reduce policy confusion and inconsistencies in application. It is also the interface between foreign investors and the government of Nigeria. All companies with foreign equity must register with the NIPC, and in 2006 it opened a one-stop investment centre (OSIC) in Abuja in order to streamline incorporation and registration of firms.

OSIC services are only available to firms with foreign equity making a minimum investment of N10 million. This centre hosts investment delegations, provides information on investment regulations, customs, taxation and immigration procedures, and engages in a wide range of investment promotion activities. Most importantly, it coordinates among the 26 participating agencies that have a stake in regulating and monitoring private investment, most of whom have a dedicated member of staff working in the centre.

There are still issues with devolving actual authority to agency OSIC staff and automating database searching and electronic payment portals. At the moment, in order to register a company, the CAC representative has to run down the street to the head office in order to check the availability of a company name, and investors have to make several trips to the bank in order to pay various fees at different stages of the process. However, the OSIC has shortened the time it takes to set up shop in Nigeria to as little as one to two days rather than the estimated 29 days it takes to deal with each agency individually,³³ and claims that it has also removed a number of opportunities for rent seeking and bribe taking with the

³² Abuja 9; Abuja 11.

³³ World Bank, *Doing Business: Nigeria* (Washington DC: World Bank, 2012b).

open and streamlined system.³⁴ Currently, headquarters in Abuja handles all firm registrations; however, there are plans to run a fibre-optic cable from the CAC in Abuja to zonal offices to facilitate access to the central database as well as electronic and mobile phone payment modalities.³⁵

There is also a general trend towards an increasingly institutionalised relationship between the organised private sector and government. The Manufacturers Association of Nigeria (MAN)—with 2,000 member firms—and the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA)—with 700 member chambers—are the institutional voices of the private sector at the national level. In addition to providing information, investment assistance and contract support to businesses to ensure that they ‘are not cheated by government, by banks, or by their international partners’;³⁶ they also advocate for the rights of the private sector in policy formation and implementation. Despite a close informal alliance between business and political leaders, representatives of the organised private sector claim that in the past the government rarely formally consulted with private sector institutions.

Senior members of these organisations express frustration that the government has in the past habitually made policy decisions in consultation with Western actors and development agencies without consulting the organised private sector.³⁷ A NACCIMA official gives the example of the discussions surrounding the implementation of a common tariff in the Ecowas region, stating that the debate took place only among governments and customs authorities even though the private sector would be significantly impacted.³⁸

³⁴ Abuja 3.

³⁵ Minister of Trade and Investment Olesugun Aganga in public comments at Lagos Economic Forum, Lagos, 24/4/2012

³⁶ Lagos 1.

³⁷ Lagos 1; Lagos 12.

³⁸ Lagos 1.

However, the private sector is becoming increasingly formally integrated into the trade and investment institutional architecture, and is very much in favour of the government's new PPP approach to power, transport and other infrastructure. Five of the 15 members of the NIPC governing council are private sector business owners,³⁹ and the MAN and the NACCIMA have been consulted on drafts of new trade and investment policy currently under review.⁴⁰

Ostensibly, there is a large appetite for policy reform under the Jonathan administration, with nearly every ministry and agency drafting new documents in 2011-2012. There also seems to be an attempt to make policymaking both more evidence based, inclusive and in keeping with international best practice. After the conclusion of a UK Department for International Development-funded trade study in conjunction with the UN Industrial Development Organisation and a recent trade policy review by the WTO in Geneva in July 2010, a new trade policy document was drafted in early 2012.⁴¹ This document was generated by an organising committee made up of representatives from 52 ministries, departments and agencies, academia and development organisations, and at the time of writing was undergoing a lengthy validation exercise with stakeholders before being finalised and approved by the executive council.⁴² It focuses on supporting growth in the services sector and in-country value addition and processing in primary sectors.

Similarly, the NIPC is streamlining national investment policy in a new sector-specific incentives policy document.⁴³ This incentives policy document emerged from a 2007 presidential directive to research investment incentives in other emerging markets—

³⁹ Abuja 2; Abuja 3.

⁴⁰ Abuja 2; Lagos 12.

⁴¹ Abuja 1.

⁴² Abuja 9; Abuja 10.

⁴³ Abuja 2; Draft copy of this document provided to author in Abuja, 11/11.

Malaysia, India and China, among others—and the resulting draft document has been presented for comments to audiences in Lagos, Port Harcourt, Abuja and Kano. These events included members from the MAN, the NACCIMA, federal and state ministries and agencies, as well as business owners from foreign and domestic firms.⁴⁴ It is hoped that garnering stakeholder support before policy documents become official will reduce the level of implementation inconsistency later. However, this NIPC consultation process has lasted more than five years, which hints at some of the many institutional and political obstacles to building consensus in inclusive policymaking in Nigeria.

There has no doubt been considerable progress in terms of technical capacity, economic planning and policy development at the national level in Nigeria over the past decade. However, policy is useless without implementation. The extent to which these enhanced formal mechanisms translate into changes in the informal practices that govern business and politics is a function of the ability and the will of the federal government to enforce them.

Practice: the political economy of implementation

Foreign investors readily admit that investment policy as written is good, but when it comes to how it is enforced, there are frustrating inconsistencies, conflicting protocol and poor coordination between agencies. In the words of one Chinese newcomer, ‘The incentive framework is very good when you read it, but then you arrive and it seems nobody in the government has actually read that policy document.’⁴⁵ There are a number of policymaking bodies with overlapping mandates, and very poor coordination between ministries, departments and agencies, as well as between central, state and local

⁴⁴ Abuja 2; Abuja 3; Abuja 9.

⁴⁵ Lekki 1.

government agencies. Some policies are gazetted, some are executive orders, others are legislated by the National Assembly, and different agencies select different contradictory policies to enforce. Further, sudden changes in tariffs and import prohibitions add to uncertainty, as evidenced by Nigeria's ongoing use of trade prohibition as a policy tool.⁴⁶ Despite the efforts to streamline and consolidate trade and investment policy as discussed above, it remains a very uncertain environment for producers, both foreign and domestic.

These implementation failures, or gaps between policy and practice, are not only a matter of capacity but have a substantial political dimension. National policy is moving towards international standards and norms, with extensive input from international trade and development organisations as well as the international business community—the neoliberal trifecta of foreign ownership of production, private sector investment and a reduced role for the state discussed in section one. However, the fractured and diffuse institutional environment means that, in implementation terms, Nigerian state and economic elites retain substantial control over the levers of the economy. 'In one sense, there is the loss of policy autonomy since the [International Monetary Fund] and donors could almost retain a veto power on policy choices. In practice, Nigerian policy-makers have had tremendous room to manoeuvre.'⁴⁷ In some cases, this implementation gap is an indication of limited state capacity; in others it signals individual or systemic corruption or rent seeking, and sometimes it points to cases where actual state priorities may differ from formal policy positions.

⁴⁶ Ademola Oyejide, A. Ogunkola, and A. Bankole, 'Import Prohibition as a Trade Policy Instrument: The Nigerian Experience,' *Managing the Challenges of WTO Participation: Case Study 32* http://www.wto.org/english/res_e/booksp_e/casestudies_e/case32_e.htm (2005).

⁴⁷ N.I. Ikpeze, C.C. Soludo, and N.N. Elekwa, 'Nigeria: The political economy of the policy process, policy choice and implementation', *The Politics of Trade and Industrial Policy in Africa: Forced Consensus?* (2004). p. 356.

This results in a de jure and a de facto trade and investment regime. The gap between them—the implementation failure—is political in nature, and its effect is often to undermine that neoliberal triad, by ensuring that Nigerian state and business elites retain control over the most lucrative sections of the economy. In the interviews conducted for this project, all Nigeria-based officials and investors—both foreign and domestic—named power infrastructure and the obduracy of the customs authority as two of the primary obstacles facing production and development. This struggle between formal goals and informal manoeuvring is very visible in its attempts to address both.

Power sector reform: The long-term failure of the government to provide reliable electricity for the country has become an infamous symbol of the corrupt and inept Nigerian state. It is also a massive obstacle to productive sector growth at every level, from the informal timber mills of Ebute Metta, which cannot function when there is no electricity, to the operations of Dunlop Nigeria, which closed its doors and moved to Ghana two years ago—citing high production costs and an \$800,000 per year annual generator bill—putting 1,200 Nigerians out of work. Approximately 3,500 megawatt of electricity is currently being generated for a country where the demand is estimated at over 20,000 megawatt, and growing.

Like every administration before it, the Jonathan administration has a plan to boost production and distribution and provide an uninterrupted power supply in the near term. The roadmap to power sector reform involves auctioning the responsibility for generation and distribution to the private sector, leaving the state responsible only for transmission infrastructure. The privatisation of the Power Holding Company of Nigeria has been slow and contentious—largely due to union demands that outstanding benefits payments be settled prior to any deal being concluded—but there is considerable investor interest in the

sector. Federal and state governments have also tendered a number of independent power projects, mainly for the provision of industrial power, and the federal government has received 301 private sector bids for power generation.⁴⁸

However, despite investor interest, progress is negligible as yet, with the government missing its most recent target of an increase to 5,000 megawatt by the end of 2011. In October 2012, the government announced preferred bidders for 10 power distribution firms and five generation plants in a privatisation process backed by international aid dollars.⁴⁹ Reportedly, many of the contracts received only a single approved bid, and in the majority of cases the winners were domestic companies owned or backed by political and business elites. Former military ruler General Abdulsalam Abubakar chairs Integrated Energy, the preferred bidder for distribution companies in Yola, Ibadan and Lagos. Former Lagos Governor Bola Tinubu backed a bid by oil and gas company Oando, managed by his nephew. Companies owned by Tony Elumelu and Emeka Offor—familiar billionaire recipients of government contracts in a number of sectors—are preferred bidders on other distribution firms.

Some of these firms have power sector experience, but many do not, illustrating a common recipe for economic partnerships in the country. Nigerian firms owned by wealthy political and business leaders win contracts, then subcontract the bulk of the work to foreign firms with the expertise to complete it. In partnerships with foreign and domestic firms with the proper expertise, these deals can work and potentially even offer scope for technology and knowledge transfer as well as Nigerian ownership. For example, Abubakar's Integrated Energy has partnered with Manila Electric, a large power multinational from the Philippines. However, in the past, government contracts and

⁴⁸ Abuja 9.

⁴⁹ 'Murky deals cast doubt over Nigeria's power sell-off', *Reuters*, 22 October 2012.

privatisation of state assets have opened a lucrative channel for patronage, with the state showing little ability or inclination to ensure that preferred bidders have access to the requisite capital and expertise to complete the projects. The effects of these types of economic partnerships are twofold. On the one hand, informal patronage networks may increase the costs and lower the efficiency of the work, yet they also ensure that control over core industries remains in Nigerian hands and, for successful projects, that the benefits accrue to domestic firms.

Customs agency reform: Nigeria ranks 149 out of 183 countries—below the sub-Saharan African average of 134—in ease of trading across borders. It requires 10 documents, an average of 24 days and \$1,263 to export a standard container. Importing the same requires nine documents, 39 days and \$1,440.⁵⁰ Tales abound of entrenched and endemic corruption, selective implementation of policy, long delays at the ports and seizures of goods with no explanation by customs agents. Customs officials in turn blame delays on incorrect valuations of goods, refusal to pay required duties, and port operators and infrastructure.

In the last two years, customs officials say that the government has initiated positive changes in the agency. Salaries are higher, training is better and agents receive accommodation and other perks. It is hoped that better treatment of agents will reduce the incentives for corrupt practices.⁵¹ Minister Ngozi Okonjo-Iweala has also embarked on widespread ports reform, with terminal operations being concessioned to private sector firms, cashless handling of all transactions and a severe reduction of the number of

⁵⁰ World Bank.

⁵¹ Abuja 5. The idea that poverty causes corruption seems to be very common among government officials, with the solution seen to be increases in salaries and perks.

government agencies allowed at the ports.⁵² However, the federal government's ability to control and reform the customs agency is not guaranteed; the agency has a paramilitary structure, a tremendous amount of autonomy, and little formal or informal motivation to support explicit trade and investment policy goals. Statements like 'no one can control customs, not even the minister' and 'customs does whatever it wants' are very common among frustrated officials and investors.⁵³

Trade-, industry- and business-related parastatals and agencies are under the authority of the Ministry of Trade and Investment, and the primary networks and relationships investors, state economic actors and the organised private sector have with the government are with that ministry. However, the customs agency is under the administration of the Ministry of Finance, with very little incentive to coordinate with other ministries, departments and agencies. However, it is hoped that current Minister of Trade and Investment, Aganga, as former Minister of Finance, might be able to mediate the often-troubled relationship between the customs authority, the Ministry of Trade and Investment, and the private sector. Again, on the one hand these coordination issues are an example of the inability of formal hierarchies to exert institutional authority; on the other, they are a symbol of the ways in which circumventing trade policy has historically been the de facto trade policy, and these informal power structures have been institutionalised. This is visible also in the complex system of waivers that underpins (and distorts) the formal trade regime. These issues will be returned to in more detail in chapters five and six in reference to the zone development projects.

⁵² 'Okonjo-Iweala explains delay in 2012 Budget', *Vanguard* 23 November 2011.

⁵³ Every single Nigeria-based official and investor—both foreign and domestic—interviewed for this project commented on the obduracy and intractability of the customs agency and its entrenched corruption—including customs agents themselves.

Implementation and reform failures like those associated with power sector and customs reform are often dismissed as simply examples of the corruption and venality of the Nigerian elite. Certainly, that is one dimension; however, patronage serves several functions in Nigerian political economy. In addition to the economic project of industrial development that is the focus of this dissertation, Nigeria is also engaged in a long-term political project of state building. The country's fragile federal system holds together the politically powerful but underdeveloped Muslim north, the economically vibrant Yoruba southwest, and the trading and oil capitals of the Igbo-dominated southeast through a combination of formal power-sharing arrangements and informal bargaining for political power and distribution of economic rents.⁵⁴ Webs of entrenched vested interests reach across the country, intricate patronage networks and a culture of corruption and kickbacks ensure that public funds regularly end up in private hands, and state capacity and coordination challenges at each level of government are exacerbated by local and national cleavages along ethnic, religious and economic lines. These patterns of geographic inequality, and powerful informal bargaining systems, have been further entrenched by the nature of the oil economy and the resource curse effects⁵⁵ on institutional quality. These will not change quickly or easily.

Distributional politics and patronage have historically served as the glue that holds together what has otherwise been termed a 'mere geographical expression',⁵⁶ creating a tenuous national stability that is extremely expensive to maintain. Even the geography of investment, development and industry is a product first of sectional, political

⁵⁴ For in-depth discussions of Nigeria's political system, its evolution, and the ways in which regional and ethnic considerations influence party politics, see Peter Lewis, 'From prebendalism to predation: The political economy of decline in Nigeria,' *The Journal of Modern African Studies* 34.01 (1996). Eghosa Osaghae, *Crippled giant: Nigeria since independence* (Bloomington: Indiana University Press, 1998). Ukoha Ukiwo, 'Politics, ethno-religious conflicts and democratic consolidation in Nigeria,' *The Journal of Modern African Studies* 41.1 (2003). Peter Lewis, *Rules and Rents: Legislative Contention in Nigeria* (2010).

⁵⁵ For discussion of the effects of resource wealth on the quality of institutions see Halvor Mehlum, Karl Moene, and Ragnar Torvik, 'Institutions and the Resource Curse,' *The Economic Journal* 116.508 (2006). And Sala-i-Martin and Subramanian, for the applicability to Nigeria.

⁵⁶ Obafemi Awolowo, quoted in Ikpeze, Soludo, and Elekwa, p. 346.

considerations, and second of economic rationality or national development vision. Oil refining and petrochemical projects were built in Kaduna in the north, despite its distance from southern oil fields, necessitating the construction of 3,000 kilometres of pipeline. Iron and steel manufacturing was sited at Ajaokuta—and have struggled ever since—despite government commissioned reports that identified Onitsha and Lokoja as the most economically viable. ‘This dispersion of industrial location without regard to economic considerations is a critical factor in understanding the reasons for poor performance and international competitiveness.’⁵⁷ Chapter five will return to this issue in reference to the political justification of a dozen new SEZ project sites, some in remote parts of the country without access to international ports or borders.

One prominent (southern) leader of the organised private sector contends that ‘this attempt to satisfy everyone, to have to do the same in the north as the south, the political patronage that results, the separate ministries, agencies and replication at every level of government’, is the major stumbling block for Nigerian economic progress.⁵⁸ However, in this national political context, the perception of geographical fairness will remain a priority. Economically irrational choices often have a politically rational logic. New turbulence in Nigeria’s party system—with internal fractures in the dominant People’s Democratic Party and increased competition from opposition parties—as well as threats to the regional power-sharing agreement between north and south, threaten national stability and draw state attention and resources away from economic issues. This was visible in the violence following the 2011 elections as well as the increasing pressure on Abuja to address the threat from Boko Haram and other extremist groups in the country’s north. An embattled executive struggling to reinforce political stability through strengthening patronage

⁵⁷ N.I. Ikpeze, C.C. Soludo, and N.N. Elekwa, ‘Nigeria: The Political Economy of the Policy Process, Policy Choice and Implementation,’ The Politics of Trade and Industrial Policy in Africa: Forced Consensus? (2004).

⁵⁸ Lagos 2.

networks is obviously not compatible with economic reform efforts that seek to dismantle those same webs of vested interests.

Thus, these two projects—economic development and political consolidation—often come into conflict and compete for scarce political and financial resources, especially at the federal level. Implementation and capacity constraints often point to the latter taking precedence over the former, and have a substantial political dimension. Technocratic discussions of policy documents and business climates assume that corruption, inefficiency and governance issues will disappear once Nigeria gets the policy and institutions right. However, a political economy reading of these implementation constraints reveals the extent to which the Nigerian trade and investment environment is influenced by the politics of patronage, of geographical fairness and, by extension, the political project of ensuring state stability.

Economic change always relies on the sacrifice of the ideal in favour of the possible. For investors in Nigeria this means recognising two parallel trade and investment regimes, adaptation to the entwined relationship between government and business and the realisation that the political sands can shift very quickly. It also means that actual power structures may not follow formal hierarchies, and one cannot necessarily expect continuity between explicit and implicit goals, nor between national, state and local levels of policy and practice. Thus, success in the Nigerian economic environment is linked to identifying the ‘real’ trade/investment/industrial policy framework—along with the systems of formal and informal incentives that underpin it. These themes inform the case study material in chapters five and six. The next section turns to Nigeria’s relationship with China, in order to explore the ways in which a multifaceted relationship with a particular foreign partner

reinforces, challenges or otherwise interacts with the dimensions of the Nigerian institutional environment outlined here.

A MULTI-LEVEL ENGAGEMENT: CHINA AND NIGERIAN PRODUCTION

China and Nigeria established diplomatic relations in 1972, and over the following decades there were multiple high-level state visits between the two countries, but little in the way of a substantive economic or political relationship. In 2001, after the conclusion of the inaugural FOCAC, held in Beijing in 2000, China and Nigeria signed an agreement on trade, investment promotion and protection. This coincided with the formal announcement in China of its ‘go out’ policy framework discussed in chapter three, which initiated a new outward foreign policy and economic orientation centred around the state-supported internationalisation of Chinese firms. Meanwhile, Nigeria was aggressively courting foreign investment following its 1999 return to civilian rule. Additional cooperation and taxation agreements followed, and in 2005 the two countries signed a strategic partnership agreement. This is one of only two such agreements China has established with African countries—the other being with South Africa—and Chinese officials state that this is an indication of the importance China places on the Nigeria relationship.⁵⁹

In the early 2000s, China-Nigeria relations—like China’s relations with most African states—were characterised by high-level bilateral ties and large, state-driven aid, trade and investment agreements. The Obasanjo regime cultivated close diplomatic and economic ties with China, with multiple visits by both countries’ heads of state, the joint launching—and later loss—of a satellite, and a number of very large ‘oil for

⁵⁹ Beijing 5.

infrastructure' arrangements. These contracts were mostly suspended or renegotiated after Yar'Adua took office in 2007, and relations between the two countries cooled slightly.⁶⁰ After Yar'Adua's death in office in 2010 and Jonathan's election in 2011, the new administration began a push to significantly increase FDI, and indicated in meetings with President Hu Jintao's special envoy that China would have a large role to play in the country's infrastructure development.⁶¹

Over the past decade, this top-level political and economic engagement has been systematically deepened by rapidly rising trade and migration between the two countries, as well as by the expansion of Chinese firms and entrepreneurs into nearly every sector of the Nigerian economy. The China-Nigeria relationship is evolving into a multi-level engagement populated by differentiated groups of state, sub-state and non-state actors, with diverse motives and impacts. Linkages are growing more diffuse and an increasing amount of economic activity takes place outside the purview of both Beijing and Abuja.

Thus the impact of China on Nigeria—or, for the purposes of this dissertation, the impact of China on Nigerian production and industrialisation—varies depending on the angle from which it is viewed. This section distinguishes between three economic flows between the two countries—goods, finance, and firms—and examines the qualitatively different trade, infrastructure and investment roles that result. These three contexts offer challenges and opportunities that are particular to Nigeria's relationship with China as opposed to its foreign relations in general, as well as distinct long- and short-term prospects for Nigerian economic development.

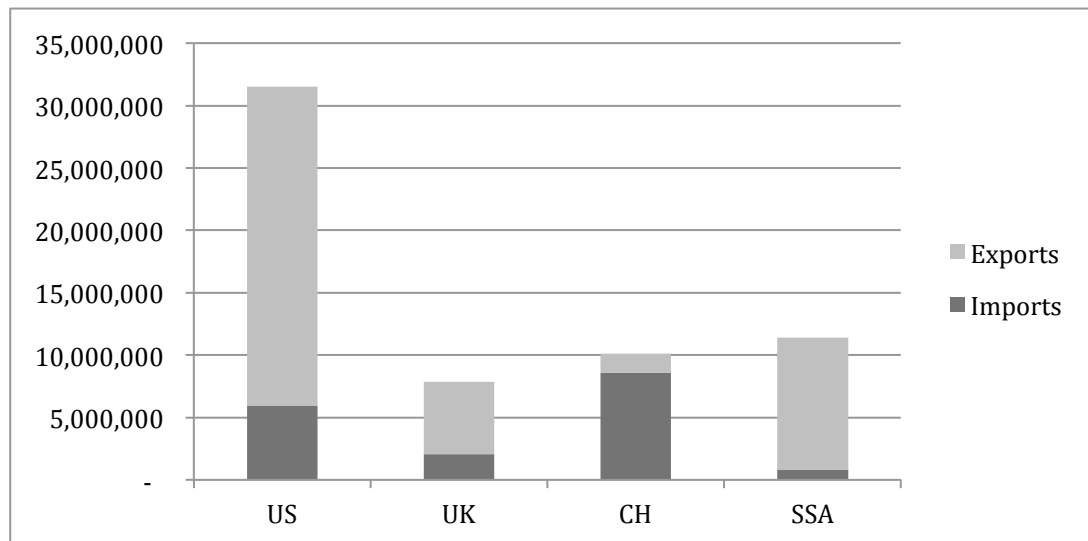
⁶⁰ For an overview of the rise and fall of 'oil for infrastructure', see Gregory Mthembu-Salter, 'Elephants, Ants and Superpowers: Nigeria's Relations with China,' *China in Africa Project Occasional Paper No. 42* (2009).

⁶¹ 'Nigerian President Jonathan meets Hu's Special Envoy', *Xinhua* 31 May 2011.

Goods: China as a trade partner

Trade between China and Nigeria has grown rapidly over the past decade, from \$1.1 billion in 2001 to over \$10 billion in 2011. In 2010, China became the largest single source of imports for Nigeria, accounting for 16.9 per cent, followed by the US (9.9 per cent), the UK (five per cent), and India (4.8 per cent).⁶² The balance of trade is very much in China's favour, with the majority of the trade relationship based on Nigerian importation of manufactured goods, mainly motorcycles, machinery, auto parts, textiles and garments. This imbalance has been a source of concern for Nigeria since the Obasanjo administration, and in multiple high-level meetings, China has stated its intention to import more Nigerian products (both oil and non-oil) to address it.⁶³

Figure 7: Trade volume and partners 2012 (USD thousands)



Source: UNCTAD database

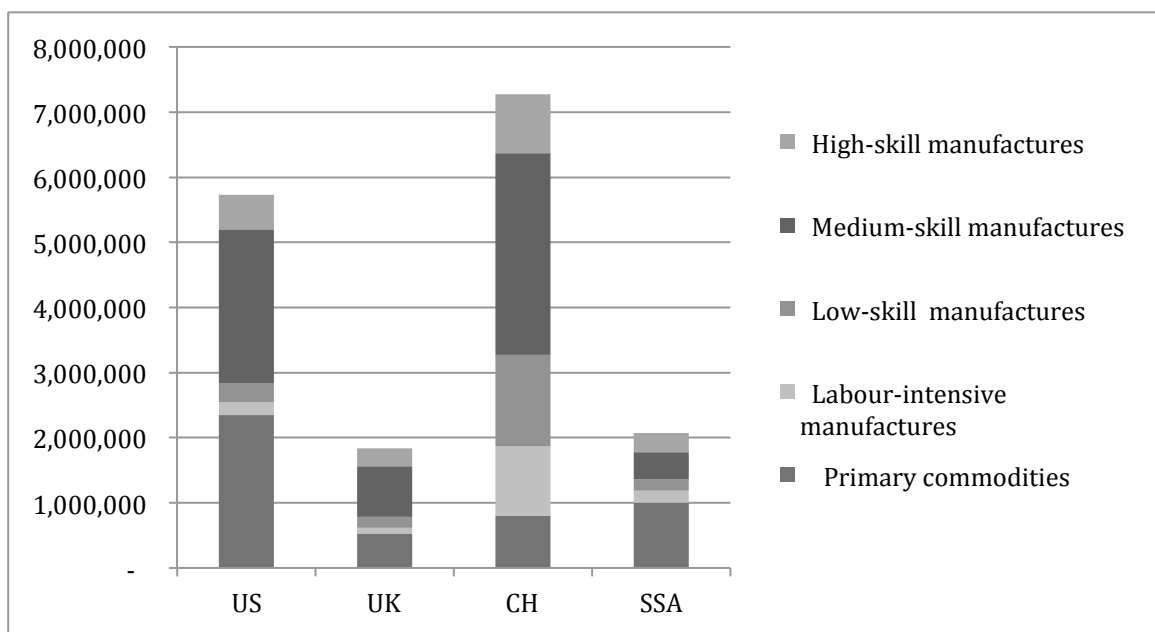
Underneath the macro trade figures is the more complex issue of the effect these imports have on the domestic economy. On the one hand, they fuel a thriving retail trade

⁶² Nigerian National Bureau of Statistics Import Data, <http://www.nigerianstat.gov.ng/index.php/pages/division/id/3>. Retrieved 6 May 2013.

⁶³ Abuja 9; Abuja 10; Abuja 11.

industry—one which contributes substantially to Nigeria’s GDP, employs a great number of Chinese and Nigerian traders and retailers, and makes inexpensive goods available to a population who might otherwise not be able to afford them. On the other hand, they raise issues regarding quality standards, competition with local producers and corruption and smuggling at Nigeria’s borders.

Figure 8: Sources and composition of Nigerian imports 2012 (USD thousands)



Source: UNCTAD database

First, there are widespread issues with the quality of Chinese goods as well as the amount of them flooding the Nigerian economy. The perception that Chinese goods are of an inferior standard, along with repeated accusations of dumping and smuggling of substandard goods, is pervasive.⁶⁴ ‘Buy China, pay twice’ is a common refrain throughout Nigeria, and officials in the Ministry of Trade and Investment state that ‘substandard goods are the biggest problem in China-Nigeria economic relations’.⁶⁵ Quality issues have repeatedly been a flashpoint between the two governments, prompting the signing of a

⁶⁴ ‘Chinese manufacturers toying with Nigeria Industrial Standards’, *Vanguard* 19 December 2011.

⁶⁵ Abuja 9.

memorandum of understanding establishing a joint implementation committee to regulate and enforce standards on Chinese imports. However, this committee reportedly never became active,⁶⁶ and in 2011 Nigeria was once again requesting action on standards regulation.⁶⁷

Chinese officials acknowledge the difficulty of curtailing the illegal production of low-quality goods in China, saying the ‘results have not been very satisfactory’, but maintain that controlling the quality of goods is the responsibility of the importing nation.⁶⁸ They also argue—and many Nigerians agree⁶⁹—that while these controversial goods are made in China, the traders who are responsible for bringing them into the country are frequently Nigerians catering to local demand. Either way, there are large numbers of Chinese and Nigerian traders dealing in low-quality goods, along with informal regional trade networks that are increasingly dealing in cheap manufactures from Asia rather than locally produced goods,⁷⁰ that are operating outside the reach of any number of memorandums of understanding signed at the national level.

Second, these floods of cheap goods are restructuring patterns of production all over the region, and local producers complain that they cannot compete with Chinese imports. Both government officials and private sector representatives state that competition from cheap, Chinese imports is the single biggest challenge facing local manufacturers, especially in garment, household items and toy industries.⁷¹ This effect has been especially harsh in the

⁶⁶ Abuja 9; Abuja 10.

⁶⁷ ‘China Nigeria Trade Due to Hit \$10 billion’, *Vanguard* 9 November 2011.

⁶⁸ Beijing 5.

⁶⁹ ‘China Not Responsible for Inferior Fabrics in Nigeria’, Daily Trust, 13 October 2009. Corroborated by interviews with MTI officials.

⁷⁰ Kate Meagher, ‘New Regionalism or Loose Cannon? Nigeria’s Role in Informal Economic Networks in West Africa,’ *Gulliver’s Troubles: Nigeria’s Foreign Policy after the Cold War*, ed. Raufu Mustapha and Adekeye Adebajo (Scottsdale: University of Kwa-Zulu Natal Press, 2009).

⁷¹ Abuja 1.

textile industry, which has long been in decline in Nigeria.⁷² Even traditional West African fabric patterns have been copied and produced more cheaply in China, and the Asian country's exports of African wax cloth have boomed over the past decade.⁷³ A ban on textile imports served only to push textile trading into regional informal markets, and was abolished in 2010 in favour of a high tariff.

Dozens of local producers have closed their doors over the past decade, including Taiwanese and Chinese firms who have been producing in Nigeria since the 1980s, and now find themselves unable to compete with this new flood of cheap imports.⁷⁴ There are indications that those firms that do survive do so by upgrading both in product and process; an African wax fabric firm in Ghana adapted by raising the quality and the prices of its products in order to appeal to an emerging middle class that values quality over price.⁷⁵ Over time Chinese competition could drive this type of creative destruction in Nigeria. However, given the environmental and infrastructural constraints of textile production in Nigeria, it seems less likely that the sector will become efficient as a result of increased competition than that it will disappear altogether. The blame cannot all be laid at the feet of the Chinese—Nigeria has invested little in its textile industry over the past several decades—but the flood of cheap imports may accelerate the inevitable.

Competition in retail trade in both the formal and informal sectors has also been notable as the nexus of production shifts eastward. Traders in the markets of Onitsha, who have long dealt in imported European goods, are reportedly being undercut by Chinese products,⁷⁶

⁷² 'How China products threaten made-in-Nigeria goods campaign, by stakeholders', *The Guardian Nigeria* 29 October 2009.

⁷³ Gherzi, *Update on the Textile and Garment Industry Sector Study: Nigeria*, (UNIDO, 2007).

⁷⁴ Abuja 15; Beijing 9.

⁷⁵ *African Outlook*, November (2011).

⁷⁶ 'The Chinese: Traders struggle in a hostile environment on their home turf' *Financial Times*, 29 September 2010.

and there are constant complaints that the Chinese are displacing local petty traders.⁷⁷ In many cases, foreign traders simply present a visible target for indigenous traders and producers struggling with a number of threats to their livelihoods. China has faced similar public outcry over the growing African—primarily Nigerian—population in several of its southern cities. In 2012, a Nigerian trader died in custody in Guangzhou, setting off protests by Nigerian immigrants as well as a national debate over Africans in China. The Nigerian government responded by arresting 100 illegal Chinese traders the following week, nearly half in Kano, some of whom were deported and others released.⁷⁸

Unregulated Chinese goods and the unregulated actors who peddle them present a quandary for a government that wants to encourage investment from China in most sectors, but not those where they compete with locals. As one trade and investment ministry official exclaimed, ‘You don’t see Americans coming to sell T-shirts on the street!’⁷⁹ Yet, Chinese academics and officials admit that these types of conflicts will likely increase as linkages between the two regions continue to deepen.⁸⁰ Both governments have an interest in learning how to balance domestic political demands with international relations with an important partner. The informal sector is generally thought of as the ultimate bastion of indigenous entrepreneurship, and not normally a target for foreign actors or protective government regulation. As such, the Chinese presence in petty trading is a new kind of challenge.⁸¹

Finally, these issues are exacerbated by the inability of the Nigerian state to control the flows of consumer goods through ports and trade networks. The prevalence of cheap,

⁷⁷ Abuja 12.

⁷⁸ ‘70 Chinese arrested in Nigeria Freed’, *China Daily*, 25 May, 2012.

⁷⁹ Abuja 9.

⁸⁰ Beijing 5; Beijing 7.

⁸¹ This issue is not confined to Nigeria. Governments in Malawi, Uganda, and Kenya have passed legislation aimed at reducing or eliminating the Chinese presence in petty trading in response to violent domestic protest.

substandard goods from Asia, combined with tariff regulatory frameworks that try to limit their import, contributes to increased corruption and smuggling at Nigeria's ports. A senior Nigerian Export Promotion Council official states that imports from China are regularly undervalued, customs stops the shipment at the port, 'and then the two sides begin to haggle'.⁸² A senior customs officer candidly admits this is true, saying that customs agents regularly raise queries on shipments of manufactured goods from Asia as there is a significant problem with undervaluation and quality on this type of cargo. He says that with American companies, whatever tax is asked of them, they simply pay it 'to the last copper',⁸³ but the Chinese and others from developing countries 'like to cut corners' and offer bribes.⁸⁴ On many undervalued Asian shipments, the importer may be unable to pay duties on the revised valuation of the shipment, so his only chance to receive the goods at all is to come to some sort of agreement with officials.⁸⁵

On one level these customs issues with Chinese imports are simply a reflection of the more developed and rigidly enforced framework on export standards and goods valuations in US and European ports versus those in both China and Nigeria. However, they are also an indication of the ways in which the evolving trade relationship with China reinforces the problematic political economy of Nigeria's borders, which was discussed in the previous section. Nigerian ports are notorious for cheating, corruption and delay. Historically, collecting rents on imports, dealing in import licences and otherwise manipulating the flow of goods over the border has been very lucrative for the Nigerian political and economic elite, and the deepening trade relationship with China contributes to this institutionalised culture of corruption.

⁸² Abuja 1.

⁸³ Since payments are now computerised, artificially inflating tax and duty fees cannot be easily exploited by customs officials for personal gain, unlike looking the other way on undervalued goods.

⁸⁴ Abuja 5.

⁸⁵ Abuja 1; Abuja 5; Lagos 8.

These issues with standards, competition and smuggling are unique challenges in Nigeria's trade relationship with China. However, China also produces high-quality goods for export to the US and Europe, and those goods move through ports all over the world without extensive bribing and delay. These particular challenges are thus situations where poor institutional capacity and regulatory control on both sides—a common enough condition in developing countries—incentivise unwanted, inefficient or illegal behaviour. The prominence of informal trade networks and unofficial channels through which policy is circumvented and disputes are negotiated and resolved makes them especially difficult to address through formal means. These issues are perhaps an unsurprising element in economic relations between states closer together on the developmental ladder. However, the volume of imported consumer goods in the country, their quality and price, and the capacity and will of the state to manage their flow across its borders have very real ramifications for the feasibility of local production. This will be returned to in some detail in chapter six.

Finance: China as an infrastructure provider

Like much of the rest of Africa, Chinese activities in the Nigerian infrastructure sector are very prominent due to the success companies have had in winning government tenders for construction and PPP projects. There is no mechanism for tracking all contracts awarded to Chinese companies by federal and state governments in Nigeria. However, in late 2011, Chen Jian, China's deputy minister of commerce, stated that Chinese firms have undertaken engineering projects worth \$28.1 billion in Nigeria.⁸⁶ That would make the

⁸⁶ 'China Nigeria Trade to Hit \$10 billion' [The Nation](#), 8 November 2011. These engineering projects likely include energy infrastructure contracts as well, like the refineries discussed below.

sum of those contracts—most of them infrastructure and energy related—far greater than the total figure for Chinese investment stock in Nigeria (\$1.4 billion in 2011).

There are two separate but linked sides to China's role in infrastructure provision: construction by Chinese firms and financing by Chinese banks. Infrastructure contracts are largely in transport and power infrastructure and are often financed at least in part by loan facilities, concessionary or commercial, from one of China's two policy banks—Exim or CDB—⁸⁷ or, in the case of commercial projects, a Chinese commercial bank. Development assistance projects financed by Exim, either through loans or export credit lines, usually require a high degree of Chinese content—in terms of contractors and goods exported from China. Chinese finance from commercial sources does not have these requirements.

Especially with reference to government contracts, the promise of finance can be a powerful incentive to award infrastructure contracts to Chinese firms. One senior Exim Bank official states that when large state-owned Chinese firms tender for government contracts, 'it is understood' that financing will be provided by China's policy banks.⁸⁸ In these cases, the funds rarely leave China at all—being transferred directly from the Chinese bank to the China head offices of the contractor. However, construction and financing are not always a package deal: many competitive Chinese contractors also win tenders and construction subcontracts for projects that are commercially or equity financed from other international sources.

⁸⁷ For a thorough and thoughtful investigation of Exim Bank financing terms and habits, see Deborah Brautigam, *The dragon's gift: The real story of China in Africa* (Oxford: Oxford University Press, 2009), and Lucy Corkin, 'Redefining foreign policy impulses toward Africa: The roles of the MFA, the MOFCOM and China Exim Bank,' *Journal of Current Chinese Affairs*, 40.4 (2011).

⁸⁸ Lagos 10.

There are a variety of types of engineering contracts and financing arrangements. Most are relatively low-risk, short-term construction and engineering contracts, where Chinese firms enter late in the project cycle and exit quickly.⁸⁹ Others of the build-operate-transfer model may include an operational and management concession, while a minority are joint venture or PPP arrangements where the Chinese firm takes on some commercial risk and may make a long-term investment. Thus, projects labelled ‘Chinese’ may only involve Chinese subcontractors doing construction work, may be operated by Chinese firms, may be financed by Chinese state or commercial banks with either a development or a commercial rationale, or any combination of the above. The four examples below illustrate the multiple ways Chinese contractors and financing institutions partner with Nigerian and international governments, firms and banks on infrastructure projects.

- The Chinese firm CCECC is involved in two mass-transit rail projects in Nigeria. The first is a commercially financed project by Lagos state government, where CCECC was awarded the subcontract for below-ground engineering works, but Eko Rail—a Nigerian company—is the preferred bidder for all above-ground engineering and stock.⁹⁰ The second is a federal government project in Abuja where CCECC was awarded the full engineering contract in 2007, but progress foundered until Exim Bank funding was finally secured by the federal government in 2012. Both are PPP projects comprising a design-build contract and a separate concessionaire contract that has not yet been awarded. However, in the first case, the Chinese firm simply won the international tender for the engineering contract. In the latter, the contract was awarded to a Chinese firm with the expectation that concessional financing would follow.⁹¹ The first is a commercial project negotiated at the state level between

⁸⁹ Beijing 16.

⁹⁰ Lagos 10.

⁹¹ Beijing 1.

the state government and domestic and international firms; the second is a development assistance project negotiated between national governments

- Chinese contractors have also begun to win tenders for infrastructure deals financed by international development agencies, including an \$82 million contract for refurbishing the Kainji hydropower station. The contract was signed in December 2011 between the state-owned Power Holding Company of Nigeria and Sinohydro and Harbin Electricity Corporations—a central Chinese SOE and a provincial SOE respectively—and is scheduled for completion within 42 months. It is being financed by a 30-year World Bank loan at 2.5 per cent.⁹² In these cases, the Chinese firms are simply engineering contractors, taking on minimal risk. Other power infrastructure projects include two gas-fired power plants at Omotosho and Papalanto, completed in 2007 by China National Machinery and Equipment Corporation and a provincial firm from Shandong (SEPCO III), and financed with export buyer's credits from Exim Bank. Both these plants are slated for expansion as of 2010⁹³
- Most recently, interest has turned towards infrastructure construction in the downstream oil and gas industry and alternative energy. In 2010, it was reported that the state-owned Nigerian National Petroleum Corporation and China State Construction Engineering Corporation had signed a \$23 billion deal for the construction of three refineries, but were still seeking finance. These refineries are to be located in Bayelsa, Kogi and Lagos states, with total output of 750,000 barrels per day.⁹⁴ Following feasibility studies and a year's delay, the capacity of the plants was downsized to 400,000 barrels per day and it was announced that the Industrial and Commercial Bank of China would provide 80 per cent of the revised \$11.3 billion financing figure, with the Nigerian National Petroleum Corporation taking a 20 per

⁹² Nigeria, China sign Kainji hydro plant modernization contract', *HydroWorld*, 12 July 2011.

⁹³ Brautigam, Deborah, 'China in Nigeria: Power myths and realities', *China in Africa: The real story* blog, 14 May 2010, www.chinaafricarealstory.com.

⁹⁴ 'Nigeria and China sign \$23bn deal for three refineries', *BBC News*, 14 May 2010.

cent equity stake.⁹⁵ The targeted completion date is 2015. Here, China State Construction Engineering Corporation is taking on the financing risk and will operate the facilities until it recoups its investment

- In January 2012, the Nigerian Ministry of Trade and Investment signed a \$2.55 billion memorandum of understanding with Global Biofuels, a Nigerian company, for the construction of 15 integrated biofuel plants.⁹⁶ Seventy per cent of the financing is reportedly coming from ‘the Chinese government’, although it is not clear whether this is concessionary finance or a commercial loan from one of China’s state-owned banks. In this case, the financing is Chinese, but the investment is being made and managed by a domestic company, who may or may not hire Chinese subcontractors for the actual engineering work if the memorandum of understanding leads to an actual bankable project

These examples point to the varied ways that Chinese and Nigerian states, firms and banks are partnering with each other, and with other actors, to finance and build Nigerian infrastructure. However, the Chinese-Nigerian business relationship is littered with memorandums of understanding that do not lead to action, troubled contracts and delayed and moribund projects—especially for government infrastructure contracts. This in part may reflect the inexperience of Chinese firms in a new environment, but it is also indicative of a political economy in which signing contracts is lucrative in its own right, and an important part of the system of patronage that underlies political stability. Regardless of whether a project succeeds, each new Nigerian government has an interest in redistributing these perks of office in order to ensure support. The most infamous China-Nigeria infrastructure deal is a clear illustration in this regard.

⁹⁵ ‘Construction of Greenfield Refineries to Commence July 12’, *This Day Nigeria*, 21 December 2011.

⁹⁶ ‘Nigeria, Global Biofuels Sign 414 Billion-Naira Accord’, *Bloomberg Business*, 2 January 2012.

A national railway modernisation contract was originally awarded to China Railway Construction Corporation (CRCC) by the Obasanjo administration for \$8.3 billion, reportedly as part of a series of oil-for-infrastructure agreements negotiated just prior to the end of Obasanjo's term.⁹⁷ As with most of these oil and infrastructure deals, this one was accused of being substantially inflated and suspended when Yar'Adua took office,⁹⁸ reportedly much to the dismay of Obasanjo supporters inside and outside the government.⁹⁹ It was later re-scoped and broken up into five smaller contracts. The first of these, from Abuja to Kaduna, was awarded in 2009 to China Civil Engineering and Construction Corporation (CCECC), a subsidiary of CRCC, for \$875 million.¹⁰⁰ It was funded with a \$500 million concessionary loan facility from China's Exim Bank, with the remaining cost financed by the Nigerian government. It has been delayed and is now due for completion in 2014.¹⁰¹ The Lagos-Ilorin segment was completed and handed over in late 2011 and reportedly one weekly train is in operation.¹⁰² However, in general, the railway programme has been plagued by delays, renegotiation and financing problems.

There have recently been some attempts by the federal government to systematise Chinese finance for priority projects. In early 2012, Nigerian Minister of Finance Okonjo-Iweala led a delegation to China 'shopping' for \$3 billion in concessional and commercial finance for a selection of ventures. These included the delayed Abuja light rail project previously mentioned, as well as four airports and the Galaxy project. The delegation announced it was seeking funding from multiple sources at a total rate of less than three per cent. Minister Okonjo-Iweala signed a memorandum of understanding for a \$1.1 billion financing package with Exim Bank at that time.

⁹⁷ Mthembu-Salter.

⁹⁸ 'Nigeria Halts China Railway Firm in its Tracks' [Forbes.com](#) 11 April 2008. The Mambilla hydroelectric station project was also suspended and has not been reactivated. Nigeria is reportedly seeking interest from other sources.

⁹⁹ Abuja 14.

¹⁰⁰ 'FG, CCECC sign \$875m Abuja-Kaduna rail deal', [Vanguard Nigeria](#), 27 October 2009.

¹⁰¹ 'China, Nigeria Spend \$629 Million on Construction of Abuja to Kaduna Rail' [Bloomberg](#), 27 July 2011

¹⁰² 'Lagos-Ilorin Express Train Begins Operation', [The Nation](#), 28 October 2011.

China's role in African infrastructure is generally a convenient marriage between rapidly internationalising and competitive Chinese construction firms, ready Chinese finance and the continent's massive infrastructure deficit. There are obvious advantages for both sides: Africa has become the second-largest market for overseas contracts for Chinese firms, amounting to a third of total turnover of construction projects abroad.¹⁰³ The continent faces an annual infrastructure deficit estimated at \$75 billion¹⁰⁴ and, until recently, very few options in terms of finance for long-term infrastructure development projects from international organisations.¹⁰⁵

The economic and developmental benefits of infrastructure upgrading are obvious, and in the short-term this dimension of the China-Nigeria relationship is a positive one. However, the majority of infrastructure contracts and financing should not be labelled Chinese investment; for most of these projects the flow of funds is from Africa to Chinese companies, often facilitated by Chinese banks. Chinese firms take on minimal commercial risk, and the first condition on an Exim Bank loan is that it must be repaid.¹⁰⁶ Thus, the long-term development prospects of this Chinese role are obviously limited in terms of directly catalysing productive activities and structural change at the firm or state level, although the indirect benefits of infrastructure renewal cannot be overstated.

¹⁰³ Ministry of Commerce statistics.

¹⁰⁴ Fact Sheet: Infrastructure in sub-Saharan Africa, World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21951811~pagePK:146736~piPK:146830~theSitePK:258644,00.html>, retrieved 20 October 2012.

¹⁰⁵ Although this is changing, as institutions like the World Bank, the IFC, the African Development Bank and others take a new interest in financing African infrastructure, likely at least partially in response to the substantial Chinese push in this regard.

¹⁰⁶ Beijing 1.

Firms: China as an investor

The Nigerian economy has long been dominated by oil—which accounts for over three-quarters of government revenues—and foreign investment in the country has historically been concentrated in the extractive sectors. The media regularly trumpets that access to natural resources is the main driver of Chinese interest in the continent; however, in Nigeria, at least, this has not been the case. The US remains by far the largest importer of Nigerian oil, followed by India and Brazil. China does not even figure in the top 10 recipients of Nigerian exports—a source of trade friction, as discussed above. Although China does not buy Nigerian oil, its state-owned firms have been trying to make inroads in extracting and producing it. However, they have had trouble gaining influence due to the dominance of Western firms in the Gulf of Guinea, as well as a lack of understanding of the political economy of resource contracts in the country.

Early attempts to negotiate rights to exploration licenses directly during the Obasanjo era largely failed. China National Offshore Oil Company (CNOOC) did secure a 45 per cent stake in an exploration licence for the sum of \$2.268 billion in 2006.¹⁰⁷ In 2005 and 2006, Obasanjo awarded right of first refusal to several Chinese oil companies in three bidding rounds for oil assets, in return for Chinese commitments to invest in the rehabilitation of the Kaduna refinery and the Lagos-Kano railway, and the construction of a hydroelectric power station at Mambilla.¹⁰⁸ However, as discussed above, these deals were all suspended or cancelled upon the election of Yar'Adua.

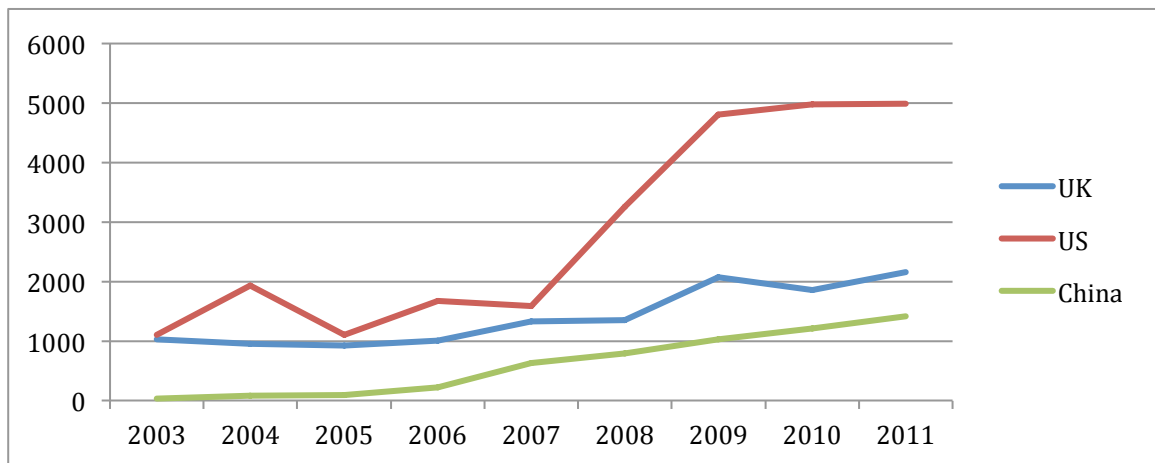
¹⁰⁷ Heritage Foundation China Global Investment Tracker 2012. Available at:

<http://www.heritage.org/research/reports/2012/01/china-global-investment-tracker-2012>, retrieved 20 October 2012.

¹⁰⁸ Mthembu-Salter. This oil-for-infrastructure arrangement—where China grants infrastructure loans secured by resources—has been popular in a few African countries like Angola and the Democratic Republic of the Congo and has been dubbed ‘the Angola Model’, however it was not successful in Nigeria.

In 2009, drilling licences held by Western firms on some of Nigeria’s richest oil blocks came up for renegotiation. CNOOC reportedly bid a whopping \$30-50 billion for six billion barrels in talks with the Nigerian government.¹⁰⁹ These talks may have been a ploy on the part of the Nigerian state to increase competition for the licences as, despite the publicity surrounding negotiations with China, they were ultimately returned to traditional Western partners.

Figure 9: Foreign direct investment stock and sources 2003-2011 (USD millions)



Source: Statistical bulletin of China’s outward foreign direct investment, various years; OECD statistics

China’s most meaningful exposure to the Nigerian oil industry comes as a result of Sinopec’s 2009 acquisition of Canada’s Addax Petroleum for \$7.3 billion, which gave it drilling and exploration rights in Nigeria, Gabon and elsewhere in the Gulf of Guinea, as well as in Iraq.¹¹⁰ Addax now produces 75,000 barrels per day in Nigeria with plans to increase production in 2012.¹¹¹ In general, however, the oil industry in Nigeria is ‘a closed ship’, in the words of one insider, and China will be unable to make substantial inroads outside of mergers and acquisitions with established Western firms.¹¹²

¹⁰⁹ ‘China Seeks Big Stake in Nigerian Oil’, *Financial Times*, 28 September 2009.

¹¹⁰ Mthembu-Salter 2009; ‘Sinopec to Buy Addax for \$7.3b’, *China Daily*, 24 June 2009.

¹¹¹ ‘Sinopec’s Addax Petroleum to Boost Crude Output in Nigeria’, *Bloomberg Businessweek*, 1 December 2011.

¹¹² Lagos 25.

However, outside of the resources sector, Chinese firms are having considerably more success. The services sector in Nigeria has seen tremendous growth over the past several years, especially in retail and wholesale trade and telecoms. Although Chinese telecoms giants ZTE and Huawei incorporated in Nigeria in 1999, they have come late to the country's telecoms revolution, led by South Africa's MTN and India's Airtel. Both firms focus on supplying system equipment, infrastructure and handsets to network suppliers. ZTE and Huawei were two of several contractors included in the federal government's national rural telephony programme in 2006, which reportedly secured a \$200 million loan facility from Exim Bank for the first phase completed in 2008. However, the second phase was suspended by the Yar'Adua administration and both phases have been scandal-plagued, with little to show on the ground.¹¹³ In late 2010, ZTE signed a controversial \$400 million contract with the federal government to provide CCTV security systems and equipment in Abuja.¹¹⁴ However, commercial expansion has been far more successful for both firms than these troubled government contracts. Huawei has also established a \$10 million training centre in Abuja and claims to have begun manufacturing in the country as well.¹¹⁵

Outside of telecommunications, there are many smaller Chinese companies engaged in a host of wholesale, retail and distribution services. Nearly a third of the Chinese companies that have registered with the NIPC in the past five years are engaged in the service sector, and over half of those are import/export and trading firms, mostly distribution branches of larger companies in China.¹¹⁶ Other types of services include transport and logistics, sales

¹¹³ 'House Talks Tough on Rural Telephony Project', This Day, 21 January 2011.

¹¹⁴ 'Security: FG Waives N10.8b for Chinese CCTV Contractor', Leadership, 31 Dec 2011. News Reports put this contract at \$470 million, the Heritage Foundation Global investment tracker lists it at \$400 million.

¹¹⁵ Lagos 13.

¹¹⁶ Author analysis of OSIC Business Permits Registry, made available in Abuja 11/11.

and marketing, engineering consulting and construction services, as well as restaurants and supermarkets.

Without huge contracts and large firms to attract media attention, Chinese manufacturers in Nigeria receive less attention than their countrymen in other sectors. However, they have perhaps the greatest potential to impact domestic industry, and it is here where Chinese FDI differs markedly from foreign capital from other sources. There are indications that the presence of Chinese manufacturers is sizeable and growing. Thirty-six per cent of the companies registered with the NIPC are manufacturing firms—the highest concentration of firms in any sector. They tend to specialise in light manufactures like footwear, plastics, rubber, pharmaceuticals and furniture—mature industries in China that are moving offshore—but there are some heavy industries represented as well, such as steel production and other metals.¹¹⁷

One survey of Chinese private enterprises in several African countries—of which Nigeria is one—found that firms tend to begin in import/export and trade, graduate to manufacturing in a country for the domestic market, and, if successful, begin to develop industrial parks to lengthen the value chain in their host country.¹¹⁸ Nigerian officials are beginning to realise the value of encouraging Chinese manufacturing in support of the country's economic development strategy. In a November 2011 visit to China, Minister of Trade and Industry Aganga made multiple references to making Nigeria a major manufacturing centre for Chinese firms.¹¹⁹

¹¹⁷ OSIC Business Permits Registry.

¹¹⁸ Jing Gu, 'The Last Golden Land? Chinese Private Companies go to Africa,' *IDS Working Paper 365* (2011).

¹¹⁹ 'China to make Nigeria major manufacturing zone', *Vanguard* 10 November 2011.

The characteristics of Chinese manufacturing investment—large numbers of smaller transactions by privately owned SMEs—make it difficult to track, assess or control these flows. As a result, manufacturing FDI has received far less attention in Nigerian policy circles than the more prominent trade and infrastructure dimensions of Chinese engagement. However, encouraging this type of investment addresses some of the challenges presented by trade with China: it reduces trade frictions associated with cheap Chinese exports by exchanging a Made in China stamp for a Made in Nigeria one. Localising production for African consumers also addresses African concerns with an asymmetrical trade relationship with China—wherein African countries export resources and import manufactures.

This dovetails with Chinese goals to restructure China's economy by moving mature industries offshore, as discussed in chapter three. The SEZs being developed by Chinese contractors in Lagos state (Lekki Free Zone) and Ogun state (Ogun Guangdong Free Trade Zone), which form the subject of the next two chapters, are part of this effort. Lekki is a joint venture between the Lagos state government (40 per cent equity through investment vehicle Lekki Worldwide Investments Ltd) and a consortium of Chinese firms led by CCECC. Ogun Guangdong is being managed and developed by Guangdong Xinguang, a provincial SOE, and the Ogun government owns a minority equity share. These zones and the internationalisation of Chinese manufacturing firms are the focus of chapters six and seven, and their potential to facilitate long-term economic change is explored in more detail then.

A note on perception

The perception Nigerian political and economic elites have of China's role in their country is nearly as important as actual Chinese activities. Despite the rhetoric deployed by Beijing emphasising a rich historical relationship between China and Africa and a shared experience of Western oppression, this is in many ways a new partnership. There is still a great deal of suspicion and xenophobia, even at the highest levels, and both Chinese and Nigerian officials are candid about perceived cultural and ideological differences.

Nigerian officials seem to see their relationship with China largely in economic terms, without the strategic component that characterises relations with the West. A senior official at the Ministry of Foreign Affairs states that the US and the UK have abandoned Nigeria in economic terms, but genuine partnership requires shared values, which may not be possible with the Chinese. 'Of course the Chinese are here as nature abhors a vacuum, but there are still many questions with the Chinese about values, gods, human rights and democracy.'¹²⁰ Western countries undoubtedly have a chequered past on the continent, with colonialism looming large in the historical memory of many Africans. But Nigerians also have a range of deep political, linguistic and cultural ties to the West, and this affinity is not something that shifts overnight with the entrance of a new actor.

This sentiment is echoed by a number of government and private sector sources. There is a pervasive sense that it would be preferable if the US and the UK were the ones building factories, roads and refineries in Nigeria, but they are not interested and thus Nigerians must turn to China for the type of investment they need. One senior NACCIMA official states that 'China is wooing us like a suitor, but no one invited them, they just came. Now,

¹²⁰ Abuja 4.

as I sit here there are Chinese in my village processing wood to make things to sell.’¹²¹ Another private sector leader agrees that Chinese and other emerging market firms are so prominent because they are the only ones willing to take the risk. ‘Nigeria would prefer traditional investors but the interest is not there.’¹²² NIPC officials say they have begun to target China for twice-annual trade fairs because of the positive response they receive following the events—with high levels of follow-up contact, interest and signed deals—in comparison to similar events in Europe and the US, which generate very little interest.¹²³

Of the three roles discussed above—trade, infrastructure and investment—it is clear that the trade dimension of the China-Nigeria relationship is the most contentious and colours official and public perceptions of the Asian country. ‘We are the victims and they are the predators in all aspects of production,’¹²⁴ says one official. Another business leader says he sees very little promise in the Nigeria-China relationship outside of trade in primary commodities. ‘We are not a producing nation, we are a consuming nation.’¹²⁵ These trade issues are justifiably important; however, their dominance in the Nigeria-China dialogue obscures the potential for better channelling types of Chinese FDI that can contribute more effectively to Nigeria’s long-term developmental goals.

On the Chinese side, among both officials and business leaders, there is also a fair amount of wariness, and few indications that the claims of south-south solidarity have more than a rhetorical resonance. In private, officials and business leaders are candid about cultural challenges and seem relatively pessimistic about Nigeria’s political future. ‘Nigeria should be a leader on the continent, but its time has passed. Lack of strong political leadership is

¹²¹ Lagos 1.

¹²² Abuja 9.

¹²³ Abuja 3.

¹²⁴ Abuja 1.

¹²⁵ Lagos 8.

the biggest hindrance,¹²⁶ is the verdict of one official. There is the recurring refrain that ‘this is not like China’ and a sense that Nigerians are squandering their development opportunity.¹²⁷ ‘This land is so rich you can throw down your mango seed and a tree will grow, and yet they do nothing,’¹²⁸ says one manager. ‘All the NGOs focus on the 10 per cent that might be bad in something, and then they stop the 90 per cent that is good,’¹²⁹ is the opinion of another frustrated observer. However, underpinning these comments is a strong pragmatism. One commerce ministry official pointed out that, regardless of the rhetoric—both positive and negative—surrounding China-Nigeria relations, ‘no country doesn’t like foreign investment’.¹³⁰ For both sides, this economic rationale is driving the relationship, at least in the short-term.

In a recent exchange in the *Financial Times*, Nigerian Central Bank governor Lamido Sanusi warned that China is in Africa solely to pursue its own agenda, and Africa’s rose-tinted view of the Asian giant must give way to hard-nosed economic thinking.¹³¹ He targeted trade issues and the effect of large volumes of Chinese goods on local economies and local producers. Qu Ming, president of the China Institute for International Studies, retorted that Sanusi’s accusations were unfair and inaccurate, highlighting Chinese initiatives to encourage African manufacturing and arguing that China has been and will continue to be a good development partner to the continent in this regard.¹³²

Sanusi and Qu are both right. China is indeed pursuing its own interests in Africa, but those interests are more multifaceted than a simple resources-for-manufactures swap. Nigerians do need to take a more realistic and pragmatic view of relations with their

¹²⁶ Beijing 1.

¹²⁷ Lekki 1; Lekki 2; Lagos 6; Beijing 2.

¹²⁸ Ogun 2.

¹²⁹ Beijing 9.

¹³⁰ Beijing 5.

¹³¹ ‘Africa must get real about Chinese ties’ *Financial Times*, 11 March 2013.

¹³² ‘Africa and China are good for each other’ *Financial Times*, 5 April 2013.

international partners, but there is no reason why these relations need mimic the colonial ones of the past. Nigeria's relationship with China is complex and multidimensional, especially when it comes to its effects on productive behaviour and structural change. Trade issues with the Asian country threaten domestic producers and livelihoods, but Chinese manufacturing investment can support local production and industrial development. The next two chapters examine the latter in more detail.

CONCLUSION

Since return to civilian rule in 1999, Nigeria has made a host of policy changes aimed at transforming its national economy through the attraction of foreign firms and capital. In policy terms, this transformation explicitly envisages rapid industrialisation fuelled by private sector investment and a withdrawal of the state from the economy. However, the same conflicts over ownership of assets, financing development and the role of the state in economic change that have shaped Nigerian industrial history remain salient today. These debates are complicated by the ongoing political project of national stability, which often takes precedence over the economic project of industrial development. These trends create a political economy of production where formal mechanisms of economic change compete with informal mechanisms of political patronage.

Within this context, the China-Nigeria relationship is one characterised by multi-level engagement. The activities of Chinese firms range up and down the value chain and across traditionally foreign-dominated sectors like oil and gas as well as traditionally indigenous ones like petty trading and light manufacturing. Thus, the impact of 'China' on Nigerian production will change very much depending on the angle from which you view it. Certain dimensions of China's role in Nigeria—especially regarding the micro-level impacts of the

trade relationship between the two countries—hinder Nigerian productive prospects. Other dimensions—like manufacturing FDI—may support or catalyse structural change.

However, all economic change creates winners and losers, and the deepening relationship with China is no exception. The presence of Chinese nationals in Nigeria’s informal economy—displacing petty traders at the bottom of the socioeconomic ladder—will continue to be a flashpoint, as will the volume of cheap Chinese goods moving through porous borders. In the short-term, Nigeria’s desperate infrastructure deficit combined with China’s able, inexpensive and contract-hungry construction firms is a happy marriage. However, it is the ways in which Nigerians can link new sources of Chinese investment in manufacturing and services to their own attempts to effect structural economic change that will determine the long-term impact of the China-Nigeria relationship. The Chinese-sponsored SEZ is one such initiative, and this dissertation now turns to the Lekki and Ogun zones in more detail.

Chapter Five
CROSSING BORDERS: STRUCTURES AND INSTITUTIONS IN LEKKI
AND OGUN FREE ZONES

Nigeria is the only country to have two successful zone projects approved for inclusion in the Chinese overseas zone programme: the Lekki Free Zone in Lagos State, and the Ogun-Guangdong FTZ in Ogun State. These two zones serve as the case studies for the latter two empirical chapters of this dissertation. This chapter focuses on their structural characteristics, as well as the institutional linkages they have with domestic and international political and economic institutions. Its main unit of analysis is the zone institution itself, while the following chapter takes as its subject the firms that develop and inhabit the zones and their linkages with domestic and international markets.

As discussed in chapter two, for the purposes of this study, the zone is considered as a transnational industrial policy institution—rooted in China and anchored in Nigeria. This chapter examines the structural and institutional aspects of that anchoring process by

assessing the ways in which the zone slices through various layers of national and international bureaucracy, policy and government. It argues that horizontal linkages between the zone and sub-national actors tend to further integrate the zone into the Nigerian economy, whereas vertical linkages between the zone and national institutions in Nigeria and China tend to enforce the border between them. The Lekki zone is the primary case study here; however, data from the Ogun zone provides comparative context.

The discussion is structured in four parts, with a broadly spatial design that reflects this characterisation of the zone as an institution that crosses borders. The first section provides a contextual overview of the institutional and regulatory regime that governs all zones in Nigeria. It pays special attention to the political logic that informs policy and practice, as outlined in chapter four. The focus of part two is the zone itself—examining the structures and processes of establishing, operating and financing the joint venture zone projects.

The latter two sections concern linkages between the zone and successive institutional layers in Nigeria and China. Part three discusses horizontal linkages between the zone and local populations and state governments. It characterises the role of the former as the *agitators* and the latter as the *pivot* between local concerns and national policy, and argues that the focus of these relationships is integration between the zone and the domestic environment. Part four addresses vertical linkages between the zone and the Nigerian federal government and agencies—the *enforcer*—as well as the Chinese government and China-based headquarters of developer firms—the *supervisor*. These relationships are quite hierarchical with decision-making concentrated at the top, and tend to enforce formal and informal borders between the zone and the domestic economy.

NIGERIA'S FREE ZONE REGIME

Nigeria began experimenting with zones in the early 1990s. Calabar FTZ, the country's first, was founded in 1992 in Cross River State in the south, mainly as a storage and logistics hub to support the oil and gas industry. Kano FTZ was established in 1998 in Kano State in the north to encourage light manufacturing for export. These two initiatives were sponsored by the federal government and remain the only two that are centrally owned and operated, although there are several state government-owned zones. Construction on early zones was very slow, and attracting FDI has remained a challenge. However, over the last decade, free zones have proliferated and there are now 25 approved zones in 21 states, of which 11 are still under construction or declaration. A further 11 zones were awaiting approvals at the time of writing. There has been a trend away from government zones towards private sector-led projects, often in a PPP arrangement with state governments.

Figure 10: Nigerian free zones

	<i>Name</i>	<i>Location</i>	<i>Sponsor/ Developer</i>	<i>Established</i>	<i>Industry focus</i>	<i>Status</i>	<i>Firms</i>	<i>Employment</i>	<i>International export value</i>	<i>Domestic export value</i>
1	Calabar Free Trade Zone	Cross River	Fed. Govt.	1992	Manufacturing, Oil & Gas, Logistics	Operational	53	2775	\$24,885,830	\$146,052,928
2	Kano Free Trade Zone	Kano	Fed. Govt.	1998	Manufacturing, Logistics, Warehouse	Operational	37	175	\$0	\$1,325,458
3	Tinapa Free Zone & Resort	Cross River	State Govt./Private	2004	Trade, Tourism & Resort	Operational	10	---	\$1,163,947	\$0
4	Snake Island Int. Free Zone	Lagos	Nigerdock Plc	2005	Steel Fabrication, Oil & Gas, Sea Port	Operational	13	1404	\$0	\$1,500,784
5	Maigatari Border Free Zone	Jigawa	State Govt.	2000	Manufacturing, Warehousing	Operational	1	24	\$3,468	\$2,902
6	Ladol Logistics Free Zone	Lagos	GRML	2006	Oil & Gas, Fabrication, Logistics	Operational	9	410	\$0	\$0
7	Airline Services EPZ	Lagos	Private	2003	Food Processing and Packaging	Operational	1	685	\$13,436,801	\$4,853,901
8	ALSCON EPZ	Akwa Ibom	Fed. Govt./Private	2004	Manufacturing	Operational	1	783	\$48,154,087	\$12,543,958
9	Sebore Farms EPZ	Adamawa	Private	2001	Manufacturing Oil & Gas, Petrochemical	Operational	1	117	\$0	\$1,043,889
10	Ogun Guandong FZ	Ogun	State Govt./Private	2008	Manufacturing	Operational	15	1120	\$114,308	\$23,568
11	Lekki Free Zone	Lagos	State Govt.	2008	Manufacturing, Logistics	Operational	73	700	\$0	\$0
12	Ibom Science & Tech. FZ	Akwa Ibom	State Govt.	2006	Science & Technology	Operational	1	---	\$0	\$0
13	Lagos Free Trade Zone	Lagos	Eurochem Singapore	2002	Manufacturing Oil & Gas, Petrochemical	Operational	6	985	\$44,040,356	\$8,318,499

14	Olokola Free Trade Zone	Ondo & Ogun	State Govts./Private	2004	Oil & Gas Manufacturing	Operational	41	30	---	---
15	Abuja Tech. Village FZ	Federal Capital Terr	FCT	2007	Science & Technology	Under Construction	1	---	---	---
16	Living Spring Free Zone	Osun	State Govt.	2006	Manufacturing, Trading, Warehouse	Under Construction	---	---	---	---
17	Banki Border Free Zone	Borno	State Govt.	NA	Manufacturing, Warehouse, Trading	Unconfirmed	---	---	---	---
18	OILSS Logistics Services FZ	Lagos	Private	2004	Marine, Logistics, Offshore Services	Suspended	---	---	---	---
19	Brass LNG Free Zone	Bayelsa	Fed. Govt./Private	2007	Liquified Natural Gas	Declaration	---	---	---	---
20	Specialized Railway FTZ	Ogun	State Govt.	2007	Rail Cargo Transport	Declaration	---	---	---	---
21	Imo Guangdong FTZ	Imo	State Govt.	2007	Manufacturing	Declaration	---	---	---	---
22	Kwara Free Zone	Kwara	State Govt.	2009	Trading, Warehousing	Declaration	---	---	---	---
23	Koko Free Trade Zone	Delta	State Govt.	2009	Manufacturing	Declaration	---	---	---	---
24	Oluyole Free Zone	Oyo	State Govt.	2000	Manufacturing	Declaration	---	---	---	---
25	Ibom Industrial FZ	Akwa Ibom	State Govt.	2012	Manufacturing, Oil & Gas, Services	Declaration	---	---	---	---
TOTAL							263	9208	\$131,798,797	\$175,665,887

Source: Nepza database

Policy

The Nepza Act¹ was gazetted in 1992, when Nigeria was still under military rule. It set the legal regime and general incentive structure under which free zones in Nigeria could operate, and established Nepza, a parastatal attached to the Ministry of Commerce (now Trade and Investment), as the sole body tasked with regulating and managing them. Zones were envisioned as traditional export-processing enclaves that are legally and geographically removed from the domestic customs territory. Free-zone firms were granted generous concessions in terms of taxation and allowed full foreign ownership and 100 per cent repatriation of profits, but were only allowed to export 25 per cent of production into Nigeria, with the rest slated for export.

In addition to oversight and regulatory powers, Nepza was also given the mandate to draft policy for non-oil and gas free zones.² Policy documents expanding the regulatory framework of the zones appeared in later years, but the incentive structure remained the same until 2004. In that year, Nepza released new and detailed investment procedures and operational guidelines³ for zone projects. This document provides specific regulations governing all types of free-zone behaviour, including detailed customs and immigration directives, employment contract and wage requirements, health and environmental regulations, and the like. The explicit policy framework for Nigerian zones is very generous, with comprehensive holidays from all manner of corporate income tax, tariffs and duties.

¹ Nepza Act No 63 (Abuja: Nepza 1992).

² Another parastatal—Oil and Gas Free Zone Authority (OGFZA)—oversees Nigeria’s oil industry activities in zones as well as the Onne Oil and Gas zone in Rivers state and another recently approved oil zone. This contributes to institutional confusion in zones with both oil and non-oil activities.

³ Nepza, Investment Procedures, Regulations and Operational Guidelines for Free Zones in Nigeria, (Abuja: Nepza, 2004).

Current Nigerian zone incentives

- Complete tax holiday for all federal, state and local government taxes, rates, customs duties and levies
- One-stop approvals for all permits, operating licences and incorporation papers
- Duty-free, tax-free import of raw materials and components for goods destined for re-export
- Duty-free introduction of capital goods, consumer goods, machinery, equipment and furniture
- Permission to sell 100 per cent of manufactured, assembled or imported goods into the domestic Nigerian market
- When selling into the domestic market, the amount of import duty on goods manufactured in the free zone is calculated only on the basis of the value of the raw materials or components used in assembly, not on the finished products
- 100 per cent foreign ownership of investments
- 100 per cent repatriation of capital, profits and dividends
- Waiver of all import and export licences
- Waiver on all expatriate quotas for companies operating in the zones
- Prohibition of strikes and lockouts
- Rent-free land during the first six months of construction

This incentive framework is among the world's most generous, which draws into question the long-term potential of the zones as revenue generators for the state. However, Nigerian officials state that it is necessary in order to temper other hardships associated with doing business in the country. Free zones are marketed as having good internal and external infrastructure, uninterrupted water and electricity supply, and easy access to international

air and seaports. However, as will become clear in the following section, many zones have been unable to deliver on these promises. Therefore, in the words of one Nepza official in reference to zone incentives, ‘Without a good investment climate, reliable power or good infrastructure, what else do we have to offer?’⁴

The 2004 guidelines also increased the proportion of goods that could be sold in the domestic customs territory from 25 per cent—per the 1992 Act—to 100 per cent, assuming at least 35 per cent value added in the zone and duties paid on the raw materials imported into the zone. This change reflects the problems the zones were having attracting foreign investing firms purely based on their marketing as ‘low cost production sites in Africa’,⁵ and acknowledges that Nigeria’s markets—not its export potential—is the real FDI draw. However, full access to the domestic market remains contested, with certain members of the customs authority arguing that the 1992 Act is still legally enforceable, and trumps the 2004 Nepza guidelines.⁶ This issue is returned to in more detail later, yet it does point to the considerable gap between policy and implementation that bedevils all the zones. It also questions the value of export processing zones with no interest in exporting.

Free-zone policy is currently undergoing another updating, both to reflect changes in international best practice as well as the expanded needs of more comprehensive zones rather than the EPZs that were the sole focus of prior legislation.⁷ At the time of writing, this was still in preliminary stages and it was not clear what form these changes would take.

⁴ Abuja 6.

⁵ Nepza promotional booklet for investors.

⁶ Abuja 5; Abuja 8.

⁷ Abuja 6.

Practice

Since 2005, Nigeria's zone programme has expanded rapidly. This has been possible for two reasons: a trend in zone ownership and management from public to private, and the resulting transfer of much of the cost and risk of capital-intensive development from the federal government to the zone companies and state governments. There has been nearly a fivefold increase in zone numbers in the past seven years, nearly all of which are PPPs between state governments and private investors. Of the 24 non-oil and gas free zones, three are sponsored by the federal government, four by state governments, five by private sector developers, and the remaining 12 are all PPPs between developer firms and state governments.⁸

In order to apply for SEZ status, developers must submit an application together with a detailed feasibility study, and proof of land ownership with proximity to international entry and exit points for goods. The feasibility study must include a master plan for the zone, an environmental impact assessment, financing and marketing plans, and economic projections of zone viability. Once Nepza has approved these, zone managers pay a licensing fee (\$200,000 at the time of writing), build a perimeter fence, and then are free to begin registering investors in the zones.⁹

Many of the zone construction and management tasks that have traditionally been the responsibility of the state, have been outsourced to the zone management companies. In addition to establishing a working management structure and overseeing the day-to-day operations of the zone, these responsibilities include large-scale infrastructure development. Zone developers build roads and commission power plants and water

⁸ Nepza database.

⁹ Nepza, Investment Procedures, Regulations and Operational Guidelines for Free Zones in Nigeria, (Abuja: Nepza, 2004).

treatment facilities within the perimeter fence, while federal and state governments are meant to ensure the provision of external infrastructure links to the zones. This essentially transfers much of the cost of a massively capital-intensive industrial policy initiative from the state to the private sector and, in so doing, also transfers much of the risk associated with its success or failure.

The formal role of the federal government, with Nepza as its implementing agency, is confined primarily to licensing, regulating and monitoring zone activities, as well as dispute settlement between employers and employees and between the zone and various federal agencies. Each operational free zone has at least one Nepza official on site, along with representatives from customs, immigration and police. These officials, along with those from other federal agencies, make up the ‘one stop shop’ facility offered in the zones for streamlined registration of zone enterprises.

These shifts in zone ownership and management responsibility have enabled the number of zones to expand quite rapidly, as well as allowing relatively less attractive states to partner with the private sector in attracting FDI on their own behalf. However, wide-scale free zone expansion raises three pertinent issues regarding state capacity, volume of FDI and linkages to wider industrial planning goals. First, although much of the internal zone infrastructure has been outsourced to zone developers, the challenge remains of providing strong external infrastructure to support industrial activities. Without external roads, railways, ports and pipelines, no zone is going to become a world-class investment destination. Thus, the infrastructure requirements of two dozen relatively new zones in 21 states—some in rather remote locations—presents a considerable obstacle for the already strained federal government in this regard. Calabar, the oldest and arguably most

successful of the zones, still suffers from regular power outages.¹⁰ State capacity in terms of the provision of soft infrastructure—like institutional coordination and streamlined registration and immigration procedures, as well as larger issues of institutionalising linkages to the domestic economy—is similarly limited.

Secondly, although Nigeria has seen a sustained rise in incoming FDI over the past decade, the zones require a huge number of foreign investors both to make them profitable ventures and to generate agglomeration and clustering benefits. However, there are indications that zone administrators have not considered the demand side of the equation sufficiently, instead opting for a ‘build it and they will come’ approach to FDI attraction. According to Nepza’s database, only 10 firms in total made inquiries to the agency regarding investment into the operational zones in the year 2010, half of which were for Calabar alone.¹¹ Nigeria’s zones are not aimed at particular groups of foreign investors, and have struggled to attract and retain interest. It is unlikely that the federal government and Nepza are unaware of these issues regarding infrastructure demands, zone location and the mismatch between FDI supply and the number of zones. What is more likely is that the large number of new zones—many in remote locations—were selected and approved based on a political logic of geographic fairness rather than an economic calculation of zone success. Thus, according to the political economy outlined in chapter four, in order to identify the de facto, or ‘real’, policy priority of the federal government as regards the zone programme, one must look past official policy documents to those zones that are actually receiving political and economic support. This will be returned to in chapter six.

¹⁰ Nepza Annual Report (2010).

¹¹ Nepza Annual Report (2010)

Finally, private sector investors have their own agendas that may or may not align with Nigeria's larger industrial development goals. As discussed in chapter four, Nigeria has identified priority industries and sectors for development within a national industrial development framework. Yet, there appears to be very few attempts to align these goals with those of the zone development programme. Investors apply for approvals for particular projects that fit their own strategic aims, allowing corporate strategies to dictate national industrial planning rather than the reverse. This disconnect between national economic planning and the zones is acknowledged—at least in policy terms—in Nepza's 2010 report. It lists 'fiscal policies fluctuations' as one of the main challenges to the zone programme:

The Free Zone is said to be a country within a country. In making new policies, the Government tends to forget the existence of Free Zone and policies which are detrimental to the growth of the scheme, and also frustrate investors and cripple all activities within the zone are passed from time to time. These inconsistencies in Government policies have affected the overall performance of the Free Zones.¹²

However, this mismatch between industrial planning goals and Nigeria's zone programme is also indicative of the perception of free zones as primarily a trade policy tool, rather than an industrial policy institution. The emphasis is on employment, exports and revenue, and largely ignores institutionalising linkages between zones and domestic economic goals. Thus far, Nigeria's zone programme is a very ambitious one that as yet has little to show for itself. These challenges as well as a number of others raise concerns regarding the prospects of Nigeria's new wave of zone projects. The outcomes of currently operational zones do little to assuage those concerns. Some of these challenges will be returned to in chapter six in reference to the ways in which they shape the behaviour of free zone firms.

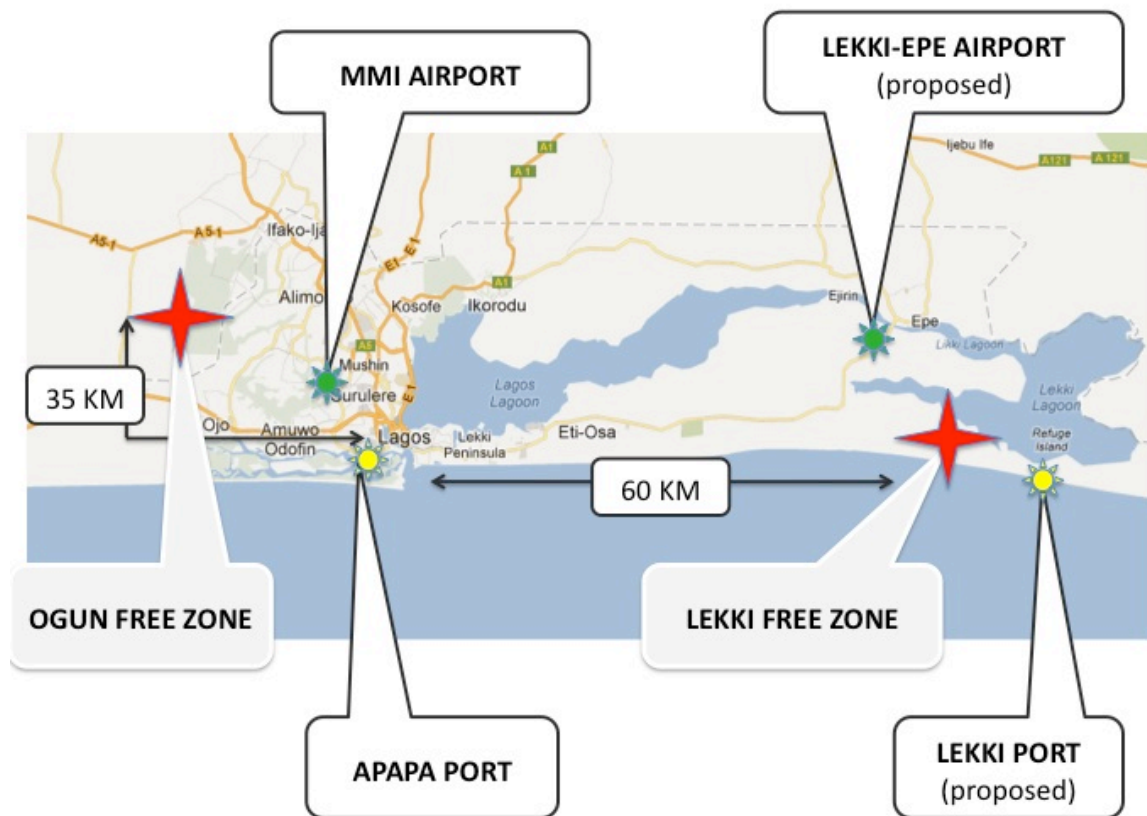
¹² Nepza Annual Report (2010)

The purpose of this brief overview is simply to situate the discussion of Chinese zones within the wider framework of the Nigerian zone programme. This is useful in distinguishing the challenges and benefits that are unique to these Chinese-sponsored zones from those that all zones share. The rest of this chapter focuses on the Lekki and Ogun zones in particular, and the political economy of their development.

BEHIND THE PERIMETER FENCE: ZONE STRUCTURE AND ORGANISATION

Both Lekki Free Zone and Ogun-Guangdong FTZ are located in southern Nigeria near Lagos, a city of approximately 15 million people that is the country's commercial capital. The former is in Lagos State, along the Lekki Peninsula, approximately 60 kilometres east of Lagos. The latter is in Ogun State, approximately 30 kilometres to the west of the metropolis. The policy framework that governs both zones is the federal free zones incentive scheme outlined in the previous section. The Chinese zones receive no additional preferential policies from Nigeria outside of this national framework.

Figure 11: Chinese zone locations and external infrastructure links



Timeline

Both the Lekki and Ogun zone developers had begun preliminary arrangements for these investment projects prior to the official Chinese Ministry of Commerce tenders in 2006 and 2007. The Lekki Peninsula in Lagos State is a largely rural area, although it has seen rapid development over the past several years as Lagos stretches westward. Igbessa—the location of the Ogun zone—is also relatively underdeveloped. However, it is not far from Agbara Industrial Estates, so the area already has a concentration of both local and foreign manufacturing firms. The Lekki zone is being developed as a joint venture between the Lagos state government and a consortium of Chinese firms led by CCECC, a firm owned by the central government. The Ogun-Guangdong FTZ is also a PPP between the Ogun state government and Guangdong Xinguang, an investment company owned by Guangdong province.

The Lagos state government began exploring the idea of an FTZ as early as 2000, and had selected a 5,000-hectare parcel in the Ibeju-Lekki area by 2002. The state government made a formal application to Nepza in 2003 to approve a free zone at that site.¹³ Around the same time, the head of CCECC Nigeria, Chen Xiaoxing, met then-president Obasanjo and they discussed the prospect of a zone-type project.¹⁴ CCECC is a subsidiary of CRCC, one of Beijing's largest SOEs, and has been active in Nigeria for decades (Mr Chen himself has been resident in the country for over 15 years). CRCC sent a team to do a market survey and test the feasibility of a zone project in Nigeria; they selected Lagos, with its large market, ports and a state government keen to develop the Lekki axis.

In 2004, two further teams from China—one from CRCC, one from Nanjing Jiangning Economic Development Zone (NJEDZ)—carried out detailed surveys and feasibility studies in Nigeria, and the state government sent a delegation led by the then commissioner of commerce and industry to China to research zone design, management and operation. Following these exchanges, a memorandum of understanding was signed between the Lagos state government, CCECC and NJEDZ for the joint development of the Lekki Zone.¹⁵

Over the next two years, various additional feasibility studies, environmental impact assessments and zoning and planning documents were generated against a backdrop of regular exchanges between China and Lagos State. The Lekki Free Zone Implementation Committee was inaugurated and made several working visits to China, and a Chinese business and government delegation came to Nigeria. In early 2006, the state government

¹³ 'Official commissioning of Lekki Free Zone administrative complex' promotional booklet, (Lagos: LASG 2010).

¹⁴ Beijing 2.

¹⁵ Lekki Free Zone promotional booklet; Beijing 2.

and the Chinese consortium signed another memorandum of understanding, and the Lekki Free Zone Development Company (LFZDC) was registered in Lagos. Groundbreaking at the future site of the zone took place late that year. Construction has been underway since 2007, and the Lekki zone made a successful bid for official zone status in the Ministry of Commerce tendering round that year.

In contrast to CCECC, Guangdong Xinguang had no previous experience in Nigeria prior to its investment in the Ogun-Guangdong FTZ. It has made other investments in Africa—mainly construction contracts in Angola—and was searching for an attractive project in Nigeria. In early 2006, Guangdong Xinguang reportedly signed a memorandum of understanding with the federal government for a \$2 billion contract to build a fast rail link between Abuja and Lagos. However, this project never materialised, and instead Guangdong Xinguang has focused only on the zone.

Negotiations for the Guangdong Xinguang zone began in 2005, originally in Imo State at Ngor Okpala. Nepza approved the Imo Guangdong Free Zone that year, and Guangdong Xinguang won the Chinese Ministry of Commerce tender in 2006. However, kidnapping and security issues in Imo State, combined with administrative difficulties and a frustrating relationship with the Imo State government, caused Guangdong Xinguang to reconsider this zone project. They left the construction site and land they had been granted in Imo, took the losses and relocated to Ogun State in 2008.¹⁶ They retain the licence and approvals for the Imo site, which is still listed on Nigeria's official zone registry. Nepza officials state that it will be there 'when they want to go back and develop it',¹⁷ although Guangdong Xinguang representatives say they have no plans to do so.¹⁸ Construction

¹⁶ Ogun 2.

¹⁷ Abuja 8.

¹⁸ Ogun 2; Ogun 1.

began at the current site in 2008, and the Ogun State government owns a minority share in the zone.

Ownership and management

Both zones are joint venture partnerships between Chinese firms and Nigerian state governments, and are ostensibly organised within a similar framework. The Nigerian partner provides land and local knowledge, and the Chinese partner provides financing and construction and management expertise. However, the characteristics of the firms and states involved, and the formal partnerships that have evolved, differ greatly. The Lekki zone's consortium structure and partnership with Lagos State is more complex than that of the Ogun zone, where a single Chinese investor has full management control.

The Lagos State government owns a 40 per cent equity stake in the Lekki zone: 20 per cent is held by the state government directly in return for a 50-year concession on 30 square kilometres of land; the other 20 per cent is held by Lekki Worldwide Investments Ltd—a special purpose investment vehicle established by the state government—in return for an investment of \$67 million dollars. A consortium of Chinese firms hold the remaining 60 per cent equity stake in return for \$200 million investment in the zone.¹⁹ The LFZDC is the joint venture firm established by these shareholders to develop the Lekki zone.

Lekki Worldwide Investments was founded in 2006 by the state government as a private investment company to manage locally sourced investment in the zone. It was originally intended to explore other investment opportunities as well, but at the moment the Lekki

¹⁹ Beijing 2; Lekki 1.

zone is its only project and it manages only Lagos State funds.²⁰ The management of Lekki Worldwide Investments characterises the institutional relationship between the company, the Lagos State government and the Nigerian interests in LFZDC as ‘intertwined’ and representing the interests of the Nigerian side of the partnership.²¹ Lekki Worldwide Investments has 33 staff members, approximately 13 of which are management, working in their Victoria Island headquarters. Their primary responsibilities are managing the relationship between the host communities and the zone as well as other administrative and marketing tasks.

The Chinese consortium was initially made up of CCECC as a minority shareholder with 25 per cent and two companies from Nanjing, which held the remaining 75 per cent equity. This partnership was originally registered as CCECC-Beyond in Beijing, then reregistered as China-Africa Lekki Investment Ltd in 2006. The NJEDZ—the development authority of a zone in China—held the majority share until 2009. However, there were considerable problems both within the consortium as well as between the Chinese and Nigerian partners. The NJEDZ had little international experience and there was a great deal of friction between their in-country staff and Lagos State government and Lekki Worldwide Investments management.²² The CCECC also was not happy as a minority shareholder with little management control, and, after failing to resolve management issues within the consortium itself, asked the Ministry of Commerce to mediate the dispute.²³ After extended deliberations, there was substantial equity restructuring of the consortium in 2009. The CRCC and its subsidiary, the CCECC, took the majority stake (65 per cent), Nanjing’s stake was substantially reduced (15 per cent), and the CAD FUND was brought in as an additional partner (20 per cent).

²⁰ Lekki 4.

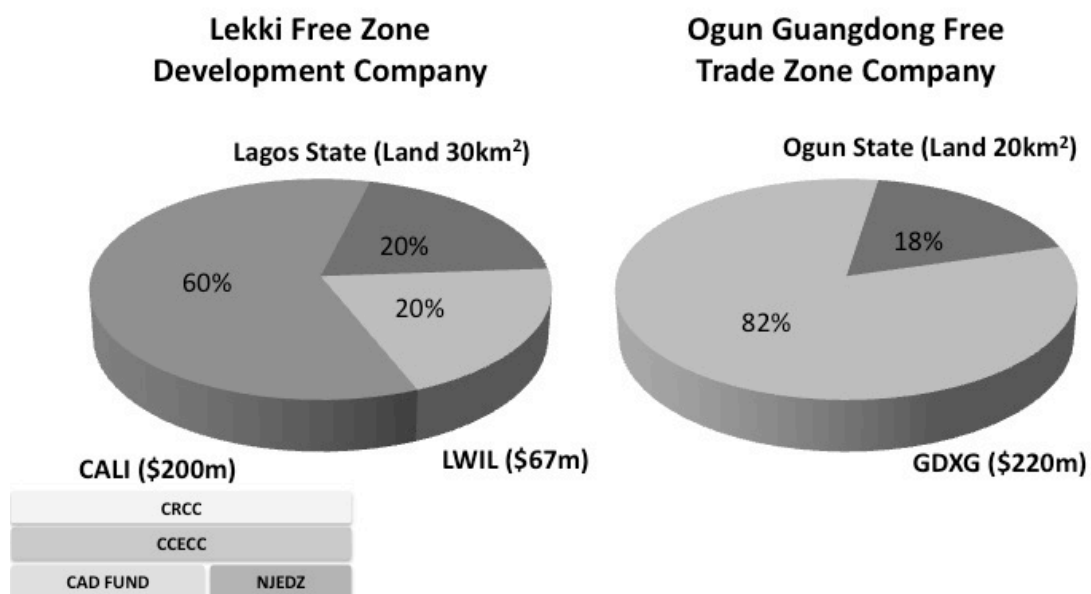
²¹ Lekki 4.

²² Lekki 1; Lagos 7.

²³ Beijing 2.

China-Africa Lekki Investment, the Chinese consortium registered in China, and the Lagos State government, with Lekki Worldwide Investments as its vehicle, are together joint shareholders in the LFZDC, the zone development company registered in Nigeria. The management structure of the LFZDC reflects the 60-40 equity split between the Chinese and Nigerian partners. It is overseen by a part-time board of directors, four of whom are Nigerian and six Chinese. The zone’s managing director is Chinese, the deputy managing director is Nigerian, and both also sit on the board. There are three controllers, two of whom are Chinese (engineering and commercial) and one of whom is Nigerian (administrative). These controllers oversee two additional layers of management staff, about half of whom are Nigerian. All junior staff—drivers, cooks, cleaners and security personnel—are local. All Chinese staff, as well as many Nigerian employees, live on site, in purpose-built accommodation and take their meals at either the Chinese or Nigerian dining rooms, depending on their preference.

Figure 12: Zone ownership structure



Ogun-Guangdong FTZ is also technically a joint venture partnership. However, the Ogun State government holds only an 18 per cent equity stake in the project, and Guangdong Xinguang retains full operational and management control. Guangdong Xinguang is a provincially owned company from Guangdong province. It established Chinafrica Investment Company as the China-incorporated vehicle for the zone project, with headquarters in Guangzhou. Ogun Guangdong Free Trade Zone Company is the Nigeria-registered entity. The senior management in the zone is primarily Chinese, although all junior staff is Nigerian. There are plans to establish a new board of directors with representatives from Ogun State government; however, at the time of writing this had not yet taken place following state elections that brought a new administration into the statehouse.

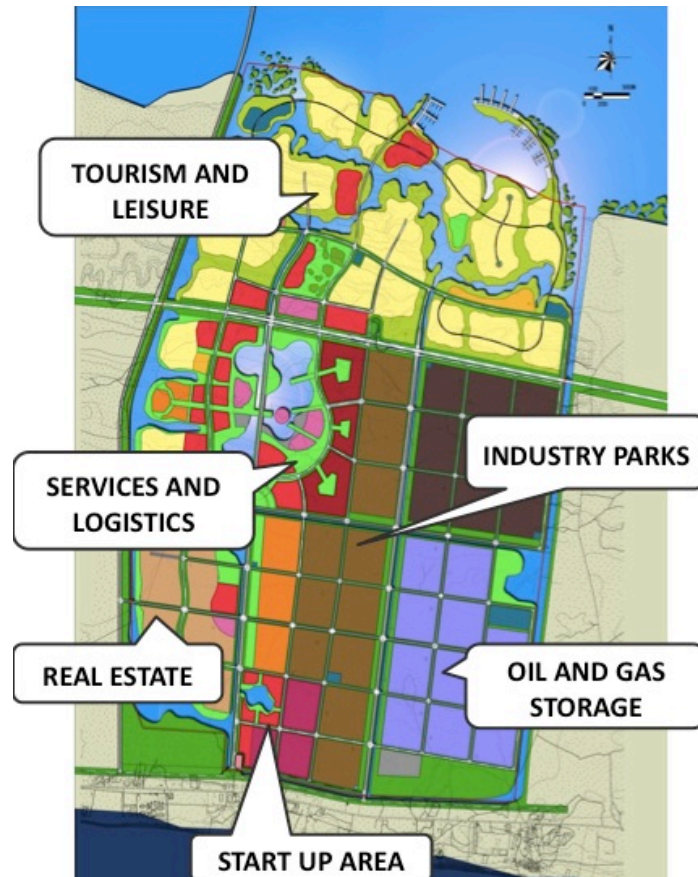
Planning

Both zones are comprehensive SEZs, with planned residential, leisure and retail facilities as well as industrial activities and banking and logistics services. The Lekki zone was originally envisioned by the Lagos State government as a more traditional EPZ; however, it evolved into a much more extensive economic development zone modelled on the Chinese experience with SEZs. This shift occurred largely at the suggestion of the Chinese partner.²⁴ The size of the Lekki zone is 30 square kilometres, with a start-up area of 1.5 square kilometres. In Ogun, the total federally approved size of the project is 100 square kilometres, with 60 per cent of that slated for development and the remainder reserved for resettlement, farming and environmental preservation. However, the zone has only

²⁴ Lagos 7; Lekki 5; Beijing 2. This was cited by CRCC representatives as another reason for controversy within the consortium and the eventual sidelining of Nanjing; the NJEDZ had a narrower view of the zone but the CRCC was pushing for a wider mandate with tourism, oil storage and the like, which the LASG decided fit better into its overall development plan.

received a certificate of occupancy for the 20 square kilometres that make up the first phase—of which 2.5 square kilometres is the start-up phase.

Figure 13: Lekki master plan



Source: LFZDC promotional materials

The two zones have taken very different approaches to planning. In Lekki, it has been a long process that has evolved over time. There have been a number of iterations of the master development plan, the early ones drafted by surveyor firms from China, and later ones with more local input.²⁵ The current master plan has reduced the proportion of the zone slated for light and heavy manufacturing industry and expanded the sections allocated for oil storage, leisure and ‘entertainment and culture creation’.²⁶ This likely reflects the difficulty experienced thus far with attracting manufacturing firms to the zone,

²⁵ Lagos 7; Lekki 5.

²⁶ Various versions of the Lekki investment guide; copy of current master plan given to author in Beijing, July 2012.

and the demand for real estate development on the peninsula. Generally, infrastructure development has followed this master plan, with early priorities for the LFZDC being geared towards presenting the zone as an impressive and permanent investment destination. Highlights include construction of a professional administration block, offices and gatehouse, permanent staff housing, purpose-built factories, extensive filling and levelling work and wide roads with solar-powered lighting. Planned next steps for the start-up area are in keeping with this marketing focus, with an imposing exhibition hall and attractive duty-free retailing facilities. However, investing firms have been slow to build their own facilities, and there is little actual production happening as yet.

The Ogun zone also began with a detailed master plan, commissioned from South China Institute of Technology. However, this planning effort was ultimately not very useful. For example, the plan for the first phase was based on a particular parcel of land promised by Ogun State government. However, when the Ogun Guangdong Free Trade Zone Company received the official certificate of occupancy from the state government, it was for a parcel in an entirely different shape to the original one—this change was made without the knowledge of the zone company in order to avoid displacing local communities.²⁷ This rendered the master plan useless, but rather than expending the time and energy necessary to re-plan, the company has instead focused on recruiting manufacturers and facilitating production. The ground is unlevelled and the roads unpaved (which managers say has actually helped them in terms of drainage issues); the zone developers work in two temporary office buildings imported from China and live in similar quarters; and all of the factories are clustered haphazardly in the small start-up area. However, there are approximately 15 factories that have already begun producing consumer goods.

²⁷ Ogun 1; Ogun 2.

Figure 14: Ogun master plan



Source: OGFTZ promotional materials

Financing

Both zones are quite large FDI projects that are equity financed by the shareholders listed previously. The publicly announced initial investment figures were somewhat similar: \$220 million for Ogun, all of which was committed by the Chinese partner; and \$267 million for Lekki, \$200 million committed by the Chinese partner and the remainder drawn from the Lagos State budget. Both Lagos State and Ogun State also provided the land in return for a comparable equity share. Neither zone has come close to spending this much yet, as construction proceeds slowly and investors gauge long-term development prospects. The LFZDC had spent just over \$70 million from its capital account by the end of 2011,²⁸ and Ogun Guangdong Free Trade Zone Company had invested approximately \$20 million by mid-2012.²⁹

²⁸ Lekki 1.

²⁹ Ogun 2.

In the Lekki case, the pace at which the Chinese consortium has transferred funds from China to Nigeria has been a source of contention in the partnership. Nigerian representatives claim that over 75 per cent of the \$67 million committed by the Lagos State government has already been deposited in the zone's capital account, but that the majority of the Chinese partner's allocation remains in company accounts in China, and there have been lengthy delays in disbursement.³⁰ China-Africa Lekki Investment representatives in Beijing cite administrative hurdles in China as the reason for these delays. China-Africa Lekki Investment was originally registered in Beijing with RMB50 million (\$8 million), which was raised to RMB200 million (\$32 million) in 2009. Since that threshold was reached, each consortium member has to get official approvals to release any funds. In mid-2012, China-Africa Lekki Investment was in the process of registering the full \$200 million in order to facilitate remittance and payment. It had received approval, but was not in a hurry to 'throw money into Nigeria unless we can be sure certain issues will be addressed', mainly related to the ongoing customs issues discussed below.³¹

Both zones expect the final costs of infrastructure development to far exceed their initial investment amounts, and plan to seek outside sources of finance in the future. In Ogun, Guangdong Xinguang is looking for additional financing for the zone, but believes that it is not quite developed enough yet to secure funding from state or commercial sources. CAD Fund and International Finance Corporation representatives have toured the zone, but have decided not to invest at this time, and it has not yet reached a level of

³⁰ Lekki 4.

³¹ Beijing 2.

development that would qualify it for additional financing incentives from the Chinese state.³²

In Lekki, the total infrastructure bill is estimated at upwards of \$700 million. The CAD Fund was brought in during the 2009 restructuring to provide an additional source of equity financing; it has no managerial control, but China-Africa Lekki Investment's chief financial officer as well as one of the LFZDC's board members are from the fund. LFZDC managers say that none of the current shareholders plan to invest anything further, and the zone instead hopes to outsource the remainder to a commercial lender.³³ CRCC senior management in Beijing would not confirm this. Instead, they stressed that for a large, wealthy, credit-worthy SOE like theirs, access to finance is not an issue, but the commercial viability of the project must be proven first. 'When we invest, we are looking for rate of return. This is not a gift.'³⁴ These types of statements—as well as other evidence presented here—seem to indicate that the consortium members are as yet unsure of the zone's long-term commercial prospects and are proceeding cautiously until institutional and infrastructural obstacles in Nigeria are removed.

For the moment, the development companies are both taking substantial annual losses, and do not expect the zones to be profitable for at least three to four more years.³⁵ The CAD Fund normally operates with an investment horizon of five to eight years before exiting an investment through equity exchange or public share offers. In the case of both the Lekki zone and the Suez zone in Egypt, in which it holds equity stakes, it has adjusted its

³² Ogun 2; the financial incentives provided to the zones by the Chinese government are discussed in more detail in the final section.

³³ Lekki 1.

³⁴ Beijing 2.

³⁵ Beijing 2; Ogun 2.

estimate to eight to 10 years from when it made its 2008 investments. Therefore, it is now expecting a (hopefully) profitable exit no earlier than 2016.

Both zone projects have made an ambitious and long-term commitment to Nigeria's economic future, and have linked their success to the country's ability to become a hub for industrial investment. However, progress has been slower and more difficult than expected. One Lekki Worldwide Investments executive revealed the stinging response of a foreign senior executive interested in a potential \$1.5 billion investment in the state when he was shown the vaunted progress of the Lekki zone. 'He said, "This is it? What you are doing here is rubbish!" and left.'³⁶ Lagos State government officials are quick to point out that the Lekki zone is a capital-intensive greenfield investment with partners who are unfamiliar with each other,³⁷ but that a great deal of effort has gone into planning, learning has taken place on both sides, and all stakeholders remain committed to the zone's success. The next sections look at some of these stakeholders and institutions, their roles and responsibilities, and their partnerships with each other in more detail.

DOMESTIC BORDERS: HORIZONTAL LINKAGES AND INTEGRATION

The previous section discussed the institutional structures and actors within the zone itself; this section examines the Nigerian institutional environment within which the zone is embedded. It pays special attention to the stratified nature of the Nigerian state, the linkages between the zone and successive institutional layers, and the complex relationships between local, state and federal actors. It argues that these horizontal linkages between zones and sub-national institutions serve to further integrate the zone

³⁶ Lekki 4.

³⁷ Lagos 3; Lagos 5; Lagos 6.

with the domestic economy, and, where they are missing, zones are more likely to adopt an enclave-type structure.

The agitators: local community agency

Managing relations with the local community is an important issue for any industrial zone development.³⁸ Both the Lekki and Ogun zones have faced considerable challenges associated with the justified demands of local communities for compensation for land and livelihoods, and access to employment and other benefits from zone development. Both zone development companies say they take community relations quite seriously—both for reputational and practical reasons. In Lekki, regular demonstrations and protests by local residents have dramatically slowed construction over the past several years. And Ogun has faced significant challenges with security of its personnel.

Before Ogun Guangdong Free Trade Zone Company established on-site banking facilities through a partnership with FirstBank Nigeria, there were several armed robberies of Chinese staff when they were outside the zone. On one of these occasions, a Chinese security officer was kidnapped at gunpoint and taken to the border of Benin republic. Local okada drivers followed the kidnappers—at times dodging bullets—and relayed their whereabouts to street side traders, who notified the police. Zone managers say ‘the only reason we recovered him was the local people, so good relations are important to us’.³⁹

In general, the Ogun authorities state that their relationship with the local community is quite good; however, where there has been friction, it is over employment.⁴⁰ Because the

³⁸ See chapter three in reference to other Chinese zones within China and overseas.

³⁹ Beijing 2.

⁴⁰ No interview material was collected from Ogun state or local representatives; this claim is the opinion of the zone management.

location of the zone is in an area with other industrial parks and manufacturing investment, the community is more sensitised to the advantages the zone can bring. Also, the Ogun factories have begun production, so there are already some jobs available. For its part, the zone authorities have built and handed over a school to the community as well as made a number of other corporate social responsibility-type gestures and donations. Recruiting skilled workers is a challenge, yet protests have resulted when the zone hires from elsewhere in Nigeria rather than directly from the local community. After several meetings with local authorities, there are plans to provide training for workers, perhaps through partnership with a local polytechnic, and tentative plans to build a training centre in the zone. However, managers say that these are on hold until the commercial future of the zone is assured.⁴¹

There have also been issues with protests by manufacturers outside of the zone concerned with competition from free zone firms in the domestic market. These demonstrations—spearheaded by a local chapter of the MAN—reportedly brought production to a halt in several Ogun factories, but have now been resolved.⁴² Although free zone firms have access to the domestic market for 100 per cent of their goods, by law they must add value (35 per cent) in the zone and pay duties on imported raw materials before ‘exporting’ to the domestic market. This should put them on equal competitive footing with firms outside the zones producing for the domestic market. However, leakage and smuggling are common enough problems with zones elsewhere, and thus the ‘level playing field’ issue remains salient. These issues with end markets for goods are returned to in more detail in the final section.

⁴¹ Ogun 2; Ogun 3.

⁴² FG approves Ogun-Guangdong FZ take off, *Business Day*, 17 June 2011.

If in Ogun protests have revolved around employment, in Lekki thus far they have centred on land and compensation. When the Lekki zone was launched in 2006, representatives from nine affected villages actively protested against it on the grounds that they had not been consulted or compensated. They sought legal aid from the Social and Economic Rights Action Council (SERAC), a local non-governmental organisation. The council negotiated the signing of a memorandum of understanding between these communities, the Ibeju-Lekki Local Government Council, the Lagos State government, and Lekki Worldwide Investments (as the agent of the zone).⁴³ This memorandum sets out the rights, obligations and expectations of the affected communities, sets out a method for dispute settlement, and regulates potential human rights violations.⁴⁴ It also requires that the state government establish a resettlement committee; this committee was inaugurated in 2007.

After renewed protests in 2010, the original memorandum was amended. The LFZDC also donated school buses, committed to building a primary school, and has funded technical training for 100 local youths.⁴⁵ In 2011, it also agreed to allocate 0.5 per cent of the value of all contracts signed to community development initiatives, and set up a committee with Lekki Worldwide Investments to administer these funds. However, this was a controversial decision among shareholders, some of whom argue that corporate social responsibility initiatives are not appropriate when there are significant company losses each year.⁴⁶ Lekki Worldwide Investments states that over 90 per cent of affected people had already been paid compensation by the end of 2011. However, groups of villagers armed with knives and sticks were still regularly halting construction at that time and accusing Lekki Worldwide Investments of colluding with local chiefs to embezzle compensation funds, and the state government of sending police to intimidate and harass

⁴³ Lekki 4; Lekki 5; www.serac.org.

⁴⁴ SERAC declaration, available at <http://www.serac.org/Pages.asp?id=295>, retrieved 20 July 2012.

⁴⁵ Beijing 2; Lekki 1.

⁴⁶ Lekki 1.

villagers.⁴⁷ After further negotiations and additional gestures by Lekki Worldwide Investments, these protests had quieted by mid-2012, but conflict with two particular villages escalated again in 2013.⁴⁸

As for employment, there is little justification for zone programmes failing to confer substantial benefits for local people in this regard. One of the most oft-cited criticisms of Chinese projects in Africa is that they tend to import large numbers of labourers rather than hire locally. These SEZs are an interesting test case for this assumption in that one of the incentives offered to investors is the abolishment of all expatriate quotas. Legally, zone developers and firms can bring in as many Chinese employees as they would like. In the early stages of a project such as this, one would expect to find comparatively high ratios of Chinese to local employees and managers that would then decrease as companies become more integrated and local workers accumulate the necessary skills. In Ogun, the zone development company itself has 12-15 Chinese workers and over 40 local employees. Employment figures for the zone—both construction and manufacturing—are approximately 500 Nigerian and 100 Chinese technicians and managers. However, a ceramics plant currently nearing completion will add another 1,500 local workers to that tally.⁴⁹ In Lekki, large-scale hiring has not begun, although, as mentioned previously, management inside the zone is split relatively equitably between Nigerians and Chinese, and all junior staff is Nigerian. Management states that there is a trend towards localising labour because it is more cost-effective and less risky as there is no need to insure expatriate workers, but also because of immigration issues and the public relations fallout

⁴⁷ Lekki 1; Lekki 7; author saw protestors when at the zone but was unable to speak with them; 'Idasho Community refuses land for Lekki Free Trade Zone' *National Mirror*, 2 February 2012.

⁴⁸ 'Lekki: Police invade Idasho, Pankere villages' *National Mirror*, 29 April 2013.

⁴⁹ Ogun 2.

associated with bringing in foreign workers. One senior manager says ‘there is no policy against it, but we know it matters a lot’.⁵⁰

In general, host communities in both Lekki and Ogun have proven quite successful at organising, making demands and extracting concessions from the zone developers. However, these community disputes are likely to continue as the zones expand. No one has yet been resettled; however, the wider zone development plans at both Lekki and Ogun will ultimately require it. It is clear in discussions with zone managers and state government officials that there is as yet no official framework for how that process will be managed, where the people will go, and whether they will have a voice in the decision-making. The Ogun zone management expects the land issue to become increasingly problematic, especially as opportunities in the zone draw more people to the area. They say this is already happening, and the state is not regulating these newcomers, who are settling on public land previously allocated for zone expansion.⁵¹ These types of conflicts between states and local communities over land issues are very common as the demands of economic development require the transfer of land rights from public to private use. As such, they can be considered as part of a larger regional debate over the rights of traditional livelihoods versus the demands of modernisation in which the Chinese developers have become enmeshed.

For both zones, the discussion of local community relations needs to move beyond corporate reputational risks and charitable gestures like primary schools. Instead the focus should be institutionalising linkages between the zone and the community, as well as with the domestic economy more widely: local supplier and distribution programmes, education and training partnerships and joint ventures with local firms are all important next steps. In

⁵⁰ Lekki 1.

⁵¹ Ogun 1; Ogun 2.

Ogun, a (non-English speaking) Chinese manager of a factory that manufactures candles established his trading network by standing in the local market with a sample box of his product. He was approached by an Igbo trader who asked if he wanted to sell them, and who now distributes them nationally.⁵² Clearly, there is a need for building better formal and informal channels between the local economy and the zones.

The state government may be the best facilitator of these links. Lagos State government officials point out that technology transfer and employment requirements are specified in the investment agreements firms sign when they enter the zone. However, there are as yet no explicit plans for supplier linkages or other backward and forward integration with the domestic economy. Officials say they hope this will happen naturally as the project progresses, but for the moment the primary focus is getting the zone functional and integrating it into the overall development plan in the state. It is to the partnership between the zone and the state that this section now turns.

The pivot: the role of the state government

SEZ developments are long-term, capital-intensive projects that may take a decade or more of sustained investment before they begin to reap substantial benefits. As a result, strong political support is a central ingredient of any successful zone project.⁵³ The focus in the literature is almost always on the federal government as the architect and enforcer of industrial policy and foreign investment regulation. However, especially in large countries like Nigeria, state governments can and do play a central role in industrial and urban development planning, as well as in attracting and managing foreign investment.

⁵² Ogun 3.

⁵³ Farole and Akinci; also see chapter two for a theoretical discussion, and chapter three for the role of the state in China's early domestic zones.

Lekki and Ogun zones are not only embedded within Lagos and Ogun states, but have an explicit partnership with the state governments as partial owners of the projects. This type of PPP should confer benefits in terms of facilitating linkages between the zones and the domestic economy. This section looks at Lagos State in particular, and the ways the state government facilitates the embedding process by acting as a pivot between various stakeholders and the zone. It does so by mediating between the zone and the local community, discussed in the previous section; by advocating on behalf of the zone with the federal government, covered in the next section; and through integration of the zone into the state's infrastructure and policy architecture.

The Lekki zone has received high-level political support from Lagos State. The current Lagos State governor, Babatunde Raji Fashola, has been involved with the Lekki zone since its inception under the administration of his predecessor, Bola Ahmed Tinubu. Lekki Worldwide Investments, the special purpose vehicle founded by Lagos State to manage its investment, is the formal institution representing the state's interests in the project: however, there has also been an effort to create direct links between the zone and the statehouse itself. During Fashola's first term, he appointed a special adviser to the zone to manage relations between the zone and the executive office. This adviser was promoted to commissioner of commerce and industry in his second term, and remains one of the zone's biggest advocates.

Although there have been conflicts in the partnership between the zone developers and the state government, generally both sides characterise the state of the partnership positively. State government officials have had concerns with the pace and quality of construction in the past, but they say that the joint venture structure of the project allows checks and

balances. ‘We monitor them, and we also monitor ourselves.’⁵⁴ Similarly, the Chinese side stresses the necessity of local knowledge for project success. They say that Lagos State has been a good partner, but that, of course, the downside of any partnership is that ‘sometimes you get dragged [down] by them’.⁵⁵ Both sides admit to the steep learning curve associated with the Lekki zone project, in management capacity, in technical proficiency, and with cultural and language issues. Progress has been slower than anyone expected, but both sides say the partnership has strengthened over time.

For Lagos State, the focus is not just on the zone but on creating an enabling environment throughout the state as well, and integrating the zone project into wider economic development planning. State government officials say that presently multinationals drive the state’s economy because of their capacity to invest in large projects and provide employment. However, the informal sector and SMEs—which employ 60 per cent of the working population⁵⁶—are seen as the future drivers of growth and the focus of policy.⁵⁷ One of these schemes is the establishment of enterprise zones, envisaged as clusters of SMEs meant to enhance quality of production and formalise commerce. The state government is developing three of these zones—one in Ibeju-Lekki near the Lekki zone—and providing workspace, access to credit and training for furniture makers, metal fabricators, artisans and other small business owners in the informal sector. Institutionalising linkages between these types of state programmes and the Lekki zone is one example of a potentially promising avenue.

However, it is clear that the state government believes the real driver of economic development is infrastructure. The oft-heard motto of the Fashola administration in Lagos

⁵⁴ Lagos 7; Lekki 4.

⁵⁵ Lekki 1; Beijing 2.

⁵⁶ Lagos State figures.

⁵⁷ Lagos 2; Lagos 3.

State is ‘poverty eradication and sustainable development through infrastructure renewal’. The state government has embarked on a massive infrastructure development push over the last several years; it spends more than 50 per cent of its budget on infrastructure.⁵⁸ However, Lagos is a city of 18 million that has seen little in the way of capital investment for decades; state officials put the financing gap for public infrastructure at around \$50 billion.⁵⁹ To defray these costs, the state government has established a dedicated PPP office to manage private sector development of public infrastructure. Some of these projects have been controversial: protests broke out in late 2011 over the collection of tolls on completed sections of the Lekki-Epe expressway PPP, and construction is now halted due to a dispute between the state and the concessionaire.⁶⁰ Nevertheless, PPPs are currently the preferred vehicle for financing the construction of desperately needed infrastructure, which the state government says allows it to spend more on social infrastructure that is not lucrative for the private sector.⁶¹

PPP arrangements are financing a number of ambitious infrastructure projects in the greater Lagos area, of which the Lekki zone itself is one. Emerging-market multinational enterprises have been prominent bidders on these contracts, with Chinese firms winning many of the engineering subcontracts. The Eko Atlantic city, a real estate project being developed on reclaimed land near Bar Beach on Victoria Island, is a PPP between the state and a division of the Chagoury Group, a Lebanese-Nigerian family-owned firm.⁶² The first line of a comprehensive mass transit system is currently under construction on the Badagry axis. The CCECC (which also holds the majority share in the Lekki consortium)

⁵⁸ Lagos State Budget 2011.

⁵⁹ ‘Lagos State and the economic imperatives of road infrastructure,’ *Lagos Indicator*, 19 July 2012. http://lagosindicatoronline.com/Lagos_State_and_the_economic.html, retrieved 20 July, 2012.

⁶⁰ Article.

⁶¹ Lagos 7.

⁶² www.ekoatlantic.com.

is the contractor, and the state government and Eko Rail, a Nigerian firm, are in final procurement negotiations for the concession to operate the transit line.⁶³

The Lekki zone itself is the first phase in a broader urban development initiative for the entire Lekki Peninsula. Technically labelled the China-Nigeria Economic and Trade Cooperation Zone, it is also known as Phase One of this master plan.⁶⁴ This master plan also includes the Lagos FTZ,⁶⁵ a zone for oil and gas refining and petrochemicals, and the Lekki Port, a \$1.2 billion international deep-sea port, as well as a new international airport and mass transit, road and rail links. Both the Lagos FTZ and the port are being developed by Eurochem, a division of Tolaram.⁶⁶ China Harbour holds the engineering, procurement and construction contract, and the ICTSI was awarded the operations concession for this project. At the time of writing the port was awaiting federal guarantee before construction could begin.⁶⁷ The Lekki-Epe international airport, another PPP planned to occupy a parcel 10 kilometres to the north of the zone, was scheduled to be operational by 2012. However, it is behind schedule and the concession has not yet been awarded. The Lagos State government received 38 expressions of interest from developer firms by late 2011 and the project was in procurement at the time of writing.⁶⁸

The Lekki zone has a high degree of local ownership and strong political support at the state level from a party that has consistently been in power for the last decade. In some

⁶³ Lagos 10; this is another example of the type of partnership discussed in chapter four: where a politically connected Nigerian firm without much domain-specific experience is awarded the overall contract, and subcontracts the technical aspects of the project to foreign firms.

⁶⁴ Confusingly, in media and official statements, Lekki Free Zone usually refers to the CNETCZ—as it is used in this discussion—but it is occasionally used to reference the entire Lekki peninsula development, also known as the Lekki New City.

⁶⁵ Again, with the same acronyms and side-by-side locations, Lekki and Lagos FTZs are often confused in media reports.

⁶⁶ Tolaram is an Indian family firm listed in Singapore and active in Nigeria since the late 1970s. Viva Methanol, also a division of Tolaram, had initially planned to build a large methanol plant in the Lekki zone. However, a promised natural gas pipeline to the zone never materialised. In 2006, the LASG approached Tolaram about the port project, and they decided to finance this project in the meantime (Lagos 11).

⁶⁷ Lagos 11.

⁶⁸ Lagos 7.

cases, the need to build consensus has slowed progress; yet, in the long-term the Lekki zone will likely benefit from its close alignment with the state government. However, whether a close alliance with the state government acts as an asset or a liability is also a function of the larger political economy of the state as well as the nature of the relationship between the state and the centre. The ability of the opposition-ruled state government to politically withstand electoral pressure from the nationally dominant People's Democratic Party enables it to be an economic and institutional pacesetter in a way that is not possible for more politically embattled state governments. In other contexts, state support for particular projects under one administration can translate into state sabotage when power changes hands, especially if these investments are perceived to be pet projects of an outgoing administration. Chapter four discussed this facet of the Nigerian political economy at the federal level, and the same phenomenon is also present at lower levels of government, which embeds foreign investors in a political pattern they might not understand.

In Ogun, the state government was never as involved as it is in Lekki; it holds a smaller stake in the project and Ogun Guangdong Free Trade Zone Company retained full management control. However, the relationship between the zone and the state deteriorated rapidly after a new party took power in the 2011 elections. Zone managers say that the new administration assumed that the former one had used development contracts to enrich itself, and were using threats in an attempt to extract their share.⁶⁹ However, this was even more problematic for industrial investors outside the zone—and thus more enmeshed in the state's legal and policy environment, which does not apply to SEZs—than for the Ogun zone itself. Reportedly the new administration ordered the bulldozing of

⁶⁹ Ogun 2; Ogun 1; No Ogun state officials were interviewed for this project, so this is a one-sided account from the perspective of zone management.

the perimeter fence of another industrial zone being developed by the Lee Group in close proximity to the outgoing governor's home village.⁷⁰

This illustrates the role sub-national institutional capacity—in this case at the level of the state government—plays in shaping practical incentives for or against enclave status for zone projects. In cases where state government political or institutional capacity is weak, the extraterritoriality of SEZs is an advantage. They are governed by federal incentives and policies, and monitored by federal agencies, which buffers them somewhat from state government failures. Ideally, this removes extra layers of taxation and bureaucracy for investors and streamlines their activities. However, in states with comparatively capable governments—like Lagos state—extraterritoriality may be a disadvantage for both the zone and the state, and lack of federal capacity becomes the primary stumbling block in zone progress.

In Lagos, with its massive population and progressive government, it is often the state leading the federal government in terms of best practices, infrastructure development and business climate reforms.⁷¹ In some cases the state has chosen to partner with the federal government in infrastructure provision; the Lekki Airport is an example of a state government/federal government/PPP. In other cases it has chosen to substitute for the federal government; the goal of Lagos State independent power projects is to take state government and health facilities off the national power grid altogether in order to enhance efficiency.⁷² In the Lekki zone, the capacity of the federal government and agencies to deliver on infrastructure and policy implementation—as well as the capacity of the state

⁷⁰ Ogun 2.

⁷¹ For example, the Abuja light rail project is based on the Lagos mass transit project and involves the same contractor. Lagos State already has several operational independent power projects as Abuja tries to roll out the framework for national IPPs. See also the theme of the 2012 Lagos Economic Summit for an example of the aspirations of the state: *BRICS to BRINCS: Lagos holds the key*.

⁷² Abuja 15; LASG presentation at Power session at Lagos Economic Summit, April 24-25, 2012.

government to advocate nationally on behalf of the zone—has been a primary check on zone development. This chapter now turns to federal institutions and their impact on zone prospects.

INTERNATIONAL BORDERS: VERTICAL LINKAGES AND HIERARCHIES

This section looks at the extraterritorial nature of the zone—its borders are legally international ones—and its institutional relationships with the Nigerian federal government as well as those with China. These linkages are characterised as vertical for two reasons: first, because they tend to operate within a strict formal hierarchy, with decision-making concentrated at the top and one-way channels of communication; and, second, because they tend to enforce and enhance borders between the zone and the domestic environment, either deliberately or inadvertently.

The enforcer: the role of the federal government

As discussed at the start of this chapter, free zone policy and foreign investment legislation is set at the national level, and the implementers are federal ministries, departments and agencies. Even though the zone is embedded in a local and state context and in partnership with the state government, the borders around it are essentially international ones governed and guarded by federal law. In institutional terms, if the implicit goal of the state and local layers is to enhance linkages between the domestic economy and the zone, that of the federal layer is to enforce the border between them by managing implementation of the SEZ incentive scheme. The other explicit responsibility of the federal government is the provision of external infrastructure. Despite high-level national political support of the zone, there have been substantial challenges associated with both federal roles.

Both the Lekki and Ogun zones offer ‘one-stop shop’ services for incoming investors. This means they have officers from certain national agencies on site to provide registration, import/export, security and immigration services to zone investors. In theory, this acts as a streamlined national border tailored to the needs of the international investor. Investors can register their free zone enterprise directly with the CAC representative without going to Abuja. They can apply for work and residency visas for expatriate employees with zone immigration officials as well. Containers imported from abroad for use in the zone bypass customs at the port and are opened and assessed only by dedicated customs agents at the zone.⁷³ They similarly handle all paperwork for exporting goods from the zone, whether destined for international markets or the Nigerian domestic one. All of this is monitored by Nepza staff at the zone, who ensure that free zone policies are being implemented properly, and mediate between these federal agencies and the zone.

In practice, the same bureaucratic and institutional obstacles that hinder operations at Nigeria’s actual borders are simply transplanted to the zone. Zone managers and firms all agree that the zone policy framework is very attractive, but that there are significant implementation issues. Zone managers at both Lekki and Ogun, as well as Nepza officials, complain that the capricious implementation of national policy by these federal agencies is the principal challenge of doing business inside the zones.⁷⁴ The zone authorities argue that national agencies are unwilling to devolve any real authority to their agents in the zone,⁷⁵ and so, rather than streamlining bureaucratic processes, the one-stop shop simply adds another layer of red tape. For example, CAC agents cannot actually register companies as access to the corporate registry is only possible at the central office in

⁷³ Lekki 3; Abuja 5.

⁷⁴ Lekki 1; Lekki 2; Lekki 3; Abuja 8; Ogun 2; Beijing 2.

⁷⁵ Lekki 2; Ogun 1.

Abuja; immigration officials cannot grant visas directly, but can collect applications and send them for processing at headquarters. And even if relations with zone customs agents are good, junior agents are rotated regularly at the zones, and zone companies complain that it is often more senior agents who demand concessions in return for enforcing policy as written.⁷⁶

The relationship with customs is by all accounts the primary hurdle for both zones.⁷⁷ In Ogun, customs regularly seizes and holds goods destined for the domestic market for over six months, and often refuses to allow them out of the zone at all.⁷⁸ Lekki has not started production yet, but concerns over the customs issue—which have spread through investor networks since Ogun began having problems—is the main reasons firms are hesitant to commit, according to zone management.⁷⁹ A public scandal over furniture imports by the zone development company in 2010 did little to allay these fears. Dubbed the Lilypond Affair, it culminated in media accusations of Chinese smuggling, public arrest of zone officials, and seizure of the containers under question.⁸⁰ Customs then sued the CCECC, despite attempts by Nepza and the federal executive to intervene. The case was finally settled out of court and a new customs team was installed at the request of the zone authorities.⁸¹

Although the Nigerian Customs Service has a particular reputation for corruption and obstructionism—one that the agency itself candidly admits is justified and is seeking to reform⁸²—customs issues are not uncommon in SEZ regimes around the world. Duty

⁷⁶ Ogun 2; Ogun 3.

⁷⁷ This is also the challenge cited most often by officials and investors outside the zones. See chapter four for a more sustained political economy of customs issues and reform attempts.

⁷⁸ Ogun 1; Lagos 6.

⁷⁹ Lekki 1.

⁸⁰ 'NEPZA petitions CG over Lilypond Commands action', *Vanguard* February 2011.

⁸¹ Lekki 1; Lekki 3; Abuja 8.

⁸² Abuja 5.

waivers reduce customs revenue—legal as well as illicit—and reduce the agency’s power and relevance. Additionally, leakage of duty-free goods and smuggling are very real concerns at the border between zones and the domestic economy. In the Chinese zones, these concerns are exacerbated by the Asian country’s reputation as the source of high volumes of cheap consumer goods. ‘Making customs your free zone champion’ was the subject of a recent training sponsored by the World Free Zone Convention⁸³ to address some of the most common challenges.

In Nigeria, there is both a policy and an institutional dimension to solving the customs problem. Customs uses inconsistencies in free zone policy and investment incentives to justify unpredictable implementation. These include changes in the percentage of free zone goods that can be exported into the domestic market, as well as the legality of producing ‘prohibited’ items—like furniture—in the zones and then exporting those into the domestic market. In Calabar free zone, furniture is regularly exported into the domestic market from the zone; in Ogun, it has not been allowed over the border.⁸⁴ Nepza is working to repeal the 1992 Free Zone Act in favour of a new comprehensive legal framework for zones that clarifies these issues. Similarly, a sector-specific incentives document is also due for release by the office of the president in order to streamline and clarify investment regulation more generally.⁸⁵

The institutional issue is the more difficult one. The Nigerian Customs Service, a very hierarchical organisation with a paramilitary structure and armed agents, enjoys a tremendous amount of autonomy in Nigerian political economy, as discussed in chapter four. Ostensibly under the oversight of the Ministry of Finance, in practical terms the

⁸³ World Free Zone Convention training, 7 March, 2012, Brussels.

⁸⁴ Ogun 2.

⁸⁵ Abuja 6; Abuja 8; Abuja 2; Abuja 3.

minister has very little control over its operations.⁸⁶ In fact, controversy with customs is often taken into the public sphere, in the form of open letters printed in national media from federal ministries and agencies, after private attempts to address the issues fail. In 2011, Minister Aganga—formerly of Finance, now of Trade and Investment—wrote a public letter to the customs authority regarding the free zone issue and has appointed a subcommittee to assist with customs issues. He has reportedly told officials and zone representatives in Beijing that the impasse will be resolved by 2013.

In the meantime, the Lagos State government states that there is a need for more collaboration with customs in order to strengthen the formal working relationship between the agency and the zone.⁸⁷ Lekki has requested an official customs processing centre be located inside the zone, and, in 2012, a new customs area comptroller was appointed to the Lilypond command and paid an immediate courtesy call to the zone. In Ogun, zone managers say they have attempted to address the issue through all formal channels on both the Chinese and Nigerian side, but that the letter from Aganga had no effect. Now they say it falls to each individual zone enterprise to have their own informal ‘dialogue’ with customs; some have succeeded, some have not.⁸⁸ Many investors in both zones have put their plans on hold until these systemic customs issues are resolved.

There have also been predictable issues with the federal role in provision of external infrastructure—namely power, road and port links. As discussed previously, the Lagos State government is proving quite adept at both circumventing and partnering with the federal government in the construction of ports, airports and roads on the Lekki Peninsula. The Ogun State government is less involved, although they did pave the access road to the

⁸⁶ Abuja 1; Abuja 9.

⁸⁷ Lagos 7.

⁸⁸ Ogun 2; Ogun 3.

zone when President Jonathan was scheduled to visit in 2010.⁸⁹ The Ogun zone is only about 50 kilometres from the Apapa port in Lagos, but the journey can easily take over four hours due to the poor road network.

Not surprisingly in the Nigerian context, power has been a significant infrastructure hurdle for both zones. At the moment both zones have no external power links and rely completely on temporary diesel generators for all their needs. There have been plans since 2006 for a high-volume natural gas pipeline to the Lekki zone, the rights to which are currently held by a private company without the funds to expand it.⁹⁰ At the 2012 Lagos Economic Summit, the state government's commissioner of commerce stood up during a session with Minister Aganga—federal Minister of Trade and Investment—and in strong terms publically demanded federal support in fast-tracking this stalled pipeline.⁹¹ However, after several years of slow or no movement on power links, the current strategy of both zones seems to be to substitute for the government and provide their own power infrastructure. In Ogun, the zone authority negotiated with a Shell facility nearby to run a small-volume gas pipeline to the zone. This has been completed and the zone is accepting bids for the construction of a power plant.⁹² In Lekki, the CCECC won a 2011 tender for a power plant that will run on heavy oil and diesel in the short-term and can be converted to natural gas when the federal pipeline is finally complete.⁹³

These challenges in terms of policy enforcement and infrastructure provision on the part of the federal government raise two relevant issues. One is related to political will versus government capacity. The zones have received a great deal of political support at the

⁸⁹ Ogun 2.

⁹⁰ Lagos 24.

⁹¹ Lagos Economic Summit, 24-25 April 2012.

⁹² Ogun 2.

⁹³ Beijing 2.

national level—presidential visits, China-Nigeria ministerial meetings in both countries, private assurances to stakeholders—yet this support has not necessarily translated into enhanced outcomes for the zones, at least not yet. What both the policy enforcement and the infrastructure problems have in common is the inability of the executive to exert control over the agencies and parastatals under their control, rendering the support of the federal government ineffective in many cases. One zone manager notes that in early Chinese zones, the policy environment was also unclear, but when this became a problem, the government was able to provide additional clarity and efficiency, in contrast to Nigeria, where they have found this not to be the case.⁹⁴

The second point has to do with policy provision in particular. One of the explicit benefits of the extraterritoriality of the SEZ institution is to remove layers of national bureaucracy for exporting firms. However, in the Nigerian case, the target market for nearly all non-oil and gas firms that locate in the zones is the domestic one, not the international one.⁹⁵ Thus the question becomes whether the zone confers additional advantages for firms over simply locating in the domestic market itself, within the state policy framework. In light of the border and customs issues, the case against locating in the zones and producing for the domestic market is currently quite clear.

If the main constraints on zone development are federal, zones in states like Lagos with a decent implementing capacity should consider dividing the overall zone development into two sections. One governed by the federal SEZ incentive framework to cater for exporting firms, and one governed by state investment law to cater for domestic production; firms could choose the best option for their enterprise. Some firms would gladly give up extraterritoriality to avoid the customs headaches, but they could still benefit from the

⁹⁴ Lekki 1.

⁹⁵ The implications of this market orientation are explored in chapter six.

geographical benefits of industrial clustering and a streamlined process. The state government would benefit from additional tax revenues and focus on technology transfer and integration of these firms into state industrial strategies. These policy recommendations are returned to in chapter seven.

This is the strategy adopted by a number of other Chinese firms who are privately developing industrial parks elsewhere in Nigeria.⁹⁶ Yuemei Industries began construction of a textile industrial park in 2008, and Lee Group, a family firm with Hong Kong origins that has been producing in northern Nigeria for decades, also has an industrial park under construction, both in Ogun state. These are private FDI projects and do not receive any special zone incentive package. In these cases, there are rumours that the challenges of dealing with state and local agencies have proven just as problematic as federal policy enforcement in the official zones.⁹⁷ This model of industrial zone development is explored in more detail later. However, the point here is that zones, states and firms have choices as to the appropriate legal and policy regime (state versus federal), and should take these decisions based on the actual needs of the zone and the particular political economy of the location. This will be picked up again in reference to the strategies of firms in the next chapter.

The supervisor: China linkages and oversight

The final border examined here is that between the zone and China. Chapter three discussed in detail the ways in which China's overseas zone programme is rooted in the country's domestic economy, and the impact this has on the ways it is exported and internationalised. Here the focus is on the articulation of those institutional linkages where

⁹⁶ This is a global phenomenon among Chinese multinational corporations, and not confined to Nigeria. See chapters three and six.

⁹⁷ Ogun 1; Ogun 2.

they touch down in Lekki and Ogun. There are two types of linkages: government-level and firm-level. It looks first at the formal and informal ways the Chinese government is involved in the zone projects, then at the ways in which corporate decision-making in China bears on zone management in Nigeria. In both cases, decision-making often takes place in China and mandates move vertically down the chain from governments to zones, and from China headquarters to in-country subsidiaries.

Since the zones were selected by China's Ministry of Commerce through official tender in Beijing,⁹⁸ the ministry's explicit role in their operation has been relatively minimal, and seems to be confined to monitoring and oversight.⁹⁹ The Lekki zone is more institutionally developed, and receives annual assessments from a delegation of ministry officials. This delegation compiles a report on zone progress and challenges, the latter classified as either local or Chinese. In 2011, the zone reportedly received a satisfactory result; however, the final report was submitted to the ministry in Beijing and the findings were not made available to the in-country consulate or the zone staff.¹⁰⁰ In the words of one in-country official, 'They do not report to us, we report to them.'¹⁰¹ Ogun has not yet qualified for this type of evaluation, but the ministry makes official visits there as well. During their 2011 assessment, the Ogun zone was experiencing some internal difficulties that were affecting the relationship between the zone authority and the firms in the zone. Following this visit, the ministry sent the assessment report, along with suggestions, to the Guangdong provincial government—Guangdong Xinguang is a provincially owned company—which then became more active in zone management.¹⁰² Within two months, Ogun reported that these issues were being addressed at the provincial level.

⁹⁸ See chapter three for an overview of this process.

⁹⁹ This is consistent across all zones. See Brautigam and Tang.

¹⁰⁰ Lagos 6.

¹⁰¹ Lagos 6.

¹⁰² Lagos 6; Ogun 2.

In terms of financial support, the zones are eligible for certain performance-based subsidies and policy incentives from the commerce ministry—and in Ogun’s case, the provincial government as well. Ministry officials declined to give details on the specifics of financial incentives offered to the zones,¹⁰³ but they appear to be performance-based according to a formal assessment rubric, and transferred to the zone’s Beijing-incorporated branch rather than directly to the in-country zone authority.¹⁰⁴ In Ogun, zone managers say that ministry support is ‘mostly directives’ so far, and Guangdong province has promised direct financial support but it has not yet been forthcoming.¹⁰⁵ Lekki has made more progress and has qualified for additional assistance, which senior management in Beijing says amounts to around \$15 million in subsidies and rebates.¹⁰⁶ Access to equity and debt financing from China’s policy banks is another financial incentive; the CAD Fund was brought in as a shareholder in the Lekki zone in 2009 and Ogun hopes to qualify for CAD Fund financing in the future. However, CAD Fund representatives say financing decisions are made on profitability grounds, not political ones.¹⁰⁷

Nigerian state officials say that although there is rarely direct Chinese government involvement in the zone, ‘it is clear that they are informed’ about its progress. In the zone project as well as other Chinese contracts, the implicit involvement of the Chinese state is perceived of as an extra layer of security for the Nigerian side.¹⁰⁸ Government support reduces risk for both Chinese contractors and Nigerian states in untried partnerships in unfamiliar locations; however, it is not clear how far that insurance policy would stretch should it become clear that the zones are a losing commercial proposition. Both zones also

¹⁰³ Beijing 5.

¹⁰⁴ CCECC Annual Report 2011; Beijing 2.

¹⁰⁵ Ogun 2.

¹⁰⁶ Beijing 2.

¹⁰⁷ Beijing 8.

¹⁰⁸ Lagos 7.

say that the commerce ministry handles state-state negotiations at the national level, thus providing another conduit between the zone and the federal government other than through the Nigerian agency hierarchy.¹⁰⁹

When the Ministry of Commerce has intervened directly, it has been in the organisation and management of the Chinese partners—at their request—and its channels of influence in these cases are in China. During the 2009 restructuring of the Lekki zone consortium, the ministry was asked by the CCECC to mediate between the consortium partners.¹¹⁰ After negotiations in China with the shareholders, the ministry brought in the CAD Fund and asked the CRCC to take a majority stake.¹¹¹ This was accompanied by a reshuffling of Chinese staff in Nigeria, with more senior CRCC/CCECC staff moved in as the zone became more of a priority. Chen Xiaoxing, former head of CCECC Nigeria, was appointed managing director at this time. The Nigerian side was not made aware of the reasons for this change in the structure of the consortium, although it was clear that there were internal issues since the zone’s managing director, appointed by the Chinese side, had changed several times in just a few years.¹¹²

In general, corporate decisions on company structure and strategy take place in China. The Ogun zone company has over 30 staff members in Guangdong, and only about a dozen in Nigeria. China-Africa Lekki Investment only has 10 support staff members in China, but it is clear that since the restructuring, the CRCC in Beijing has been playing a larger role in managerial decisions and strategy, as well as meeting directly with senior Nigerian federal officials. The CRCC president visited the zone recently with a delegation and gave a three-

¹⁰⁹ Lekki 1; Ogun 2.

¹¹⁰ Others have reported that the Ministry of Commerce stepped in and unilaterally restructured the shareholding (Mthembu-Salter), or at the request of the Nigerian partner (Brautigam and Tang), but my interviews did not confirm this. Beijing 2; Lagos 7.

¹¹¹ Beijing 2.

¹¹² Lagos 7; Lekki 4.

point mandate to China-Africa Lekki Investment: to sort out the customs and policy issues; to accelerate construction; and to intensify the marketing effort.¹¹³ This geographical distance between the zone and much of the company decision-making presents challenges for both sides. On one hand, the board in China gives orders without fully understanding the Nigerian context, and then are frustrated when no progress is made.¹¹⁴ On the Nigerian side, the inner workings of the Chinese consortium seem very opaque, and there are misunderstandings over the reasons for delays or strategic decisions taken without input from the Nigerian partner.¹¹⁵ However, these issues will likely lessen as the partnership ages, and a new spate of high-level attention and media focus on the Lekki zone is speeding progress in 2013.

CONCLUSION

This chapter took the SEZ institution as the primary unit of analysis and examined the structure and institutions associated with development of the Lekki and Ogun zones in Nigeria. The first section situated the case study zones in the wider Nigerian zone programme. The second discussed zone structure and management in detail. The final two focused on horizontal and vertical linkages between the zone, the local community, the state government, federal institutions and Chinese institutions. It characterised the role of each of these institutional layers as agitator, pivot, enforcer and supervisor, and discussed the channels of influence between them and the challenges for each in terms of institutional capacity in successfully playing these roles in Chinese SEZ development in Nigeria.

¹¹³ Beijing 2.

¹¹⁴ Beijing 2; Lekki 1.

¹¹⁵ Lekki 4.

These differentiated roles of federal and state institutions have implications for the ways the zone institution inserts into the domestic economy. In addition to the emphasis on federal government oversight and management of the free zone programme, this chapter highlighted the important role of state and local governments. It is clear that sub-national institutions can play a central role in facilitating horizontal linkages between the domestic economy and the zone institution, by integrating the zones into wider state infrastructure planning, establishing training partnerships, domestic supplier linkages, and mediating relationships between the zones and local host communities. However, the differential involvement of Lagos State and Ogun State in this regard point to the ways in which varied levels of political and institutional capacity and stability contribute to the ability of the state government to play this role. Where these domestic linkages are not a priority—as in Ogun—the zone will likely develop more as a foreign enclave. This does not mean that it will not build domestic linkages, but rather that they will be more reliant on the priorities and goals of the zone developers and generated through grassroots informal channels rather than being institutionalised and supported at the state government level. The policy implications of these arguments will be returned to in chapter seven. This dissertation next turns to the patterns of production being generated by Chinese firms in Nigeria and the substantial disconnect between the goals of Chinese manufacturers and the assumptions of the Nigerian SEZ policy framework.

Chapter Six

PATHWAYS TO MARKET: FREE ZONE FIRMS AND STRATEGIES

Thus far, this dissertation has examined the home country factors pushing economic zone development in Nigeria, the host country political economy shaping the productive environment, and the institutional structure of the zones themselves. It turns now to the agents of these economic trends—Chinese manufacturing firms both inside and outside Nigeria’s SEZs—as well as their motivations, characteristics and goals. This chapter seeks to analyse the interface between firms—the final analytical dimension discussed in chapter two—and the Nigerian institutional environment on the one hand, and domestic and international markets on the other.

This chapter asks two related questions: how does the general manufacturing environment in Nigeria shape the behaviour of Chinese firms in the country? And how do the goals and objectives of these firms—both manufacturers and zone developers—align with those of

the zone programme? It is structured in four parts, the first two dealing with the former question, the last two with the latter. Part one gives an overview of manufacturing firms in Nigeria, and the ways in which the interplay of policy and practice incentivise the rise of certain kinds of domestic and foreign producers. Part two examines the characteristics of Chinese firms in particular within this context. Part three focuses on Chinese manufacturers—the producers—inside Nigeria’s zone programme as well as their goals and market orientation. The final section discusses zone development firms—the facilitators—both those that are building the Lekki and Ogun official zones as well as the growing trend towards private industrial park development among Chinese firms in the country. It argues that the Nigerian productive environment incentivises a particular pattern of horizontal production, one that is at odds with the assumptions of vertical production around which the Nigerian official zone programme is structured.

MANUFACTURING IN NIGERIA

This section explores the ways in which the Nigerian institutional environment impacts on the behaviour and strategies of both domestic and foreign manufacturers operating in the country. As in chapter four, it seeks to highlight the considerable gap between *de jure* and *de facto* trade and investment regimes, but narrows its focus to manufacturing in particular. It argues that this combination of policy and practice, together with the Nigerian productive environment, creates a high risk–high reward manufacturing sector that incentivises the rise of particular types of firms.

Policy

After decades of decline or stagnation, Nigeria's manufacturing sector has been growing at between seven and nine per cent over the last five years, or about the same rate as the economy as a whole. However, its share of GDP continues to sit at a dismal four per cent. As discussed in chapter four, the emerging national policy regime is betting that a combination of streamlined investment incentives, trade policy that favours local production, and substantial investment flows can overcome an entrenched dependence on manufactured imports and catalyse a productive sector that has been in decline for decades. The explicit policy goal is to reduce poverty by creating a labour-intensive manufacturing sector with low production costs. Its key elements include facilitating the flows of foreign capital and technologies, increasing competitiveness of made-in-Nigeria products, cultivating micro-, small- and medium-sized enterprises, and developing entrepreneurial and technical skills.

A new sector-specific incentives policy articulates the goals of the manufacturing policy framework and expands and streamlines the incentives available to both foreign and domestic manufacturers.¹ These incentives include very generous tax holidays for manufacturers as well as duty exemptions for machinery inputs and further tax deductions for training of local employees and infrastructure construction. Overall, there is a dual focus on the cultivation of heavy industry for the establishment of an industrial base and the growth of light manufactures and processed goods for export. Heavy industry priority sectors are foundries and forges, metal fabrication, petrochemicals, agro-allied products, metals, cement, machinery, large transport machinery, as well as potential future industries like information and communications technology and biotechnology.

¹ NIPC, Nigerian Sector-Specific Incentives Investment Guide DRAFT (Unpublished, 2011). This is not yet final. Draft copy provided to author 11/11.

Figure 15: Incentives for manufacturers

- Tax holiday based on investment value:
 - up to \$10m --- 5 yrs
 - > \$10m, to \$20m --- 7 yrs
 - > \$20m, to \$30m --- 10 yrs
 - > \$30m, to \$50m --- 12 yrs
 - more than \$50m --- 15 yrs
- Deduction up to 150% of the R&D investment made by existing and new industries to develop products and services
- Import duty exemption for machinery, spares and consumables for the installation and commissioning of the project (before commencement of business; test runs excluded).
- 2% tax concession on in-plant training expenditure for up to 15 years for Nigerian employees. Length of concession based on value of investment.
- Tax deduction to the extent of 35% of the cost of providing infrastructure facilities (capitalized during the tax holiday period), distributed over a five-year period.
- 20% tax deduction on the cost of local staff employed, whether directly or through contractors, subject to a minimum employment of 100 people.
- The benefits would apply to existing as well as prospective investors; the period of benefit already availed at the time this new policy comes into effect shall be reduced from the new (extended) period of benefit

Source: NIPC sector specific incentives document

The focal point of trade strategy is to be the expansion of manufactures for export. Manufactured exports have recovered somewhat over the last decade but are still not much above their 1965 level and, in per capita terms, they have halved since then.² In its Vision 2020 policy, the federal government has identified five priority industries in the near-term and potential markets for goods. These are expanded in the sector-specific document to include medium-term priority sectors like pulp, paper and publishing, and wood and furniture.³ The Nigerian Export Promotion Council provides a series of incentives for exporters including an export expansion grant, monthly export training clinics and subsidised travel to trade fairs. A senior official in that agency said that in practice its focus is on expanding the export capacity of foreign firms and ‘domestic firms should be producing for the local market’.⁴

² UNCTAD.

³ NIPC 2011.

⁴ Abuja 1.

Figure 16: Priority sectors and markets

High-Priority Sub-Sectors	Products	Potential Markets
Chemicals	Refined Oil	US/EU/North AF/Asia (China & India)
Pharmaceuticals	Over-the-counter drugs	ECOWAS
Metal, Iron, Steel and Fabricated Metals		Not specified
Food and Beverages	Rice Processed Cocoa Sesame Oil Frozen Shrimp & Prawns Processed Cashews Cashew Kernels Fruit Juice	ECOWAS EU/Canada/US Asia ECOWAS/US/EU/Japan India/Brazil/Vietnam US/UK US/UK
Textiles, Garments, and Leather Footwear	Ready-to-wear Garments Processed Cotton Leather Products	ECOWAS ECOWAS/US/EU Italy/Asia (China)

Source: Nigeria vision 2020 policy

This focus on foreign firms—many of whom have relocated to Nigeria to access the local market rather than to export—over domestic firms might be short-sighted. Of the 50 largest exporters in Nigeria, only 13 are foreign companies—which contribute 36 per cent of export value. There is certainly room for a larger foreign role—in Brazil for example, foreign firms contributed 50 per cent of export value in 2001⁵—but these figures also indicate that Nigeria has domestic firms that are already able to compete internationally and should be supported. Despite previous experiments with backward integration policies, currently there is no explicit attention to cultivating links between exporting firms and domestic suppliers, although there are some provisions for technology transfer agreements included in investment contracts.

The overall policy and incentive architecture appears to be constructed to appeal to large, foreign, export-oriented foreign firms. However, there are attempts to cultivate SMEs to produce for the domestic sector. So far, this means considerable increases in access to

⁵ UNCTAD, *Investment Policy Review: Nigeria* (Geneva: United Nations, 2009).

domestic credit for manufacturers, from N322 billion in 2006 to N988 billion in 2010.⁶ Much of this is earmarked for SMEs. In 2010 the CBN also established two schemes that together provide N400 billion to guarantee loans by banks to SMEs and manufacturers and restructure and refinance banks' existing loan portfolios to the same in order to enhance access to credit by the manufacturing sector.⁷ Over N300 billion of those funds have already been released for over 500 approved projects. The CBN is also currently conducting a survey of micro-, small- and medium-sized enterprises in conjunction with Smedan in order to facilitate the provision of infrastructure for these firms.

Finally, there is a significant geographical element to the emerging manufacturing and industrial development policy architecture. The country's six geopolitical zones are reconceived as economic growth poles, with the development of particular cities as regional growth centres. Specific groups of processed goods have been identified for production in each region for domestic consumption by firms who cannot yet compete in the export market. Further, each state is to specialise in a particular product or industry around which it can build its industrial growth strategy. The mechanisms for industrial development, especially as pertains to manufacturing for export, are all cluster-based. Both in terms of micro-, small- and medium-sized enterprise development in the formal and parallel economies as well as large PPPs with foreign investors, there is a focus on industrial parks and clusters, enterprise zones and small business and technology incubators. This reflects an international shift towards preference for clustering strategies as vehicles for technology transfer and rapid growth,⁸ and forms the basis of Nigeria's expanding export-processing zones regime.

⁶ Central Bank of Nigeria, *Annual Report*, (Abuja: CBN, 2010).

⁷ Central Bank of Nigeria, *Annual Report* (Abuja: CBN, 2010).

⁸ Douglas Zhihua Zeng, *Knowledge, technology, and cluster-based growth in Africa* (World Bank, 2008).

In general, the evolution of industrial policy and manufacturing incentive frameworks illustrates enhanced technical capacity and a welcome concern with catalysing a defunct manufacturing sector. There is a pragmatic focus on boosting intra-African trade, especially in the Ecowas region, a parallel focus on both large exporting firms and small enterprises, and a move towards international best practices. However, as argued in chapter four, there is a sizeable gap between the national vision articulated in policy documents and the much more complex and fragmented de facto environment for manufacturers on the ground. It is also clear that, with a host of other pressing security and developmental priorities, most manufacturing sectors are not perceived as having much comparative advantage internationally, and are thus not a priority for the state.

Practice

Overwhelming power and infrastructure constraints, an often-predatory regulatory environment, and an international push to liberalise trade and investment regimes mean that prospects for Nigerian manufacturing do not seem especially bright, whatever the policy environment. In fact, international development and finance organisations have essentially declared Nigerian manufacturing to be an untenable investment. One senior executive from the International Finance Corporation states unequivocally,⁹ ‘We’re not interested in manufacturing at all. It will never work in Nigeria, especially once all the trade barriers come down.’

Statistics seem to support this view, with capacity utilisation of the sector as a whole languishing at less than 50 per cent,¹⁰ mainly due to power and fuel issues. However, a closer look reveals a much more fragmented and uneven picture. Growth in most

⁹ Lagos 9.

¹⁰ MAN statistics (unpublished).

manufacturing sectors is relatively robust despite power constraints—with the exception of very import dependent industries like electronics and chemicals— and some are doing exceedingly well. The leather, food and beverage, and plastics (industrial and domestic) industries are operating at 100 per cent capacity utilisation and growing very quickly.¹¹ This variation across sectors can be explained by the differing characteristics of producing firms, and gives several insights into the practicalities of manufacturing in Nigeria.

The industries operating at full capacity utilisation are largely populated by firms that have invested heavily in infrastructure provision, continually reinvested profits, and catered for their own energy needs through on-site generators or gas plants.¹² Nigeria's largest and most successful firms—the Dangote Group, Eleganza and Honeywell, among others—are manufacturing conglomerates in these sectors that cater to the local market, and now increasingly to the regional one. Their success is a combination of close political alliances that can be leveraged into policy support, on the one hand, and, on the other, the size and financial clout to substitute for lack of state capacity in other arenas, such as infrastructure provision.

Thus, power and infrastructure constraints certainly are big burdens for producers in Nigeria; however, those burdens fall unevenly on firms. Smaller enterprises may be able to produce only a few hours each day when there is electricity, but larger companies that can afford to provide their own electricity and infrastructure are not as affected.¹³ Even with high fuel costs, when it comes to production for the domestic market, they have a marked advantage over other domestic firms who have to rely on the state for power and infrastructure requirements.

¹¹ MAN statistics (unpublished).

¹² Lagos 12.

¹³ Lagos 11; Lagos 1; Abuja 2.

In terms of taxation and regulation, the formal incentive framework offers quite generous tax holidays and rebates. However, policy confusion, poor implementation capacity and the multiplicity of local, state and federal regulatory regimes leave a great deal of room for opportunistic individuals and agencies to manoeuvre. Thus, in the words of one senior official, ‘taxation is not harsh, but plural’.¹⁴ This plurality—and the layers of patronage and extortion that accompany it—tempers the overly generous official policy framework. It also means that start-up costs are not only high, but very uncertain—often two to four times what is expected—and new entrants to the market can expect long delays when various implementing agencies ‘might shut everything down for weeks’¹⁵ in an attempt to extract concessions.

The Dangote Group’s meteoric rise is a good example of the interplay between policy and politics in Nigerian manufacturing. It began as a trading company in the 1970s, consolidating wealth by taking advantage of shifts in import licensing requirements, before moving into commodity processing. Links to Coca-Cola resulted in the group’s insertion into global production networks when it became a key supplier of sugar for the beverage company, which was followed by an expansion into manufacturing food products for local and regional markets. In 2005, Aliko Dangote—now one of Africa’s wealthiest men—won the bid for a large cement-manufacturing concern in a round of privatisation.¹⁶ Dangote was the dominant investor in the newly privatised cement industry, and invested heavily in cement-manufacturing capacity. These efforts were buttressed by a federal backwards integration policy that supported the consolidation of local supply networks as well as an aggressive trade policy that largely abolished import

¹⁴ Abuja 1.

¹⁵ Lagos 11; Lagos 1.

¹⁶ For more on the political economy governing these kinds of government contracts and transfers, see chapter four.

licences for cement. Now, the group is lobbying for a full cement import ban in Nigeria and is moving into cement exporting and the establishment of regional production networks. It has contracted Chinese firm Sinoma to build cement plants in six African countries.¹⁷

The group's success in the cement industry is clearly a case of aggressive and targeted industrial policy, in which the state 'picked a winner' and made it a policy priority to protect the sector from competition from imports, ignoring any pressure to liberalise trade in this case. Aliko Dangote's strong informal political connections allowed him to lobby successfully for formal policy support, and that support was implemented quite effectively. The tools of de facto industrial policy in Nigeria are often the traditional mix of formal policy incentives, subsidies and trade regime manipulation. However, the decisions regarding how and where they are applied are politically—rather than economically—strategic. In this case, the result is a successful import-substituting domestic industry. However, as seen in chapter four, in other situations, politically strategic industrial policy choices have had far less impressive outcomes. Yet, the Dangote example suggests high implementing capacity for targeted industrial policy in this case.

This institutional environment highlights the centrality of good political connections for successful firms as well as the necessity for newcomers of finding a reputable local partner. Officials, executives and entrepreneurs alike state that newcomers to the Nigerian market regularly get 'eaten alive' or 'swindled out of everything they own'.¹⁸ However, establishing the credibility of one's local partner can be difficult and time consuming. Many foreign investors approach the NIPC expressing interest in establishing a joint venture with a local company. However, the agency is unable to assist in identifying

¹⁷ Lagos 16.

¹⁸ Lagos 6; Lagos 1; Abuja 1; Lagos 11.

potential partners, nor can it vouch for the intentions of Nigerian companies beyond confirming whether they are in fact legally incorporated in the country.¹⁹

One expatriate owner of a very successful Nigerian manufacturing conglomerate that has been operating in the country for decades has this advice to give to potential investors and entrepreneurs:

You need a long-term investment outlook in Nigeria. You have to spend at least six months doing your market research and gauging demand for your product. And you need to be financially sound, and able to self-finance for at least two years, to weather setbacks, delays and every type of crisis. But once you've been here awhile, these problems subside, and then Nigerian manufacturing is the best-kept secret in Africa.²⁰

This sentiment is echoed by others, who maintain that for those firms that can surmount these very high barriers to entry, 'the returns in Nigeria are like nowhere else'²¹ and 'people complain about infrastructure and corruption, but everyone is making money hand over fist'.²²

All this leads to a production context that is high-cost, but potential profit margins are also very high because of the size and buying power of the domestic market. Considerable challenges in terms of infrastructure and regulatory predation restricts entry into the sector to firms that are large and wealthy enough to provide for their own power and infrastructure needs and to take considerable losses before they become profitable. For most domestic industrialists, it is not possible to grow to this size without first amassing wealth through other means—thus it is a channel open only to members of the political and economic elite. Substantial volatility—both in policy and political terms—incentivise widespread diversification into unrelated industries. This allows enterprises both to

¹⁹ Abuja 3.
²⁰ Lagos 11.
²¹ Abuja 3.
²² Lagos 1.

manage risk as well as allowing them to take advantage of changes in state patronage at state and federal levels.²³

In sum, the Nigerian manufacturing environment incentivises long-term investment by diversified, capital-heavy firms—either foreign or domestic. Despite the assumption in official circles that large foreign firms should produce for export while smaller domestic firms supply the local market, in reality the domestic market is the primary draw for all firms. The high-cost, long-term nature of manufacturing investment in the country makes export production quite unattractive unless a firm is already successful domestically, except in the case of certain primary product-processing sectors. Thus, at least in the short-term, the main driver of Nigerian industry will be domestic production. This, of course, has substantial implications for trade policy, for competition between foreign and domestic producers, as well as for the future of the country's growing number of free zone projects.

CHINESE FIRMS IN NIGERIA: SIZE, MOTIVATION AND BEHAVIOUR

Within the Nigerian production context outlined above, new sources of FDI in the non-extractive sectors may offer substantial opportunities for technology transfer, employment, partnerships with local firms and renewed vigour in the manufacturing sector. This section looks at the ways this economic environment influences the goals and profiles of Chinese manufacturers in Nigeria—both inside and outside the zones. Data includes a mix of primary materials collected in China and Nigeria, a small sample of interviews conducted with the managers of seven Chinese companies, as well as other interviews with a number of official sources and zone managers. As discussed in chapter two, failure to collect

²³ For a detailed discussion of the origins of domestic capitalism in Nigeria, see Tom Forrest, *The advance of African capital: The growth of Nigerian private enterprise* (Edinburgh: Edinburgh University Press, 1994).

survey data from an adequate sample of Chinese firms limits the degree to which these interview results can be considered representative. However, attempts are made to contextualise the small number of responses with secondary source data from other recent survey projects with Nigeria-based respondents.

Investment trends

In terms of the volume of Chinese manufacturing investment, there are no publically available FDI statistics in China or Nigeria that disaggregate flows by both country of origin and sector. Official Chinese statistics place FDI stocks in Nigeria at \$1.4 billion, with annual flows just under \$200 million and growing. However, these statistics do not account for investment into Africa from other overseas branches of Chinese companies, and it is suspected that many small, private companies underreport their international activities or fail to report them at all. Ministry of Commerce officials say that unofficial figures collected from Chinese embassies in Africa—themselves often the result of voluntary reporting and thus likely themselves underestimated—exhibit massive discrepancies with official figures. In the case of Nigeria, self-reported investment by Chinese companies to the commercial section of the embassy in Abuja is eight times the official figure for Chinese FDI to the country.²⁴ Especially for manufacturing investment—which is dominated by larger numbers of smaller, private firms that prefer to keep their distance from the state—it is clear that FDI statistics shed very little light on the true state of affairs.

Data on the number and characteristics of Chinese enterprises operating in Nigeria are equally problematic. Though all companies register with the CAC, like most company

²⁴ Beijing 5; Abuja 15.

databases in the country the records do not track country of origin.²⁵ Once a company is registered in Nigeria, it is treated like a domestic enterprise in terms of record keeping, and it thus becomes nearly impossible to distinguish foreign firms from indigenous ones in practical terms.²⁶ However, all companies with foreign equity are required to register with the NIPC, and the OSIC has kept an unpublished database of these registrations since 2006.

The OSIC database lists company name, activities, joint venture partner (if any), initial investment capital, employment and date of incorporation. This document is by no means exhaustive; it only includes firms that registered with the OSIC and incorporated with an initial investment of at least N10 million, so it does leave out small firms, free zone firms, those incorporated prior to 2006, and those that did not take advantage of the one-stop centre. The majority of firms place the share capital of their Nigerian incorporated company at N10 million, that being the minimum initial investment necessary to use the OSIC facilities, so the database does not accurately represent how much investment ultimately enters the country from these firms. The employment figures are also very incomplete, with the majority of entries missing this data. However, it is possible to make some observations as to current investment trends into Nigeria based on analysis of the companies that have registered over the past five years.

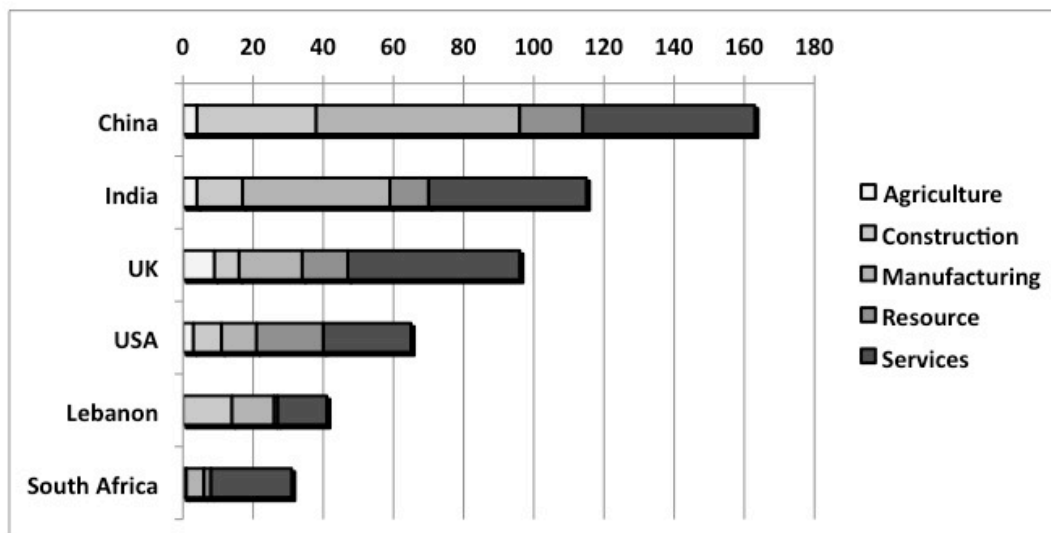
From 2006 through June 2011, 863 foreign firms registered an investment of at least N10 million with the NIPC, with the most common countries of origin being China, India, the UK, the US, Lebanon and South Africa, in that order. Chinese and Indian companies together make up over 30 per cent of total registrations (163 and 115 firms respectively).

²⁵ This is also true of databases of exporters kept by the NEPC, databases of manufacturers kept by MAN, and company databases kept by NACCIMA as well as various state chambers of commerce. Once a company is incorporated in Nigeria, it is treated like an indigenous one in terms of record keeping, entitlements and taxation.

²⁶ Abuja 1; Abuja 3; Lagos 12.

UK (96) and US (65) firms make up another 19 per cent. Well over half of total firms investing over this period are from developing countries, clearly illustrating a growing trend of south-south economic integration in Nigeria that mirrors the larger continent-wide shift in FDI flows.²⁷ Chinese firms are certainly the most prominent, making up nearly 20 per cent of the total number of investing firms over the past five years—although Indian firms are not far behind.²⁸

Figure 17: Top investor countries by firms and sectors 2006-2011



Source: Author calculations based on OSIC database

The OSIC registered 163 Chinese firms of a minimum size that incorporated between 2006 and mid-2011, but there are certainly many more than this number would indicate. Another recent survey cited NIPC sources for a figure of 605 active Chinese companies,²⁹ while a 2009 publication states that there are over 1,000 registered Chinese companies in

²⁷ All calculations derived from OSIC database (unpublished). This data is not public, but was made available to the author in Abuja 11/11 as a word document. All analysis is my own.

²⁸ One of the limitations of this database is that it tracks incorporation of new companies, but has no mechanism for identifying those that later go out of business.

²⁹ Shen. Shen also points out that this number is three times the 200 firms registered by the Ministry of Commerce as having overseas projects in Nigeria, indicating that despite data tracking problems in Africa, the host country still captures a larger proportion of activities than Beijing.

Nigeria, citing a CAC representative as the source for this claim.³⁰ The commercial counsellor's office at the Chinese embassy in Abuja estimates that there are 70-80 large firms and more than 400 total Chinese firms doing business in the country.³¹ These estimates come from the consulate in Lagos, where most Chinese businesses are located, and are based on voluntary reporting. Companies are not required to register with the embassy, although they are requested to report their activities. However, most do not; one embassy official freely admits that 'we should know each one, but we don't'.³²

In 2011, the commercial consul in Lagos placed an advertisement that ran for six months in the *West African Business Daily*, a local Chinese language newspaper. It requested that Chinese companies report to the consulate, and the office is now collecting information on Chinese companies in the Lagos area. This voluntary survey had yielded 400 responses at the time of writing, largely from small businesses in the retail, import and food service industries.³³ Most of these companies are distribution branches of larger companies from mainland China, and are engaged in trading activities. However, approximately 25-30 per cent of them are in the manufacturing sector, concentrated in light manufacturing and assembly of consumer products.

This proportion of manufacturers is consistent with the OSIC figures, although the number of active firms is likely much higher than either of these estimates indicates. Xiaofang Shen's survey, cited above, finds approximately 50 per cent of active Chinese firms in Nigeria are engaged in manufacturing. In any case, these numbers are very fluid, as smaller firms incorporate, change activities and go out of business with great frequency.³⁴

³⁰ Herbert Jauch and Anthony Yaw Baah, *Chinese Investments in Africa: A Labour Perspective* (Windhoek: African Labour Research Network, 2009). I was unable to verify this number with the CAC.

³¹ Abuja 15.

³² Lagos 6.

³³ Lagos 6.

³⁴ Lagos 6.

Regardless, it is clear that manufacturers make up a sizeable proportion of Chinese firms in Nigeria. The OSIC database also indicates that the prominence of manufacturing firms illustrates a fundamental difference between in the composition of FDI from traditional partners like the US and the UK, and emerging ones, like China and India.

Firm characteristics

Recent surveys of Chinese companies in Africa that incorporate data from Nigeria indicate that these manufacturers are almost exclusively privately owned, market-seeking, and pushed by rising wages and harsh competition in southern China.³⁵ Most companies originate in the manufacturing powerhouses of coastal China: the largest proportion comes from Zhejiang province, with significant numbers also originating in Guangdong, Fujian, Jiangsu and Shandong.³⁶ Gu outlines the ‘three jump method’ firms use to internationalise: by first exporting to African markets, then building manufacturing and assembly facilities there, and finally developing industrial parks in order to attract other Chinese firms and consolidate the production chain in the host country. As the next sections will demonstrate, this trend towards private industrial park development is increasingly prominent in Nigeria.

The characteristics of these firms—medium-sized private companies making initial forays into new markets—mean that they tend to have a higher appetite for risk than more internationally established firms, and that they prefer to keep their distance from organs of the Chinese state. Chinese officials in Lagos say that smaller, privately owned firms are very focused on opportunity and profit, regardless of political and security concerns. They also refrain from registering with the embassy or seeking advice from the commercial

³⁵ Shen, also Jing Gu, ‘China’s private enterprises in Africa and the implications for African development’, *European Journal of Development Research Special Issue* 24.1 (2009b).

³⁶ Jing Gu, ‘The last golden land? Chinese private companies go to Africa’, *IDS Working Paper* 365 (2011). Shen.

office until they run into legal or security trouble. ‘They are very suspicious; when we ask them to report, they ask “why?” We don’t even know they are here until they have a problem, then they come.’³⁷ They also appear to be unaware or uninterested in Chinese government financial incentives or guidance,³⁸ and instead base their investment location decisions on interactions with local Chinese business networks and personal research on the host country policy environment.³⁹

The fact that these firms are smaller, market-seeking firms looking to localise production for Nigerians, rather than multinationals looking for new production sites to link to established global production chains, has implications for the ways in which the Nigerian policy environment might encourage this trend. There are indications that these market-seeking manufacturers do respond to changes in trade policy. Legislation introduced in 2004 restricted imports of finished textiles, footwear and other intermediary goods in order to protect local industry from Chinese imports. Chinese trading companies and others complained about protectionist trade policy and unclear and volatile import licensing arrangements.⁴⁰ However, it also had the effect of incentivising the localisation of production for firms that depended on exports to the Nigerian market. A number of firms moved production to Nigeria in response, citing the host government’s policies restricting imports.⁴¹

³⁷ Lagos 6; Abuja 15.

³⁸ Gu 2011.

³⁹ Abuja 15.

⁴⁰ Jauch and Baah.

⁴¹ Shen.

Effects on domestic industry

As for the effects of Chinese corporate expansion on Nigerian producers directly, there have been no systematic studies and it is outside the scope of this dissertation. However, anecdotal evidence collected for this study indicates that there are differential impacts based on firm size. In the multinational sector, the arrival of large Chinese and other emerging market firms has certainly increased competition. This mainly affects Western companies that have dominated in Nigeria for decades. For example, Huawei's biggest competitor in Nigeria is Swedish giant Ericsson, but all of its subcontracting firms in Nigeria are local.⁴² Julius Berger's Nigeria profits have suffered as a result of undercutting by Chinese construction firms,⁴³ and Western firms lost out on engineering subcontracts for the Lekki port project because Singapore-based Tolaram, the prime investor, preferred to work with another Asian company and awarded China Harbour the bid.⁴⁴ Senior executives for General Electric Africa say that the influx of large Chinese companies working directly with governments and offering large-scale solutions and turnkey projects initially left GE unable to compete. In response, the multinational has shifted its corporate strategy and production profile. 'We used to sell turbines, now we know we have to build power stations.'⁴⁵ In 2011, the federal government signed a memorandum of understanding with GE to begin manufacturing turbines in Nigeria.⁴⁶ GE has also made partnership with China an integral part of its strategy in Nigeria, which they say takes advantage of the comparative advantages of both with the end result being a better solution for the customer.⁴⁷ To facilitate this strategy, they are increasingly leveraging expertise from their China operations for use in African markets.

⁴² Lagos 13.

⁴³ 'Julius Berger faces challenges as new entrants gain ground', *Business Day*, 1 March 2012.

⁴⁴ Lagos 25.

⁴⁵ Lagos 20.

⁴⁶ Lagos 8.

⁴⁷ Lagos 20.

For smaller manufacturers, effects are likely more mixed. It is unclear whether Chinese SMEs with better access to capital and links to international production networks are displacing local producers. Public protest and complaints by domestic manufacturers focus almost exclusively on the deleterious effects of Chinese trade: competition from an onslaught of cheap goods produced in China. A senior official of the MAN maintains that ‘China has changed the situation in the last 30 years’ for the domestic manufacturing sector and the effect has been largely positive.⁴⁸ According to internal MAN statistics, Chinese, as well as Indian and Japanese, firms tend to reinvest profits in infrastructure and diversify into new productive sectors. They are active in both heavy industry as well as consumer goods. Those that have been in the country longest are well integrated into professional networks, have strong ties with state and federal governments, and tend to prioritise localisation as being good for business.⁴⁹

However, by all accounts, linkages between Chinese and local firms are relatively weak,⁵⁰ especially for newer arrivals. And while Chinese firms do tend to hire local labour, perceptions among Nigerian officials and industrialists of the prospects for technology transfer are rather negative.⁵¹ According to figures from the OSIC database, Chinese and Indian firms are much less likely than firms from the US and the UK to establish joint ventures with local companies.⁵² This is likely due at least in part to a lack of local knowledge and the search and information costs of finding reliable local partners. According to the China-Africa Business Council, 70 per cent of projects initiated by Chinese firms in Africa fail. The biggest obstacles are at the firm level: limited

⁴⁸ Lagos 12.

⁴⁹ Lagos 8; Abuja 13; Lagos 26.

⁵⁰ Gu.

⁵¹ Lagos 8; Abuja 9; Lagos 12.

⁵² OSIC database (unpublished).

international experience, poor risk assessment and problems with financial management and accessing credit.⁵³ The next section turns to producer firms in Nigeria's free zones to assess the ways in which the zone institution addresses these obstacles.

THE PRODUCERS: FREE ZONE FIRMS

At first glance, free zones seem like a credible tool with which to link Nigerian industrial goals with foreign expertise and capital. They encourage local production, attract foreign investment and technology, provide clustering and partnership opportunities for both foreign and domestic firms, and relieve the infrastructure and regulatory burdens that were identified in the last section as primary obstacles for manufacturers in Nigeria. However, Nigeria's zones have been far from successful. Chapter five discussed some of the structural and institutional challenges faced by the Lekki and Ogun projects and their Chinese developers. This section looks at the characteristics of firms choosing to locate (or not) in Lekki and Ogun as well as Nigeria's other manufacturing zones in order to assess the suitability of the zone institution in addressing their commercial objectives.

This dissertation focuses on a particular phenomenon: the internationalisation of Chinese manufacturers into African markets and the ways Chinese official zone projects like the Lekki and Ogun zones contribute to the expansion of this trend in Nigeria. However, a closer look at the characteristics of the firms active in Nigeria's other free zones offers up some surprises in terms of the role Chinese and other Asian firms are already playing in the country's zone programme. It also illustrates the ways in which poor assumptions about the goals of free zone firms encourage a policy environment that handicaps both firms and zones rather than enabling them.

⁵³ Beijing 10; Beijing 11.

Firm origins and objectives

Nigeria has 25 federally approved free zones overseen by Nepza. Of these, 14 are considered operational while the rest are still in planning stages or under construction. Generally, manufacturing in the zones is in a dismal state; the majority of investment and revenue attracted by the zone programme is channelled into the oil and gas industry and its support services. Only five of the operational zones have manufacturing as a primary activity—the others focus on oil and gas storage and logistics, retail trade, and other services. These five zones are Calabar FTZ, Kano FTZ, Maigatari Border FTZ, Lekki FTZ and Ogun-Guangdong FTZ. Of these, Maigatari FTZ is excluded in this analysis as there is a record of only one firm registered in this zone at the time of writing.⁵⁴

- Calabar FTZ is the oldest and most established of the zones, and is owned and operated by the federal government. Located in the south, in Cross Rivers State, it hosts a mix of manufacturing, oil storage and logistics, and service concerns. Of the 63 firms registered in the zone (approximately 53 of which were reportedly active at the time of writing), 33 are manufacturing companies
- Kano FTZ is also federally owned and operated and is located in the north in Kano State. Its development has largely stalled, with only two factories currently producing on site. However, data on the 13 manufacturers registered in the zone are included here as an indication of the type of investors drawn to invest in the project
- Lekki FTZ, as discussed in the previous chapter, is a Chinese-Lagos state joint venture located outside Lagos. Seventy-five firms have signed investment

⁵⁴ Abuja 7; Jauch and Baah. This northern zone is located very far from international ports and population centres. For the political determinants of zone location, see chapter five.

memorandums of understanding, of which 17 are manufacturers. However, only two of these firms are as yet producing on site

- Ogun FTZ, a Chinese-Ogun State joint venture, is located in Ogun State to the west of Lagos. Firms do not sign memorandums of understanding, but 15 companies have entered into binding investment agreements and are already producing on site

A closer look at the firms investing in these zones reveals four interesting similarities between Calabar, Kano and the newer Chinese zones.⁵⁵ One, the foreign manufacturers registered in the zones are often smaller, less experienced multinationals from non-traditional locations. Established corporations like GE and Johnson & Johnson can afford to site their investments based on different criteria, and the policy and infrastructure advantages provided by the zones are obviously not a draw to them. With the exception of a Nigerian joint venture with an Italian firm, and an Indian snack company now registered in the US, there are no Western manufacturers in Calabar FTZ. This is in contrast to investment in oil and gas activities in all the zones, which includes many more US and European multinationals.

Two, foreign investing firms are overwhelmingly Chinese in all three zones—not just the two Chinese-developed ones. Not surprisingly, high proportions of registered manufacturers in Lekki and Ogun are Chinese—nearly 60 per cent in the case of the former, and all companies in the case of the latter. However, even in Calabar, over a third of all manufacturers are Chinese (although a few originate in Hong Kong rather than mainland China), and less than 20 per cent of manufacturing investors come from other regions. In Kano, 40 per cent of registered firms are Chinese. This illustrates the

⁵⁵ Data on Calabar firms drawn from Nepza database (unpublished) made available to author in Abuja 11/11 as well as author's own research into firm origin. Data on Lekki and Ogun zones drawn from unpublished documents provided by these zone development companies in late 2011 and early 2012 respectively. Analysis is my own.

prominence of East Asian firms in Nigeria's zone programme overall, as well as the lacuna of foreign investment in the zones from other international destinations. Foreign manufacturing in Nigerian zones is actually Chinese manufacturing.

Three, domestic firms make up the second-largest concentration of manufacturers in the zones. This is especially true in Calabar, where Nigerian manufacturers make up a third of the total, although nearly 30 per cent of registered manufacturers in Lekki are Nigerian as well. However, Kano has only a couple of Nigerian firms registered, while Ogun currently only has Chinese firms on site, although management states they have received interest from a number of Indian, Lebanese and Nigerian companies.⁵⁶ In Calabar and Lekki, Nigerian firms are manufacturers and traders in agroprocessing, furniture, packaging and medical goods manufacturing.

Figure 18: Firm origin in Nigerian zones

<i>Zone</i>	<i>Location</i>	<i>Founded</i>	<i>Firms*</i>	<i>Manufacturers</i>	<i>Chinese</i>	<i>Nigerian</i>
Calabar FTZ	Cross Rivers State	1992	63	33 (52%)	12 (36%)	11 (33%)
Kano FTZ	Kano State	1998	13	13 (100%)	5 (38%)	2 (15%)
Lekki FTZ	Lagos State	2007	75	17 (23%)	10 (59%)	5 (29%)
Ogun-Guangdong FTZ	Ogun State	2006	15	15 (100%)	15 (100%)	0 (0%)

*Registered firms: many in Lekki and Kano are not operational

Source: Author research

Four, the targeted markets for most of these manufacturers vary by firm origin. For Chinese and other foreign firms, the market focus appears to be first the domestic Nigerian market, with expansion to regional West African markets as a secondary interest. Nigerian firms, on the other hand, are making initial forays into exporting, with the primary target being regional as well. In the case of both foreign and domestic firms, establishment in the

⁵⁶ Ogun 1.

Nigerian market seems to be a prerequisite for international exporting; there do not appear to be any firms choosing to locate in the zones simply because it is a cheap production destination from which to serve international markets. Nor do these firms appear to be subcontractor firms producing for global brands or linked into larger manufacturing networks.

In sum, in contrast to assumptions that free zones are foreign enclaves populated by footloose multinationals catering to global markets, Nigerian zones are a mix of Chinese and Nigerian firms producing for Nigerian and regional markets. This is a reflection both of the advantages Nigeria offers in terms of its large domestic market and access to the Ecowas region, as well as its substantial disadvantages as a cheap production destination in terms of poor infrastructure and high costs.

Zone failures and firm responses

What is clear is that Nigeria's zone programme is not working for zone producers or state and federal governments. Investment levels are low, non-oil exports are minimal, and in many cases the small number of unrelated firms precludes substantial agglomeration benefits of clustering. The dismal prospects for Nigerian zones can be partially attributed to poor infrastructure delivery and a volatile policy environment. The non-Chinese zones suffer from many of the same infrastructural and policy burdens that the newer Lekki and Ogun zones face. Calabar still experiences regular blackouts and firms complain regularly of the costs of running diesel generators to compensate.⁵⁷ Both Chinese zones have no power links to the national grid at all, and all production is powered by temporary generators. Tinapa—a retail and trading free zone filled with empty shops and movie

⁵⁷ 'Calabar free zone spends over N4m on diesel per day', *Business Day*, 4 May 2009.

studios—has been a dismal failure after customs refused to honour new government regulations lifting limits on duty-free goods taken from the zone into the domestic customs territory.⁵⁸

And in many zones, there is poor integration between state and local investment priorities and zone activities, creating a situation where the zones are either neglected federal or private enclaves ignored by state governments—as in Kano—or subjected to capricious shifts in policy. In Calabar, five wood processing firms suddenly went out of business after the state government abruptly outlawed all logging in the state as well as transportation of raw wood products from other states into Cross River.⁵⁹ Similarly, in Ogun, several firms that processed recycled steel and metal products were shuttered after sudden legislation changes that made it unprofitable.⁶⁰ Minimal integration between federal, state and zone authorities creates a volatile and inhospitable environment for producers.

However, infrastructure and policy challenges are not the entire story. The previous section demonstrated the ways in which producers outside the zones are managing similar constraints successfully and making substantial profits. Perhaps equally important for producer firms inside Nigeria's zones is the mismatch between the pattern of production being pursued by free zone firms and that incentivised by the zone institution. This section makes it clear that foreign producers in Nigeria—even those locating in its free zones—are basing their expansion strategies on access to the domestic market. Although free zones now allow 100 per cent access to the domestic customs territory, in practice the zone institution itself is acting as an obstacle to the commercial goals of firms.

⁵⁸ 'Nigeria: Tinapa is Dying', *Daily Trust Nigeria*, 4 May 2011.

⁵⁹ 'Ban on logging: Cross River encourages corruption, says CFTZ', *Vanguard Nigeria*, 27 April 2012.

⁶⁰ Ogun 1.

The experience of one medium-size private firm from Guangdong operating in the Ogun zone since 2010 is representative in this regard.⁶¹ Hexing decided to invest in Ogun based on the recommendation of the manager's old classmate. It has a thriving high-quality leather business in China, and was interested in internationalising. Nigeria is the firm's first overseas investment destination. After extensive market research in 2010, management decided there was no demand in the domestic market for the high-quality leather products the firm produces in China. The company instead decided to manufacture candles and assemble fans, both products that it believed would sell easily in Nigeria. The local manager says this shift in production sector was not difficult. 'No, these kinds of manufactures are easy. We went back to China, figured out what machines we would need for them, imported them back and began producing.' This kind of agility based on the demands of the market seems to be very common among Chinese SMEs in Nigeria.

The company built and financed all its own factory construction and hauled in diesel generators as power sources. All decisions based on production and operations are taken by the head office in China, and the local management is young, relatively inexperienced and do not speak much English. The company employs five to 10 Chinese managers and up to 50 local workers, depending on production capacity, and plan to expand their production lines in the coming years. Both managers and workers work approximately 48 hours per week and the company says it has found it very difficult to identify and hire managers and workers with the necessary skills. Management characterises the relationship between Chinese and Nigerian workers as 'okay', but admit that they have had minor difficulties with culture and language, as well as employment regulations and

⁶¹ Information based on survey responses and follow up interview with general manager (Ogun 3). More casual conversations with two other managers as well as zone management indicated that Hexing's experience is consistent with that of the rest of the firms in the zone.

trade union issues. The company perceives its local competition to be other Chinese firms, not domestic ones, and most of its supply networks are in China at this early stage. However, it does source some materials locally and states that it hopes to expand links with local suppliers in the future in order to reduce the need for imports from China.

However, as is the case with many free zone firms, the company has encountered substantial problems with the customs authority, especially in reference to fan manufacture and assembly. Customs is unwilling to allow export of the finished fans into the domestic market, and thus production has ground to a halt despite assurances from Nepza, the state government, and the president's office itself that the issue will be addressed. The firm has identified a local distributor for their candles through informal networks. This relationship has worked out well and the company says it is happy with their growing national distribution network.

However, the problems with customs have contributed to a very suspicious and hostile attitude toward Nigerian state institutions at every level. Managers contend that state and federal regulations, trade policy and investment and employment law are very unclear to them. However, they also maintain that they are not interested in being provided with more information or clarity, nor do they think that organised domestic supplier programmes or a closer relationship with any Nigerian ministries, departments or agencies would help their business prospects.

The company states unequivocally that they have not been successful in Nigeria, that they would not recommend that any other Chinese companies invest there, and that if they knew at the start what they know now, they would not have made the decision to invest at all. However, despite this very negative attitude, managers state in equally strong terms

that they have no intention of leaving Nigeria, and in fact are still operating with a long-term investment horizon. They still plan to expand significantly in the next year, and when asked if they will still be in the country in 10 years, they answer unhesitatingly in the affirmative.

These narratives of very high costs and risks, a great deal of trouble with government institutions and regulations, and substantial financial losses in the start-up phase are in many ways similar to those by domestic and other expatriate firms discussed in the previous section. However, it is clear that the zone's capacity to ameliorate these hardships is constrained, not least because the zone institution itself places additional regulatory burdens on producers in regards to domestic market production. The final section turns to developer firms in Lekki, Ogun, as well as a number of other official and private industrial park projects in order to examine the ways in which firm characteristics as well as zone models affect their role as facilitators of Chinese industrial investment.

THE FACILITATORS: ZONE DEVELOPERS

As the last section demonstrated, Chinese firms are very active in Nigerian zones as investors and producers, despite the high costs and substantial obstacles that deter other investors. This section discusses the experiences and motivations of firms that have chosen to take on additional risk by making long-term capital-intensive investments in Nigerian manufacturing through the development of official free zones—like Lekki and Ogun—as well as substantial industrial park projects. It looks at the way company characteristics and experience shape both the decision to move from producer to facilitator, the nature of the projects themselves, and the ways different models of zone development help or hinder the goals of producer firms.

Official zones

Chapter five investigated in detail the relationships between Lekki and Ogun zone management companies and successive layers of formal and informal Nigerian institutions. The purpose here is instead to focus on the characteristics of the lead developers themselves—in this case the CCECC in Lekki, Guangdong Xinguang in Ogun, and Skyrun Corporation, which is building an industrial park inside Calabar FTZ—and the ways they shape project process and prospects.

The CCECC, the majority shareholder in the Lekki consortium, is a subsidiary of CRCC, one of China's largest central SOEs. The CCECC was founded expressly for the purpose of international contracting, and as a result it has significant overseas assets and projects all over the world. It has a larger number of branch offices in Africa than on any other continent, and is engaged in a variety of railway, road and bridge projects. The CCECC has a long history in Nigeria, having been active there since the 1990s, and is a contractor on a number of projects, including both the Lagos and Abuja light rail systems. It was also the primary contractor in the ill-fated railway rehabilitation deal negotiated under President Obasanjo. The firm's investment in the Lekki zone—first as a minority and now as majority shareholder on the Chinese side—is a departure from its usual project portfolio.

It is clear in Lekki's development, that the CCECC's construction experience shapes project priorities. There is a primary focus among zone management on infrastructure planning as a prerequisite to zone success, and Lekki's gatehouse, canteens, structures and roads are of high quality despite the paucity of firms on site. On one hand the zone

generates projects for the firm—CCECC received the contract for the gatehouse and, more recently, for a planned on site power plant.⁶² However, zone management insists that all construction work has been awarded based on a transparent, international tendering process, and the CCECC won these projects because its experience and equipment in Nigeria allowed it to submit the lowest bid. Other projects on site, like external walls, residential units and cooling systems, have been awarded to local and other international companies.⁶³

The CRCC's prominence in China, as well as the CCECC's portfolio in Nigeria, means that the Lekki zone has well-developed formal and informal linkages to the central Chinese state as well as to Nigerian federal and state governments. Former head of the CCECC and now managing director of the Lekki zone, Chen Xiaoxing, has met multiple times with the president, vice-president and federal ministers, and also has very good relationships with the Lagos State governor and ministers. Since a 2009 restructuring of the Lekki consortium made the CCECC/CRCC the primary shareholder, the zone has received much more oversight from CRCC head offices in China, with the CRCC president making a trip to the zone in 2012 and meeting with the federal executive in Abuja as well.

As discussed in chapter five, the Lekki zone benefits from much better planning and is much more integrated into state and federal infrastructure and investment architecture than the Ogun zone. There is a strong focus on getting the infrastructure right—port, air, road and power links to the zone are prioritised—in order to draw investors. The CCECC's size, stature and government ties give it many channels of influence—both government and corporate, formal and informal, in China and Nigeria—through which to address zone

⁶² Lekki 1.

⁶³ Lekki 1; Lekki 2.

challenges. However, with no industrial or manufacturing background and poor links to production hubs in southern China, it is not as well equipped to leverage production networks and personal connections to draw firms to the zone.

Guangdong Xinguang, on the other hand, is a provincially owned SOE and a new arrival to Nigeria. As a result it has weaker and more remote relations with Nigerian and Chinese central government institutions. President Jonathan made one visit to the zone in 2010, but otherwise the federal government has had little direct involvement with zone management or operations. As discussed in the previous chapter, party changes in recent state elections have led to a volatile and rocky relationship with the Ogun state government. In general, the zone authorities in Ogun seem more suspicious of both Chinese and Nigerian government oversight of their activities, and prefer to address issues with power generation, local communities and customs through personal negotiations rather than through official channels.

Guangdong Xinguang has less international experience and access to finance than the CCECC, but its origins in Guangdong province provide much better linkages to the manufacturing powerhouses of southern China. All of the firms in the zone are from Guangdong or Zhejiang provinces and were attracted based on China-based networks.⁶⁴ Production is the primary focus, rather than infrastructure. The roads are unpaved and everyone lives in temporary housing, but firms begin construction and production immediately. The zone is certainly less integrated into the Nigerian institutional fabric than Lekki, which creates more of an enclave mentality. All operating firms are Chinese—there are no domestic or other foreign producers—and Chinese managers and staff rarely leave the zone, citing security fears. There have been struggles between Guangdong

⁶⁴ Ogun 2.

Xinguang and firms in the zone, with both zone management and company representatives stating that the zone firms were unhappy with an internal matter but declining to define it.⁶⁵ At approximately the same time, there was an embezzlement scandal in China, and the former head of Guangdong Xinguang was brought up on graft charges,⁶⁶ but it is unclear if this had any effect on zone operations or reputation.

In addition to the Lekki and Ogun zones, there is another large Chinese firm developing an industrial park within the confines of the official zone programme. However, in this case, instead of applying for Nepza approval independently, Skyrun Corporation is building an industrial park within the federally owned and operated Calabar FTZ.⁶⁷ Skyrun is an overseas subsidiary of High Hope International Group, a provincial SOE from Jiangsu province in China. High Hope is one of China's top 500 companies and one of Jiangsu's top 10 largest after a merger and restructuring in 2010. It is primarily a trading group, which is branching out into real estate and industrial investment. Although it has traded outside of China for years, its development of an industrial park in Nigeria's Calabar FTZ is its first overseas production destination.

In 2006, the first phase of this industry park launched, with the opening of an air conditioning plant.⁶⁸ The expectation is that manufacturing activities in the industry park will ultimately include textiles, machinery and building materials in addition to home appliances. Despite locating in the free zone, Skyrun's market focus is the Nigerian domestic market: it has set up sales points in Calabar, Abuja, Lagos and Kano and offers

⁶⁵ Ogun 1; Ogun 2; Ogun 3.

⁶⁶ 'Former SOE chairman stands trial for graft, embezzlement', *Xinhua*, 12 October 2011.

⁶⁷ Abuja 6.

⁶⁸ 'Nigeria: China's Skyrun Commissions factory in Calabar', *Daily Trust*, 8 January 2006.

free installation services nationally. Its goal is to establish a complete chain of production, transportation, sale and service within Nigeria for home appliances.⁶⁹

In all three these cases, the firms are Chinese SOEs—one central and two provincial—and manufacturing is not their primary industry focus. The CCECC is a construction company; Guangdong Xinguang is an investment group with a commercial focus on overseas engineering and real estate investment; and Skyrun is a trading conglomerate, the shareholders of which include a number of provincial importers and exporters in food products, textiles and consumer goods. All are integrated into Nigeria's official zone programme, and thus benefit from a streamlined policy framework that incentivises producing and exporting for international markets. However, the firms that locate in all three zones are largely manufacturing companies from southern China with a primary interest in the Nigerian domestic market.

This creates an obvious tension between the goals of producer firms, which prioritise the creation of horizontal production networks to serve Nigerian and regional markets, and those of the zones, which incentivise vertical production linkages for exporting firms. Despite Lekki's success building strong links to local and national infrastructure development plans, Ogun's extensive firm networks in southern China and Skyrun's value chain organisation, all three developer firms in official zones are unable to facilitate better access to the domestic market. Zone policy legally allows 100 per cent of products produced in free zones to be exported to the domestic customs territory, but customs and regulatory issues effectively block domestic market access in many cases. In this context, perhaps developer firms building industrial parks outside Nigeria's official zones offer a better model for market-seeking producers?

⁶⁹ Skyrun Nigeria promotional materials.

Industrial parks

A number of other zone projects in Nigeria are proceeding outside of the official Nepza framework. These industrial parks are being developed by Chinese firms, and do not have access to the policy incentives and extraterritoriality of the official zone projects. They are instead subject to the country's general federal and state investment law. The three examples discussed here—Yuemei, Hazan and Golden Gate—are by no means exhaustive, but are representative of various pathways Chinese firms are taking as they move from producers to developers.

Yuemei Group is a privately owned textile-manufacturing firm from Zhejiang province. It first began trading in Nigeria—its first international investment destination—in 2000. In 2004, it built a textile factory in Calabar FTZ in order to circumvent trade restrictions on Chinese textiles in Nigeria and internationally. In 2008, Yuemei Nigeria began construction on a textile industrial zone in Ogun State in order to 'enable more Chinese textile enterprises to make their way to doing business abroad'.⁷⁰ According to company promotional materials, at the time of writing the zone included 20 Chinese enterprises, including spinning, weaving, dyeing and garment manufacturing activities.

Since it began trading in Nigeria in 2000, Yuemei has expanded its sales focus to include Russia, the Middle East, Congo, Dubai, Cameroon, Angola, Ghana and Tanzania. In 2010, Yuemei acquired CMDT in Mali in order to localise its cotton supply and reduce the need for Chinese imports. 'Yuemei has gradually created a complete production chain of

⁷⁰ <http://www.chinayuemei.com/en/productsinfo.aspx?id=187>.

spinning, weaving, embroidery, knitting and garment⁷¹ in Africa. Reportedly, Yuemei's Nigeria zone has faced substantial hurdles with location choice, attracting workers and negotiating relationships with state and local regulations and institutions.⁷² Ogun managers state that 'they don't have to deal with customs, but they also have very big problems, because they have to deal with everyone else always shutting them down and asking for something'.⁷³

Hazan's story has much in common with Yuemei's. It is a private shoe-manufacturing firm from Wenzhou, Zhejiang province. Since 2000 it has been expanding its overseas market share aggressively, with 80 per cent of revenue now coming from international sales. By 2004, it had established a healthy presence in the Nigerian market; however, new trade restrictions imposed that year made importing leather shoes to the country illegal. Hazan's owner, Wang Jianping, instead decided to establish a production base in Nigeria, and its first production line went into operation that year. Now, the company has four active assembly lines and manufactures two million pairs of shoes each year for the domestic market. It has invested in quite a bit of training for local employees and managers. And Wang states that it has increased its local sourcing of materials from three to 20 per cent.⁷⁴ It has signed a memorandum of understanding to build a factory in the Lekki zone but has not begun construction, and a Hazan factory in the Ogun zone employs more than 500 local people. In 2009, Hazan began construction on an industrial park of its own in Ogun State. This park is not yet operating, but reportedly will include other industries in addition to leather shoes.

⁷¹ Yuemei promotional materials.

⁷² Beijing 10; Beijing 11.

⁷³ Ogun 2.

⁷⁴ 'Shoes adopts an innovative international strategy of brand building in Africa', *Chinafrica*, Vol 3, June 2011, available at http://www.chinafrica.cn/english/company_profile/txt/2011-06/01/content_360923.htm.

The Golden Gate Group, owned by entrepreneur Hu Jieguo, has taken a different route to industrial zone development. Hu's father built a thriving textile business in Nigeria in the 1970s and encouraged his son to take it over. Instead, Hu moved to Lagos in the 1980s and started a hotel and tourism business. In the 1990s, his company built the Golden Gate Hotel and his business interests have since expanded to include 11 subsidiaries involved in construction, textiles and hotel and restaurant management.⁷⁵ He has lived in Nigeria for 30 years and has cultivated close ties with local, state and federal authorities. In 2001 he was awarded a chieftainship of a local government area, he was special adviser to the president during the Obasanjo administration, and at home in Lagos he enjoys a government-issued police escort so that he can avoid sitting in traffic.⁷⁶ Golden Gate's next big investment project is the construction of an industrial park, with the aim to draw Chinese manufacturers to Nigeria to produce for the local market.⁷⁷ It is still in the planning phases.

In the case of these industrial parks, all of the developer firms are private companies. Both Hazan and Yuemei are manufacturers from southern China that began trading in Nigeria in the last decade because of the large market. For both, the decision to develop production facilities in Nigeria was pushed by their commercial trading interests—in response to changes in Nigerian import policy in Hazan's case, and by desire to circumvent international trade restrictions on Chinese textiles in Yuemei's. Golden Gate's experience is different, as the firm grew much more like a domestic Nigerian company, with strong political connections and a diversified structure. However, all three companies have identified the Nigerian manufacturing sector as a strong commercial proposition going

⁷⁵ <http://english.cri.cn/4406/2009/09/22/2062s517616.htm>.

⁷⁶ Beijing 20; Serge Michel and Michel Beuret, 'China safari: on the trail of Beijing's expansion in Africa', (2010).

⁷⁷ Beijing 20.

forward. All plan to provide a platform that facilitates the entrance of Chinese producers to produce for the local market.

Figure 19: Three models of manufacturing zone development in Nigeria

	Government Free Zones	Chinese ETCZs	Industry Parks
Policy Framework	Federal free zone policy: duty free imports; extraterritoriality	Federal free zone policy: duty free imports; extraterritoriality	State investment law
Government Actors	Federal government	Federal government State governments Chinese government	Minimal state government
Active Firms	Open to all, majority Chinese and Nigerian firms	Open to all, majority Chinese firms, some Nigerian and other foreign	Chinese
Market focus (policy)	International	International	Domestic
Market focus (Firms)	Domestic and regional	Domestic and regional	Domestic
Advantages	Better coordination of federal agency oversight (i.e. customs issues/NEPZA oversight not as contentious)	Strong Nigerian and Chinese state support Good investor networks Government and developers share infrastructure costs Scope for variety of formal domestic linkages	Avoids customs issues Alignment between policy and market focus of firms Developer firms with both local knowledge and good investor networks in China
Challenges	Poor investor networks No synchronicity between federal and state policy Location and support politically motivated Government bears infrastructure costs Little success over last two decades	Commercial viability not assured Varying levels of state government capacity Complex centre-state political relationships Misalignment of policy framework and firm goals	Plurality of regulatory environment Poor links to domestic producers and state industrial planning More prone to enclave status Responsible for all own infrastructure needs

Few of these industrial parks are operational yet, and it is unclear the extent to which these private zones risk becoming Chinese production enclaves without significant linkages to the domestic economy. The degree to which they will facilitate any kind of technology transfer, training and increased integration with domestic suppliers and producers will likely rely on the perspective and capacity of the developer firm itself. Yuemei, Hazan and Golden Gate all have considerable experience in Nigeria, and have demonstrated a commitment to training and localisation. However, all three firms have also stated

explicitly that the primary function of the zones is to draw more Chinese firms to Nigeria and the parks do not have any sort of institutional mandate to support the development of local firms and producers. Thus, while these industrial parks may better suit the goals of producers, they are less able to institutionalise linkages between state industrial policy goals and foreign manufacturing investment.

The preceding discussion—of the Nigerian manufacturing environment in general, the characteristics of Chinese firms and their operations both inside and outside Nigeria’s official free zone programme—makes it clear that in the short-term the real driver of Nigerian production will be its domestic market. In terms of cost and formal and informal incentives, it is the only profitable avenue for manufacturing. Almost all manufacturing firms surveyed here—both foreign and domestic—are attracted first and foremost by domestic production, with a secondary interest in regional markets. However, Nigeria has a sensible interest in supporting export growth and channelling foreign capital and technology in a way that encourages employment growth and structural change without threatening domestic producers. Within the context of intensifying official zone development on the part of the federal government, and a trend toward industrial park development led by Chinese manufacturers, the question becomes: What is the best policy framework for supporting the goals of these foreign producers, on the one hand, and integrating them into Nigerian industrial planning goals, on the other?

Zones, markets and insertion into production networks

Chapter two introduced the chain and network concept as a framework for examining the ways in which Chinese overseas ETCZs operate within the geography of global production. However, it argued that a more nuanced examination of the industrial policy

context of home and host countries, as well as the producing and developer firms, and the end markets for goods was necessary in order to contribute to an analytically robust assessment. The preceding analysis makes clear that neither the firms nor the markets that shape these patterns are as expected, and thus the geography of production looks far different than it would at first appear.

An investing firm's origin, size, level of international experience and productive sector shape its priorities in terms of market and expansion strategy. For the zone institution to work effectively, it needs to serve both the diverse goals of investor firms as well as the industrial goals of the Nigerian state. Of course, the commercial goals of firms and the industrial goals of states do not always align. However, chapter four argued that there are clear advantages for Nigerian industrialisation associated with supporting the trend towards localised production and attracting foreign manufacturing investment and technology. This section discusses the emerging pattern of production in Nigeria and the strengths and shortcomings of different types of zone models in aligning the goals of foreign investors, local producers and Nigerian industrial development.

Nigeria's zones are not working for firms because there is a fundamental disconnect between the assumptions that guide policy and the reality of firm needs. The Nigerian policy and regulatory environment markets its zones as cheap production platforms for exports to international markets. For industries in which Nigeria has an international comparative advantage—like primary product processing, oil and gas exports and related refining, logistics and services—it makes sense for local and foreign firms to take advantage of the extraterritorial nature of the zone institution and insert into vertical global production chains in this way.

However, for other types of manufacturing sectors, the incentives for firms do not quite add up. Traditionally, SEZs are industrial policy institutions designed to operate outside of a country's domestic customs territory in order to facilitate the production of goods for export. However, the case for Africa in general, and Nigeria in particular, as the world's next export platform is shaky at best. High input costs, poor infrastructure, complex regulatory regimes and uncertain political environments mean that—at least in the short-term—international firms looking solely for the next cheap production destination are unlikely to end up in Calabar, Lekki or Ogun.

Chinese and other manufacturers are coming to Nigeria. But the preceding discussion demonstrates that they are pursuing a different production strategy than assumed by the zone regime, one that is focused on domestic and regional markets. These firms are not in most cases transferring particular segments of an established global production chain to Nigeria—making Guess clothes for American consumers, for example. Rather, they are attempting to establish new production networks for the Nigerian market. This is not linking Nigeria into vertical production chains, but transplanting the entire chain and embedding it horizontally in Nigeria. Instead of Chinese manufacturing FDI pushing a state strategy of export-led growth, Nigerian trade protectionism combined with push factors in China are creating an incentive structure that drives FDI-led localised production.

Thus, for the Chinese firms that are locating in Nigeria's zones, it is access to local consumers that is of uppermost concern. The question then becomes whether locating in the zones provides advantages over locating elsewhere in Nigeria, including the growing number of Chinese-developed industrial parks. At the moment, the preferential policy environment that makes the Nigerian zones 'special' is in practice acting as a hindrance. It

is ironic that customs issues at the zone borders are the main obstacle for firms, since the majority of those firms have no interest in exporting anyway. For many of the companies in operation, this de facto restriction of access to the domestic market has caused production to grind to a halt, and for those thinking of investing, it has made them think again.

For market-seeking firms, unofficial industrial parks may offer a better option. However, the Chinese firms that are developing industrial parks elsewhere in the country—without the preferential policies of the official zones—are running into similar political and institutional challenges. Although they don't have to grapple with customs, they instead have to deal with a large number of federal, state and local agencies' requirements and agendas. Additionally it becomes much more difficult to facilitate integration between these producers and domestic firms and state industrial goals.

For the Nigerian state, the question should be how to align zone policy with investor needs as well as its own industrialisation goals. Nigeria has sensible reasons for pursuing growth in exports as part of its industrialisation strategy; its de facto industrial policy is also incentivising localised production with haphazardly applied import-substituting trade policy and backward integration planning. With more attention to policy and planning, zones can be a good tool in terms of linking these two strategies. The general assumption behind export-led growth in reference to zones is that spillover effects from zones—and their attendant links to global production and technology—transfer into the domestic economy and provide a catalysing effect. In other words, the export sector drives domestic structural change.

However, in Nigeria's case, the incentives for manufacturing of consumer goods operate in the opposite direction: success producing for the domestic market drives expansion into export sectors. Thus, the Nigerian zone regime would do better to emphasise localisation of production chains for domestic consumers and clustering advantages of zones for linking foreign and domestic firms, on the one hand, and, on the other, enhancing access to regional markets—right now products produced in zones are not included in free trade agreements in the Ecowas region—and supporting the shift from domestic production to exporting behaviour. Dividing zones into two sections geared towards export and domestic markets is one example (used in China) of how to do this. The former section operates under the extraterritorial structure of federal free zone policy, the latter under general state investment law. Firms can register in the section that serves their needs, but all firms benefit from zone infrastructure as well as the agglomeration effects of proximity. The conclusion will address suggestions for more effective Nigerian zone policy in more detail.

CONCLUSION

This chapter focused on the experience of Chinese firms in Nigeria, and examines their characteristics, goals and behaviour both inside and outside Nigeria's official zone programme. It argued that the political economy of production in Nigeria, combined by substantial infrastructure constraints, creates a high-cost environment with substantial barriers to entry. However, the country's large market makes manufacturing very lucrative for the firms that do succeed. This incentivises the rise of larger, capital-heavy, diversified firms with a long-term investment horizon and strong ties to state and federal political hierarchies. Chinese firms that have been successful in the country conform to this trend. This chapter demonstrated the substantial role that Chinese firms play in Nigerian official

zones—even those that are not managed by Chinese developers like Lekki and Ogun—and maintains that in Nigerian zones, foreign manufacturing is actually Chinese manufacturing. This trend is reinforced by the movement by many Chinese producers into industrial park development, with the aim of attracting more Chinese firms.

However, Nigerian zones are not working because of a fundamental disconnect between the policy framework—which encourages insertion into established vertical production networks serving international markets—and the actual priorities of manufacturers—the establishment of horizontal, localised production networks to serve domestic and regional consumers. In order to make Nigerian zones effective, policymakers need to rethink the geography of production and the ways in which they can align the goals of foreign and domestic manufacturers with the state’s priorities in terms of industrial development. The concluding chapter explores the implications of this shift in perception for Nigerian industrial strategy, and considers the relevance of these findings for African industrialisation more broadly.

Conclusion

**CHINA, SPECIAL ECONOMIC ZONES AND THE LOGIC OF AFRICAN
INDUSTRIALISATION**

Chinese firms going to Africa should reshape their business models, that is, from the model that imports raw materials back to China as manufacturing inputs, which are eventually exported to the rest of the world, to one that acquires resources, produces and sells products locally. The new model means further increasing GDP and improving employment in African countries. In this way, we may reduce China's GDP, but can enlarge overseas assets and benefits.¹

There has been a fundamental shift in the discourse on Africa in recent years—from global basket case to frontier investment destination. The ‘Africa rising’ furore has only intensified since the 2008 financial crisis crippled developed countries, and economists, multinationals and investors went hunting for new bright spots in an otherwise dismal global economy. Six of the 10 fastest-growing countries over the last decade were in Africa. Demographic trends mean that the continent has the youngest and most quickly growing population in the world. A commodities boom driven by Asian demand has

¹ Xiao Gang, Chairman of Bank of China, quoted in ‘Chinese companies should change their business model in order to boost benefits of cooperation in Africa’, *China Daily*, 17 May 2012.

generated substantial new revenue for many resource-rich African countries. However, across the continent, the sectors that have seen the most robust growth are not the extractive ones, but consumer industries as well as infrastructure, manufacturing and technology.

This change in the macroeconomic picture of the continent has spurred a buzz over new ‘lions on the move’,² the emerging African middle class,³ as well as some uncomfortable reflection on the need for a new kind of engagement with the continent for traditional development partners.⁴ Yet, the unbridled optimism is tempered somewhat by those who point out the weakness of the statistical data upon which these African growth assumptions are based.⁵ In terms of human development indicators and business climate surveys, African countries still disproportionately populate the bottom of the list. And there are always concerns that new sources of capital will continue to benefit political and economic elites without bringing broad-based social or economic change for the population at large. Regardless, Africa’s growth story is at the very least an uneven one, with 54 countries with varied endowment structures, political contexts and economic prospects.

These competing discourses are quite prominent in discussions of Nigerian economic change as well. After an expected rebasing of its GDP later this year, estimations of the size of Nigeria’s economy are expected to increase by 40 per cent, putting it nearly on par with South Africa’s in terms of size.⁶ It was labelled one of Goldman Sachs’s ‘Next 11’

² McKinsey Global Institute, Lions on the Move: the progress and potential of African economies (McKinsey and Company, 2010).

³ African Development Bank, The Middle of the Pyramid: dynamics of the middle-class in Africa (AFDB, 2011).

⁴ Tom Cargill, Our Common Strategic Interests: Africa’s role in the post-G8 world (London: Chatham House, 2010).

⁵ Morten Jerven, Poor numbers: How we are misled by African development statistics and what to do about it (Ithaca: Cornell University Press, 2013).

⁶ Renaissance Capital, Nigeria Unveiled: 36 shades of Nigeria (RenCap, 2013).

biggest economies of the 21st century.⁷ However, life expectancy in the country is only 51 years, and nearly 70 per cent of the population lives on less than \$2 per day.⁸ In 2011 Nigeria scored a dismal 2.4 on Transparency International's Corruption Index,⁹ and the country was ranked 133 out of the 183 countries included in the World Bank's 2011 Ease of Doing Business Survey.¹⁰ And while Nigeria's very large, very young population may be a demographic boon, with hopelessly stretched infrastructure and social services, and a youth unemployment rate estimated at over 50 per cent it also presents a substantial challenge.

Despite these obstacles, both in Nigeria and across the wider African continent there are visible trends towards rapid growth, reduction in conflict, population expansion and large-scale urbanisation. There is a welcome new emphasis on infrastructure development and intraregional integration and trade. However, what is missing in policy, government and multilateral forums is any sustained discussion of structural change in African economies pushed by industrialisation and production. The creation of a manufacturing base is essential both in generating large-scale employment for a rapidly urbanising population as well as in catalysing a process of technological upgrading. With few exceptions, every advanced economy in the world has relied on increasing industrial complexity as a driver of economic transformation. However, against the backdrop of widespread liberalisation of trade barriers, heightened global competition and crippling infrastructure constraints, manufacturing and industry have been largely ignored in the African context for decades. This is beginning to change.¹¹

⁷ Jim O'Neill, et al, 'How solid are the BRICs', Global Economics Paper No: 134 (2005).

⁸ World Bank Development Indicators, World Data Bank, various years. Available at <http://databank.worldbank.org>. Retrieved 15 January 2011.

⁹ Corruption Perception Ranking, Transparency International 2011, available at <http://cpi.transparency.org/cpi2011/results>. Retrieved 15 January 2011.

¹⁰ World Bank, *Doing Business: Nigeria* (Washington DC: World Bank, 2012).

¹¹ Page.

Deepening partnerships with other emerging economies, led by China, has been one of the seminal trends of the past decade in Africa. Buttressed by rapidly expanding trade flows and substantial migration, south-south FDI has risen precipitously. For the first time, developing countries now receive more FDI than advanced economies. One-third of FDI flows to Africa in 2010 originated in other developing countries. And it is not just the source of capital that is notable, but the composition. Nearly three-quarters of African greenfield FDI projects from BRICS investors are in manufacturing and services rather than resources.¹² Thus, contrary to how it is often framed in media and policy circles, this is not simply a scramble for Africa's natural resources, but one for its markets. And investors appear to see opportunity in African manufacturing—a sector that has long been dismissed as uncompetitive in a liberalised global economic environment.¹³

These new sources of FDI, and their focus on African markets and consumers, are indications of how the geography of global production and consumption is changing. In the Nigerian case, this thesis finds that assumptions regarding the motivations of Chinese investment, the political economy of manufacturing, and the patterns of production and consumption incentivised by the country's industrial zone projects are not always accurate. These findings raise important questions for the Nigerian state in terms of supporting the type of investment that fits with its own developmental goals, linking investment goals to industrial planning and ensuring that foreign capital and expertise enhance opportunities for domestic populations rather than crowd them out.

The purpose of this concluding chapter is to expand on the implications of these arguments for Nigeria's industrial strategy and to reflect on their applicability to the

¹² UNCTAD, 'The rise of BRICS FDI and Africa', *Global Investment Trends Monitor Special Edition*, March (2013).

¹³ It is worth noting that emerging market investors are not the only ones recognising manufacturing opportunity on the continent. Western firms long active in the region—like P&G, Unilever, and GE—are also increasingly producing locally.

broader logic of African industrialisation. The next section gives a brief recap of the original contributions of the dissertation to research on China and Nigerian industrialisation, before moving on to the practical policy implications of this research. The final section reflects on the applicability of this project to African industrialisation more broadly, and the role that Chinese FDI and SEZ projects might play in supporting regionally focused productive sector development.

CONTRIBUTION OF THE THESIS

This dissertation approached debates over African industrialisation and foreign investment from the standpoint of Chinese FDI in Nigerian production. It makes both original conceptual and practical contributions to research on the interface between foreign investment and domestic economies. It argued that SEZ projects—in this case those being developed by Chinese firms as large-scale FDI projects with both Chinese and Nigerian government support—are industrial policy tools structured to incentivise the insertion of exporting firms into global production networks serving international markets. However, a closer investigation into the domestic motivations for Chinese OFDI, the production environment in Nigeria and the behaviour of internationalising firms indicates that a different pattern of production is emerging in the country, one predicated on localising production for domestic and regional markets. These findings are at odds with the conventional wisdom that informs national policy and planning for both SEZs and the country's industrial economy in general, and represent a substantial contribution to research on African industrial development.

Theory: The state-firm-society nexus

This study sought to provide new theoretical tools with which to study both the economic and developmental prospects of Chinese industrial zone development as well as manufacturing FDI to Africa more generally. It argued for the need to move beyond ideologically driven policy debates over economic liberalisation versus protectionism to a more nuanced examination of the political dimension of economic change. Bringing in the role of the state, the expectations of firms, and the ways in which these actors operate in a particular societal context revealed substantial shortcomings in assumptions regarding the prospects of zone projects and the trajectory of African industrial development.

Analytically, the thesis conceptualised the SEZ institution as a transnational industrial policy tool rather than one of international trade. As such, it originates in a particular home country context, is anchored in the host country, and is populated by a host of foreign and domestic actors. This model allows for the inclusion of origin-context effects and anchor-context effects—in this case Chinese and Nigerian economic and political motivations—in the analysis. It also revealed the ways in which the institution itself interacts with various policy and institutional layers as it stretches between home and host country. Finally, it addresses the actors—namely, firms—developing and populating the zones, and their linkages to home and host environments as well as their market orientation. This innovative analytical structure encourages a multifaceted and nuanced exploration of the ways in which international trends and actors impact upon the particular political economy of Nigerian production.

This approach divorces the catalysing potential of zones from the levers of economic liberalisation in theoretical terms. This opens up interesting new lines of inquiry in terms of balancing the needs of states, those of firms, and those of society in zone policy formation. Reframing zones as industrial policy institutions shifts the analytical discussion to linkages between state planning and FDI policy; it introduces idea that firms are not fungible, and different origin contexts may translate into varied channels for of FDI spillovers; and it posits that the socio-political context of the anchor country matters significantly in terms of assessing the possibilities in terms of policy formation and implementation.

From the standpoint of the Flying Geese framework, this opens additional analytical space for the ways particular linkages between states, firms, and societies facilitate or hinder the prospects for structural change and catch up industrialisation. It interrogates the roles of these actors in facilitating the transmission and absorption of FDI: how effectively the state uses it to finance learning and support industrial upgrading, how foreign investing firms and domestic firms interact, and whether investment provides opportunities for education, training and employment for local communities.

Within this framework, the catalytic role of Chinese manufacturing FDI is still very much an open question. The prospects of economy-wide transformation led by Chinese ‘leading dragons’ are likely significantly overblown. And even if the origin factors—in this case, China’s shedding of industrial capacity—incentivise the transfer of large numbers of firms and production processes to Africa, the extent to which they will push substantial local industrial development has a significant political dimension. The zones are still in the very early stages of operation, but the findings of this thesis suggest that the institution as currently conceived will be unlikely to deliver on these types of developmental promises.

Taken together, they point to four general arguments about Chinese motivations, Nigerian political economy, institutional linkages and the emerging pattern of productive behaviour.

China: industrial policy as foreign diplomacy

Chapter three explored the home country motivations for China's overseas zone programme within the context of Beijing's outward FDI policy and institutional framework. It argued that in addition to the expected emphasis on resource acquisition and trade facilitation abroad, there is a tremendous OFDI policy focus on encouraging overseas manufacturing investment. Domestic economic restructuring is driving a process of institutional repurposing, as China takes the tools it developed to manage incoming FDI and repurposes them to facilitate its emerging role as FDI exporter. The same types of pressures that drove the development of China's first SEZs—to engineer domestic economic transformation as well as to manage risks associated with increased global integration—are pushing the expansion of the overseas zone programme.

Thus, the Chinese government has both domestic and foreign policy reasons for lending official support to manufacturing FDI to Africa. In addition to the incentives created by industrial upgrading at home, it also reduces trade frictions associated with cheap Chinese exports by exchanging a Made in China stamp for a Made in Ethiopia one. Finally, localising production for African consumers addresses African concerns with an asymmetrical trade relationship with China—wherein African countries export primary resources and import manufactured goods. ETCZs claim to contribute to Africa's long-term industrial development by catalysing local production, incentivising technology transfer, and providing large-scale employment. They thus attempt to play a dual role: as

industrial policy tools in support of China's domestic restructuring on one hand, and as development institutions of foreign diplomacy on the other.

In sum, China's ETCZ programme has a strong strategic element rooted in domestic economic planning. However, the overseas zones are qualitatively different from China's domestic zones in two important ways. First, as this institution has 'gone global', its domestic economic goals have been overlaid with those of foreign diplomacy. This puts additional pressure on China to ensure they are successful as a developmental initiative, while at the same time requiring Beijing to cede much of the control over their success to host countries and profit-seeking firms. Second, the ETCZs are structured as FDI projects, where developer firms take the majority of risk as well as management control, while Beijing's role remains primarily supervisory. Thus far, many official zones have been slow to attract investors due to a combination of factors: high leasing costs, poor infrastructure delivery, volatile policy and institutional environments. This calls into question the viability of the ETCZs as commercial ventures and thus threatens the long-term commitment of the developer firms, regardless of Beijing's foreign policy pressures.

Beijing is constrained in the extent to which it can manage or control the actions of its companies and citizens abroad. This is increasingly clear, from the slow-moving ETCZs to the foreign policy headaches over illegal gold mining in Ghana and legislation in a growing number of African countries restricting migrant petty traders from China. China's Africa engagement is becoming increasingly diverse and diffuse: from centrally owned SOEs engaged in resource acquisition, provincial SOEs building industrial parks, private firms of every size engaged in manufacturing, retail and services, to the growing number of individual entrepreneurs, traders and migrants. Each of these groups seeks different opportunities and presents different challenges to both China and the host country.

Nigeria: finding the ‘real’ industrial policy

The China-Nigeria relationship is characterised by this multi-level engagement. The activities of Chinese firms range up and down the value chain and across traditionally foreign-dominated sectors like oil and gas as well as traditionally indigenous ones like petty trading and light manufacturing. Thus, the impact of ‘China’ on Nigerian production will change very much depending on the angle from which it is viewed. Certain dimensions of China’s role in Nigeria—especially regarding the micro-level impacts of the trade relationship between the two countries—hinder Nigerian productive prospects. Other dimensions—like manufacturing FDI—may support or catalyse structural change. However, this depends very much on an understanding of Nigeria’s productive economy and the ways in which Chinese actors are inserting into it.

Chapter four engaged with Nigeria’s political-institutional environment and the ways in which it has shaped a particular political economy of production. It emphasised historic debates over foreign versus domestic ownership of assets, financing industrial development and the role of the state in economic change, and demonstrated their continued resonance in modern Nigeria. Entrenched regional patterns of inequality as well as increasing political pluralism and instability necessitate an emphasis on political and geographical considerations in national economic planning. These competing priorities at the federal level—between the economic project of industrialisation and the political project of national stability and consolidation—have created a political economy where formal mechanisms of economic change vie with informal mechanisms of political patronage.

Within the context of investment, trade and industrial planning, this means that there is effectively a *de jure* policy environment and a *de facto* one. The former is found in national policy and strategy documents, and is increasingly technically sophisticated and aligned with the international liberal policy consensus. It prioritises liberalised trade, free foreign ownership of assets and an internationally competitive business environment. The latter uses a different logic to ensure that productive assets remain in Nigerian control and manipulates the policy environment to protect well-connected domestic industrialists and dispense state support to particular projects and sectors. Its tools are tariff and policy waivers, the structuring of state contracts and tenders and targeted use of import restrictions and backwards integration initiatives.

At times, this ‘real’ industrial policy has proved effective in picking winners—as in the case of the cement industry—although the opacity of informal manoeuvring contributes to an unpredictable investment environment. Often these parallel regimes indicate an implementation gap caused by corruption, poor state enforcement capacity or tension between reformers and the old guard. But sometimes they suggest situations where actual state priorities differ from the received wisdom drafted into policy documents with support from multilateral actors. The use of traditional industrial policy tools in an international environment hostile to protectionism of any kind can be viewed as an example in this regard.

Zones: institutional layers and linkages

The second half of the thesis moved from arguments related to home and host country environments to the ways in which zones and firms behave as they move between those environments. Chapter six explored the institutional linkages between the Lekki and Ogun

zones and various layers of international, federal and sub-national policy, bureaucracy and government. By characterising the zones' relationship with the local community (the agitators), the state government (the pivot), federal institutions (the enforcer), and Chinese state and non-state actors (the supervisor), it was able to assess diverse patterns of linkages and channels of communication between the zone and various strata of the home and host countries. It argued that linkages between the zone and local and state institutions tend to further integrate the zone into the Nigerian economy, whereas those between the zone and federal institutions and Chinese actors tend to enforce the borders between them. Both are necessary for a successful free zone programme, the former to create horizontal linkages between the domestic economy and the zone and the latter to build vertical ties between the zone and the international economy.

However, the main contribution of this chapter to a broader understanding of zones as development catalysts is in highlighting this overlooked role of sub-national institutions in facilitating zone integration—or horizontal linkages—with domestic firms, policy and planning. Especially central in the case studies here is the role of the state government—the stable and activist one in Lagos versus the less involved administration in Ogun. In Lekki, the zone is well integrated in state infrastructure and development planning, marketed enthusiastically by the state, and multiple formal and informal channels exist between the zone and successive layers of Nigerian and Chinese institutions. In Ogun, the zone is much more institutionally isolated, which contributes to a tangible enclave mentality and reliance on informal and piecemeal responses to conflict resolution.

Implicit in this analysis is the argument that different institutional layers have different strengths. Federal government enforcement and oversight are necessary in regards to the zone's extraterritorial stature and its export and trade roles. Enhancing these vertical

linkages include tasks like streamlining border and tariff issues, integrating national economic priorities with zone policy, contributing to large-scale infrastructure links between zones and borders, and mediating troubled relationships with federal agencies like customs. However, state and local institutions are likely better suited to tasks that reinforce horizontal ties, such as establishing supplier and distribution networks, ensuring backward integration, building relationships between universities or polytechnics and the zones, among others, and facilitating host community relations. The federal role will contribute to zone success as an export engine and revenue generator; the sub-national one will enhance the zone's success as a developmental catalyst. This raises questions regarding devolution of authority to sub-national levels and allowing increased policy agility in order to compensate for shortcomings in either state or national capacity. This will be returned to in the next section.

Because the zones under study are still in the preliminary stages of development, firms locating inside them have not yet established many effective linkages with local suppliers, competitors, distributors and other domestic firms and institutions. For this reason, and due to the difficulty of collecting firm level data from Chinese firms outside of the two ETCZs, this thesis does not attempt to analyse the articulation of horizontal linkages at the firm level. As discussed in the introduction, this is one of the limitations of this study. However, horizontal linkages between zone firms and domestic enterprises provide rich possibilities for further investigation as the zones mature and seeks to make good on its promise of domestic industrial catalyst.

Firms: vertical versus horizontal patterns of production

Overwhelming institutional and infrastructure challenges should conspire to make Nigerian manufacturing uncompetitive and unattractive for international actors, and certainly this has been the perception in policy circles. However, a closer look at firm behaviour indicates that some things are going right for the country's producers. Chapter six discussed how Nigerian political economy—and the regulatory and bureaucratic burdens it presents—combines with Nigeria's severe infrastructure constraints to create a manufacturing environment with very high barriers to entry. However, the country's massive population translates into very high profit margins for those who do succeed. This incentivises the rise of diversified firms with robust connections to state and federal political elites, the ability to provide for their own power and infrastructure needs, and a long-term investment horizon. Successful foreign and domestic firms largely conform to this trend—including established Chinese companies. They say that Nigerian manufacturing is 'the best kept secret in Africa'. What accounts for this discrepancy between the perception and reality of Nigerian manufacturing?

Nigerian manufacturing is uncompetitive in a global productive environment focused on international markets, and likely will remain so in the short-term. However, the primary driver of both foreign and domestic production in the country is not international demand, but domestic and regional market demand. Market-seeking firms—led by Chinese and other emerging market actors—are increasingly shifting production activities to Nigeria in order to more efficiently serve these consumers. Chapter six demonstrated the dominance of Asian manufacturers in Nigeria's official zones—including non-Chinese-developed ones. It also explored the strategic expansion of experienced Chinese producer firms into

industrial park development, with the goal of attracting new Chinese arrivals. It argued that the goal of Chinese manufacturers in Nigeria, including those in the country's zones, is not to secure a cheaper production base for labour-intensive tasks in globalised production networks, but rather the establishment of new, localised production networks to serve domestic and regional markets.

These trends seem to point to increased opportunities for production in Nigeria for both domestic and foreign firms, but Nigerian zones—both Chinese- and state-developed—have largely been unable to attract and retain substantial manufacturing investment. In terms of manufacturing, Nigerian zones are failing because of a fundamental disconnect between the policy framework, which encourages insertion into established vertical production networks serving international markets, and the actual priorities of manufacturers—the establishment of horizontal production networks to serve domestic and regional consumers. The zones seek to incentivise export production for foreign firms with a secondary focus on creating linkages with the domestic market. However, in the context of Nigerian production, the incentives for firms operate in the reverse direction. Both foreign and domestic firms seek to establish local market share first, then begin exporting to regional markets and, finally, potentially to international ones. The national policy focus on export-led growth obscures the real engine of Nigerian production: domestic and regional markets—and the ways they can drive industrial change in the country.

Taken together, the arguments above point to an emerging geography of production wherein the reordering of global networks, structural change in China and changes in African economies combine to incentivise localised production for domestic consumers. The incentives all point in the same direction—towards producing goods and services in

Africa for Africans. What remains is aligning policy, practice and perception in a way that streamlines and supports productive behaviour. This suggests a potential strategy for Nigerian industrial development based on FDI-driven domestic and regional industrialisation. How might this strategy look, and what role might Chinese FDI and SEZs play?

IMPLICATIONS FOR NIGERIAN INDUSTRY

In the Nigerian context—with its huge population, regional trade networks, and maddening infrastructure and political challenges—there are two distinct ways production is being organised. For our purposes, these have been labelled ‘vertical production’ and ‘horizontal production’, and can be broadly differentiated by end market. The findings of this thesis together suggest a compelling argument for an expansion in policy focus from support of the former to facilitating the latter.

Vertical networks are the familiar commodity chains wherein segmented production functions—from resource extraction through processing and manufacture of final goods—are carried out by internationally dispersed firms within a chain governed by a lead (often Western) multinational. A stylised geography of this type of network is taken for granted: primary resources are sourced from least developed places, like Africa; manufacturing, processing and packaging often occurs in cheap middle-income countries like the production centres in Asia, and the end markets for goods are the consumption hubs of the developed world. For low-income countries and their developing firms, the goal is to insert into this production network where comparative advantage allows, and then upgrade skills, logistics and capacities to move from lower-technology tasks to higher-technology tasks within the international production chain.

Theories on export-led growth—which have become increasingly popular following the success of Asian economies in pursuing this strategy—rely on this understanding of global production and commerce. And for primary sectors—agriculture and extractive industries—the value and applicability of this model is clear. Thus, for oil, cocoa, palm oil and leather the policy emphasis should be on enhancing vertical linkages between the Nigerian economy and international networks of firms and markets. Within the context of the country’s industrial strategy, priorities include the increase of processing, refining and other industrial tasks at the source rather than at the destination. This lengthens the domestic segment of the production chain and contributes to technological upgrading for firms as well as providing employment gains. Trends in this direction are already apparent, as the business environment improves and infrastructure gains make domestic processing more internationally competitive.

However, for other types of manufacturing, especially consumer and industrial goods with strong local demand, a fundamentally different logic applies. In Nigeria, at least in the short-term, insertion into most Asian-dominated vertical production networks is impractical. No one can make a T-shirt or a cell phone as cheaply and efficiently in Calabar as they can in Shenzhen without substantial help from international trade legislation.¹⁴ However, this thesis demonstrated that Chinese firms in Nigeria are engaged in a different pattern of economic activity. Rather than linking into established vertical networks, they are generating a pattern of horizontal production, effectively building new value chains for African markets. This is also increasingly the strategy of other foreign multinationals as well as emerging domestic champions. The economic incentives—better

¹⁴ Certainly international trade agreements like the US African Growth and Opportunities Act incentivise production for international markets and should not be overlooked. However, their volatility makes basing a production strategy on them problematic. See Lorenzo Rotunno, Pierre-Louis Vézina, and Zheng Wang, The rise and fall of (Chinese) African apparel exports (2012).

enforcement of trade policy, the rise of the African middle class, better access to international capital, and rising costs of international production and transport—are aligning to make domestic and regional markets the primary engine of African growth.

This argument for localised production does not mean that exports no longer matter—there are demonstrable fiscal and technological imperatives for firms and economies in building strong export sectors. The productive economy is dependent on foreign exchange generated by export sectors to finance manufacturing inputs, and exporting firms ‘learn by doing’ and tend to upgrade skills and technology more quickly. In Nigeria’s case, export revenues from extractive industries and a maturing financial sector reduce some of the pressure for foreign exchange acquisition, and the large market increasingly draws foreign expertise into the domestic productive economy. Thus, facilitating export growth is important; however, the ways to do this require better strategic thinking about the links between domestic and international production. This research suggests that for certain types of firms and sectors, the incentives for expansion follow a path from domestic success to regional expansion. Thus, the export focus in these sectors should be on enhancing regional access and opportunities for domestically established firms, rather than providing tax-free havens for foreign producers. A domestic population of over 150 million, and a regional one pushing one billion, is itself a tremendous driver of productive sector growth.

Within this context, even in the high-cost Nigerian environment, manufacturing is not only possible but lucrative for the right kinds of firms. Foreign and local producers are realising this before development institutions, policymakers and government. This shift in perception creates new opportunities in terms of the viability of localised production networks. It removes some of the pressure for international competitiveness in terms of

efficiency and cost; as in the domestic context, all firms are facing the same infrastructure and regulatory challenges. For the Nigerian state, an industrial strategy based on domestic and regional markets may provide an alternative pathway towards essential structural change.

Localised production as a national strategy

There are potential advantages to an expansion in economic planning from the current export-oriented framework to one that focuses on channelling FDI into localising production for domestic and regional markets. At its core, this type of strategy demands a synthesis between investment, trade and industrial policy and planning, the priority being the enhancement of horizontal linkages—or integration between foreign and domestic firms, technology and capital—in a way that benefits the domestic economy as a whole. Its tools would be a blend of old and new types of policy support. Some preliminary thoughts on four related organising principles follow.

Trade to production

Nigeria is Africa's largest importer of consumer goods, and rapidly rising imports of manufactures from China accounts for much of the country's trade imbalance with that nation. Chapter four discussed some of the macro- and micro-level challenges of Chinese imports for domestic producers and traders. There is an emerging trend towards localising production for domestic and regional markets, and targeted trade policy that incentivises local production—especially in Nigeria's large market—and regional integration will strengthen incentives for firms and facilitate this process.

Nigeria is currently undertaking a review and streamlining of its overall trade regime in consultation with the WTO that seeks further liberalisation. However, as discussed in chapter six, the country's policymakers have shown that they consider trade policy manipulation, import restrictions and tariff adjustments on an ad hoc basis to be an effective way to support particular sectors and industries. The free-trade orthodoxy of the post-WTO world proscribes all sorts of protectionist trade policy, yet restricting imports of goods that can be produced locally remains a useful tool in encouraging both foreign and local firms to produce locally. Nigeria is a member of the WTO; however, its developing nation status leaves some additional room for manoeuvre of which it should take advantage.

Equally as important as adjusting the formal trade policy regime, however, is its enforcement. Large volumes of goods move through Nigerian ports and informal regional trade networks outside of any official policy regime, and stemming that tide is a far more complex undertaking. Increased regional integration, while desirable, will likely exacerbate these informal flows. However, despite these challenges, aligning trade policy with the country's productive goals in a clear, consistent way has definite advantages.

New sources of foreign direct investment

Attracting FDI is a central priority of Nigerian economic policy. Obviously, not all investment brings the same benefits in terms of encouraging productive behaviour. The opportunities presented by new sources of FDI from the global south are threefold: in terms of investment composition, the nature of investing firms, and the modernisation-oriented policy support that underpins bilateral engagement. The history of Western FDI in Nigeria is largely a story of multinationals in the extractive and retail sectors, although

consumer goods companies are increasingly shifting to local production in recent years. Investment from emerging-market multinational companies is also concentrated in extractive sectors; however, there is substantial diversification into infrastructure, manufacturing and other greenfield projects that benefit the productive sectors. Nigeria is already taking advantage of this new interest: the prominence of emerging-market firms in PPP arrangements for power and transport infrastructure in Nigeria is one example.

There is also a large number of medium-sized and small producer firms—the Chinese ones discussed in this dissertation, but also Indian, Lebanese and South African companies—that are active in Nigeria, but largely off the radar in terms of policy. This is a phenomenon unique to FDI from China and other emerging markets. In terms of FDI volume, their contribution is small relative to the multibillion-dollar resource and infrastructure contracts. But in a country where the lacuna of medium-sized firms—the missing middle—is a hindrance to firm-level growth and expansion, they may offer new opportunities in terms of technology transfer, spillovers and creating more extensive domestic production networks. Strategic thinking that considers both the contributions of foreign and local firms, capital and expertise in building production and distribution networks would be useful.

Finally, Chinese FDI in Nigeria in particular, but also that of other countries from the global south, is more explicitly linked to policy support, financing and aid than that of the West. Added to this is a practical emphasis on the old standbys of economic modernisation—production, infrastructure, training and employment—in the developmental rhetoric of south-south cooperation. The extent to which these types of support can be leveraged to serve the goals of Nigerian industrial production—by financing training, industrial infrastructure and opportunities for domestic firms—is useful

in further integrating FDI and domestic transformation. Initiatives like the recent partnership between CDB, Nigeria First Bank and Smedan to establish a fund for the provision of credit lines to Nigerian SMEs is an instructive example here.¹⁵

Enhancing local linkages

Nigeria's liberal foreign investment and ownership laws, combined with its massive market, ensure the presence of foreign firms and producers in the domestic productive economy. While this can provide substantial opportunities for industrial diversification and employment, it also means that foreign firms are competing with domestic firms for the same consumers. Of course, this is already the case, although currently it is more often cheap Asian imports that threaten both foreign and local producers than competition with each other. However, if the ultimate goal of any industrial strategy is to catalyse a process of structural change and technological upgrading, then the primary emphasis should be on enhancing horizontal linkages between foreign and local firms, state institutions and local communities.

Mapping particular sectoral production chains, and their inputs, actors and markets would be a valuable first step in establishing best practices for further localising production and integrating foreign expertise and capital with domestic inputs and talent. Nigeria's haphazard implementation of backwards integration strategies in the past are instructive in terms of method. Facilitating joint venture partnerships and domestic supplier networks, including training requirements and localisation plans in investment agreements, integrating foreign newcomers into professional organisations and institutional structures, and establishing formal links between educational institutions or SME development

¹⁵ 'Nigeria: First Bank signs \$100 million deal with Chinese bank', *Ventures*, 10 July 2013.

initiatives and foreign firms, industrial parks and clusters: these are all example of policy support that enhances horizontal linkages in a way that benefits domestic producers and communities. The previous section highlighted the role that sub-national governments and institutions can play in this regard, and professional organisations like the MAN and the NACCIMA are also valuable.

Generating domestic expertise

The other significant capital shortage facing Nigeria is the human one. Foreign and domestic firms regularly complain about the difficulty of finding skilled labour. The need for better education and training for the population at large in order to facilitate formal sector employment has been widely noted. However, it is not simply vocational and skills training that is necessary so that Nigerians can be employed on the factory floor. For decades there have been few obvious incentives drawing Nigeria's best and brightest minds into fields that contribute to productive sector development. There has been a steady decline in engineers and planners exiting the country's universities as ambitious Nigerians instead pursue business, finance and law degrees.

Among the Nigerian elite, there is a substantial pool of internationally competitive talent and expertise gleaned at home and abroad. However, the country needs fewer people ready to broker deals and more people trained to build companies and bridges, to gather and process data and to plan cities and design technological solutions. A shift in perception that prioritises building the real economy, and formal educational incentives that support that vision, would be useful in generating the kind of domestic expertise necessary to ensure that Nigerians lead the transformation of their own economy.

What about the special economic zone? Bad news and good news

Within the strategy of localised production sketched out here, what role might there be for the SEZ? It is, after all, a tool built to facilitate a particular vertical relationship with the global economic system, so that iPhones and cashew nuts can move more easily through an international network of firms to arrive in New York or London. The traditional SEZ policy framework is useful for supporting internationally competitive industries, which in Nigeria's case includes oil and related service industries, some agricultural processing and perhaps minerals as the country moves its focus to increased mining activities. A number of new zones in the south of the country with a narrow focus on oil storage, offshore logistics and similar service industries will likely do quite well. For this reason, a recent review of African SEZs recommends that zones confine themselves to activities in which African countries have comparative advantage, namely, primary resource extraction and processing.¹⁶

However, the recent expansion of the zone programme in Nigeria, including the two Chinese zone projects studied here, indicates that Nigeria is expecting the zone institution to be more than simply another tool that reinforces the traditional resource-based economic relationship between the continent and the global economy. The Lagos State government has designated massive swathes of land on the Lekki Peninsula outside of Lagos as a 'free zone' with the long-term vision of creating a modern, new city out of the ground. Given the context described above, is the zone the wrong developmental tool for this type of economic planning?

¹⁶ Farole.

The bad news is that the zone policy environment as currently conceived does not work for the state or for firms. This is especially true for manufacturing industries, for which the logic of production is domestic and regional. For many of these firms, the primary stumbling block is the extraterritorial nature of the zone institution. In terms of domestic production, the zone actually adds an additional layer of bureaucracy when firms attempt to export finished goods into the domestic economy. And regarding regional production, goods produced in free zones are not considered to have originated in Nigeria's domestic customs territory, and thus are not included in free trade agreements for the Ecowas region. In sum, the zone institution effectively blocks the type of domestic and regional expansion demanded by a localised production strategy.

But there is good news. Rethinking the SEZ as an industrial policy institution reveals its substantial benefits in supporting the strategy outlined above. With the proper policy environment, the zone can be a highly effective institution in terms of attracting new sources of FDI, enhancing horizontal linkages between firms and sectors and in generating domestic expertise. Shifting the policy focus from taxation avoidance and tariff waivers to clustering benefits, infrastructure delivery, partnerships between foreign and domestic firms and access to domestic and regional markets would better align the benefits offered by zone programmes with those desired by firms. They can also serve as a valuable link between domestic and export production.

However, this requires a more nuanced emphasis on the border between the zones and the domestic economy, both in physical and policy terms. Physically, the area directly outside the zones is an important engine of their success; co-locating supplier firms, SME incubators and foreign firms producing for the domestic market with the zone would assist with establishing formal and informal links between the zone and the local economy. In

policy terms, Nigerian zones require a more agile policy regime and the devolution of authority to the state and zone levels. This would allow state governments and local representatives of national institutions to better manage integration, experiment with technology transfer, and encourage movement from domestic to regional to international markets.

In Nigeria's particular productive environment, a useful policy intervention for zones would be the division of the zone into an export section—governed by national free zone policy and extraterritoriality, and with a focus on support for vertical production and export growth—and a domestic section, governed by state investment policy and subject to regular taxation, with free access to domestic and regional markets. Firms could make decisions based on their needs (or locate factories in both), and the institutional and physical infrastructure of the zone—one-stop shops, education and training initiatives, community and employment linkages, power, roads and rail—would benefit everyone and support the expansion of domestic and international production networks. This kind of structure would better provide support for domestic firms internationalising as well as for foreign firms localising, and the physical borders of the zone would allow national and sub-national authorities to experiment with policy and institutional recipes that best serve their own industrial development goals.

In sum, the behaviour of firms indicates that manufacturing is a viable proposition in Nigeria, and the most significant contribution of zones may be in creating linkages and networks. However, the focus of the zone institution should expand from creating tax-free havens for foreign producers to facilitating linkages between domestic and international producers, networks and markets. Better aligning trade policy, industrial policy and zone policy to incentivise localised production in addition to export growth would serve both

states and firms. Increased policy freedom at the state and zone level and an emphasis on backwards integration planning, domestic supplier programmes, technology transfer initiatives and partnerships with polytechnics, universities and development initiatives would greatly boost the developmental potential of the zones.

FINAL THOUGHTS: AN EMERGING INDUSTRIAL STRATEGY FOR AFRICA?

In the heady post-independence decades of the 1960s and 1970s, African industrialisation was central to debates on development and economic transformation across the continent. Many African states prioritised investment in productive sectors and implemented a number of protectionist policies aimed at encouraging the emergence of domestic industries and firms. This trend was reversed following the global shocks of the early 1980s and the advent of structural adjustment programmes across the continent. After over two decades of decline and stagnation, African manufacturing had effectively been removed from the policy agenda by the early part of the 20th century.

The combination of Asian dominance of globalised production, increasing pressure to liberalise trade and tariff regimes, and the fall from favour of industrial policy and a strong state role in economic stewardship created an impossible situation for African industry. Faced with a global reality characterised by rising international competition and diminishing policy space, the sole advice repeatedly offered to African countries was to improve the investment environment and enhance the business climate—essentially to become internationally competitive. The discourse in multilateral agencies and African capitals had moved on to alternative ‘engines of development’. Health, education, agriculture and, more recently, employment with a focus on the service economy have taken turns at centre stage. However, as youth unemployment rates pass 50 per cent in

some countries and cities groan under the onslaught of widespread urbanisation, an uncomfortable truth is resurfacing: in terms of employment provision as well as structural and technological change, nothing can take the place of production.

But industrialisation in the era of globalised commerce is as much a function of the international system as it is one of domestic policy choices. For Asia in the 1970s and 1980s, a massive global restructuring incentivised a system of export-led growth and unprecedented global trade. The expansion of the multinational firm, low labour costs and even lower transport and logistics costs drove the rapid development of geographically dispersed production networks, with Asia increasingly their manufacturing hub. Now, with rising wages and structural change in China, and increasing energy prices driving up the costs of the international transport of goods, the global incentives are beginning to shift again. The next decade will likely see the slow decline of ‘cheap China’, less growth in developed markets and more in emerging ones, and climate issues cancelling out the long-term cost advantages of globalised networks. These emerging trends, combined with the continuing dominance of the multinational firm, all point to a pattern of global production that relies on moving production closer to new consumption poles.

For Africa, these global shifts in concert with considerable changes in the demographic and economic status of the continent point to an alternative pathway to industrial development. The logic of African industrialisation suggests a strategy of FDI-led localised production: using foreign technology and expertise to establish domestic and regional production networks for African markets. Chinese and other emerging-market FDI provides opportunities in this regard across the continent in terms of increased access to capital and expertise, as well as a developmental focus on building industry, infrastructure and employment. In Africa, the composition of investment from new

partners—with its high proportion of greenfield projects in non-resource sectors—is notable. This seems to indicate that beyond all the south-south cooperation rhetoric, there really are qualitative differences in FDI flows from traditional partners versus those from new emerging-market partners.

Within this context of growing south-south FDI flows across the continent, data from investment promotion agencies and Chinese embassies in African countries indicate a trend toward rising Chinese manufacturing investment everywhere. In Ghana, a third of registered Chinese projects are manufacturing ones;¹⁷ in Ethiopia, over 65 per cent of active Chinese firms are manufacturers.¹⁸ Nigerian data collected for this study corroborates this larger trend, with 25-30 per cent of Chinese firms being manufacturers.¹⁹ This is consistent with surveys in China of internationalising firms, which point to large numbers of manufacturers going overseas,²⁰ as well as a trend among private firms towards establishing overseas production sites.²¹

However, the other side of the China-Africa FDI equation is African absorption of foreign investment. The ways in which manufacturing FDI in particular might contribute to catch-up industrialisation is of primary concern for the continent. Yet, FDI alone will not automatically generate structural change. The challenge for many African governments is integrating investment goals with wider industrial planning in order to enable new FDI flows to contribute to economic transformation in a meaningful way. This is especially important in a productive environment where foreign and domestic producers are operating side by side and competing for market share.

¹⁷ Ghana Investment Promotion Centre figures (unpublished), made available to author in Accra 8/2012.

¹⁸ World Bank, *Chinese FDI in Ethiopia: A World Bank Survey* (Washington DC: World Bank, 2012a).

¹⁹ Unpublished figures from Commercial Counselor's Office of Chinese Embassy in Nigeria; author analysis of OSIC investment database made available in Abuja 11/11.

²⁰ Fu, Liu, and Li.

²¹ China International Chamber of Commerce for the Private Sector.

The best way to do this will vary across 54 countries with diverse market sizes, endowment structures and domestic political demands. Large countries with large markets will have more leeway, while smaller countries will rely more on economic integration with their neighbours. The policy tools—trade legislation, investment incentives, SEZs—are context specific. But a general expansion in industrial policy focus to target linkages between foreign and domestic firms and the building and localising of domestic and regional value chains would likely be useful everywhere to ensure that industrial goals rather than multinational priorities drive investment behaviour and economic change.

An emerging trend toward localising production for African consumers—led by Chinese FDI—has potential for many African economies. Enhancing linkages between these new sources of investment and domestic economies may provide new pathways to industrialisation and structural change. Ultimately, the best way to attract manufacturing FDI is through investment in the hard and soft infrastructure of the sector as a whole—in power stations and ports as well as education and training. This will benefit all producers, foreign and domestic. Thankfully, the logic of African industrialisation is shifting, but it remains to be seen if these emerging trends can be leveraged in a way that supports African growth and development in the long-term.

APPENDIX A

List of interviews

<i>Interview</i>	<i>Title</i>	<i>Affiliation</i>	<i>Place</i>	<i>Date</i>
Abuja 1	CEO	Nigerian Export Promotion Council	Lagos	21/11/2011
Abuja 2	Director, Policy Advocacy	Nigerian Investment Promotion Commission	Abuja	21/11/2011
Abuja 3	Dep Director	NIPC One-stop Investment Centre	Abuja	22/11/2011
Abuja 4	Permanent Sec	Nigerian Ministry Foreign Affairs	Abuja	22/11/2011
Abuja 5	Asst. Controller	Customs	Abuja	23/11/2011
Abuja 6	Director of Research	NEPZA	Abuja	23/11/2011
Abuja 7	Head of Operations	NEPZA	Abuja	23/11/2011
Abuja 8	Director of Planning	NEPZA	Abuja	23/11/2011
Abuja 9	Director of Trade	Nigerian Ministry of Trade and Industry	Abuja	25/11/2011
Abuja 10	WTO rep	China Exim Bank	Abuja	25/11/2011
Abuja 11	Asst. Director of Trade	Nigerian Ministry of Trade and Industry	Abuja	25/11/2011
Abuja 12	AGOA rep	China Exim Bank	Abuja	25/11/2011
Abuja 13	Economic Advisor	Office of President, Nigeria	Abuja (phone)	22/09/2012
Abuja 14	Former Nigerian Ambassador to China	Federal Government	London	12/08/2012
Abuja 15	Asst. to Commercial Counselor	Chinese Embassy	Abuja	21/11/2011
Abuja 16	Director	Ghana Investment Promotion Centre	Accra	31/08/2010
Beijing 1	Chief Country Risk Analyst	China Exim Bank	Oxford Beijing	12/3/2012 12/7/2012
Beijing 2	Senior Advisor	China Africa Lekki Investment Ltd.	Beijing	26/06/2012
Beijing 3	Policy Advisor	UNDP South-South Cooperation Department	Beijing	28/06/2012
Beijing 4	Consultant	UNDP China	Beijing	28/06/2012
Beijing 5	First Secretary	MOFCOM Dept of African Affairs	Beijing	02/07/2012
Beijing 6	Nigeria Correspondent	China Radio International	Beijing	02/07/2012
Beijing 7	Director, African Studies	Chinese Academy of Social Sciences	Beijing	03/07/2012
Beijing 8	Director	CAD Fund	Beijing	04/07/2012

Beijing 9	Director, African Studies	China Institute of Contemporary International Relations	Beijing	05/07/2012
Beijing 10	Secretary General	China-Africa Business Council	Beijing	12/07/2012
Beijing 11	Director, Projects	China-Africa Business Council	Beijing	12/07/2012
Beijing 12	Asst, Communications	China-Africa Business Council	Beijing	12/07/2012
Beijing 13	Deputy Director	South-South Cooperation Division, CICETE, MOFCOM	Beijing	12/07/2012
Beijing 14	CEO	TianBao Solar	Accra	31/08/2010
Beijing 15	Senior Economist	China Development Bank	Accra	31/08/2010
Beijing 16	Director	Beijing Axis	Accra	31/08/2010
Beijing 17	Vice President	CAD Fund	Accra	30/08/2010
Beijing 18	Ambassador	Chinese Embassy Ghana	Accra	30/08/2012
Beijing 19	Senior Advisor	China Development Bank	Oxford	22/06/2013
Beijing 20	Head of Zone Programme	MOFCOM	Beijing	07/07/2012
Lagos 1	Director Gen	NACCIMA	Lagos	13/11/2011
Lagos 2	Head of Commerce	Lagos State Government	Lagos	14/11/2011
Lagos 3	Head of Legal	Lagos State Government	Lagos	14/11/2011
Lagos 4	Perm Secretary	Lagos State Government	Lagos	14/11/2011
Lagos 5	Head of Planning	Lagos State Government	Lagos	14/11/2011
Lagos 6	Asst. Commercial Consul	Economic and Commercial Counselor, Chinese Embassy	Lagos	14/12/2011
Lagos 7	Commissioner of Commerce and Industry	Lagos State Government	Lagos	17/11/2011
Lagos 8	Founding President	Nigeria-China Chamber of Commerce	Lagos	16/11/2011
Lagos 9	Country Director	International Finance Corporation	Lagos	24/04/2012
Lagos 10	Senior Counsel	SNR Denton/ Eko Rail CCECC	Lagos Oxford	24/04/2012 4/5/2012
Lagos 11	CEO/Senior Advisor	Levantis/ Lekki Port	Lagos	01/05/2012
Lagos 12	Director General	Manufacturers Association of Nigeria	Lagos	02/05/2012

Lagos 13	Manager HR	Huawei	Lagos	03/05/2012
Lagos 14	Deputy High Commissioner	Canada High Commission	Lagos	28/04/2012
Lagos 15	CEO	UBA Capital	Lagos	24/04/2012
Lagos 16	Head of Operations	Dangote Global	London	14/06/2012
Lagos 17	General Manager	Olam International	Accra	31/08/2010
Lagos 18	CEO	Hualong Construction Ltd.	Accra	31/08/2010
Lagos 19	Founder	Benchmark Solutions	Accra	30/08/2010
Lagos 20	General Manager	GE West Africa	Accra	30/08/2010
Lagos 21	Head, Africa	Ernst and Young	Accra	30/08/2012
Lagos 22	Governor	Lagos State Government	Oxford Lagos	12/07/2012
Lagos 23	Minister T&I	Federal Government	Lagos	25/04/2012
Lagos 24	Gen Exec Director	Nigerian National Petroleum Commission	Lagos	25/04/2012
Lagos 25	Senior Advisor	Lekki Port Project	Lagos	01/05/2012
Lagos 26	CEO	Golden Gate	Lagos (phone)	20/06/2013
Lekki 1	Senior Assistant to Managing Director	Lekki Free Zone Development Company	Lekki	10/11/2011 23/4/2012
Lekki 2	Commercial Controller and Former Managing Director	Lekki Free Zone Development Company	Lekki	10/11/2011
Lekki 3	Lekki Zone Officer	NEPZA	Lekki	10/11/2011
Lekki 4	Asst. Managing Director	Lekki Worldwide Investments Ltd.	Lagos	11/11/2011
Lekki 5	Head of Planning	Lekki Worldwide Investments Ltd.	Lagos	11/11/2011
Lekki 6	Head of PR	Lekki Worldwide Investments Ltd.	Lagos	11/11/2011
Lekki 7	Managing Director	Lekki Worldwide Investments Ltd.	Lekki	25/04/2012
Ogun 1	Asst. to Gen Manager	Ogun FTZ	Ogun FTZ	30/04/2012
Ogun 2	Gen Manager	Ogun FTZ	Ogun FTZ	30/04/2012
Ogun 3	Gen Manager	Chinese manufacturing firm	Ogun FTZ	30/04/2012