

Domesticating the Chinese Development Model of Free Trade Zones in Nigeria: A Critical Analysis

Sidi Istifanus Abimiku

Department of Political Science,
Federal College of Education, Abeokuta

&

Uchenna Umearokwu

Department of Political Science and International Relations,
University of Abuja

Abstarct

As exemplified by China, Free Trade Zones in East Asia were largely successful and were undertaken majorly to attract FDI, generate employment opportunities and transfer technology. This has attracted the global attention with many developing countries, Nigeria inclusive, desiring to replicate the copycat of the Asian model. It is generally presumed that the provision of tax incentive will motivate MNCs into the country, and that will invariably transform the economy towards attracting FDI, generating employment and as well transfer technology. In agreement with this assumption in Nigeria, the quest for domesticating the Chinese model of FTZs becomes imminent. Unfortunately, while Free Trade Zones in China were largely successful; the attempt to replicate it in Nigeria over the years seems to be generating more problems than solutions. It is in view of this that the researcher utilized secondary source of information and content analysis, with theoretical framework anchored on statist theory, to examine the issues in discourse. Findings revealed that, due to various issues of bad governance, characterized by corruption, infrastructural deficit, poor management system and weak institutions, the Chinese constructed and operated FTZs of Lekki and Ogun-

Guangdong has not substantially led to job opportunities, FDI, transfer of technology and Foreign Exchange Earnings as envisaged. Findings further revealed that the successful implementation of Free Trade Zones in China does not take place haphazardly, but was carefully implemented through the adoption of various measures such as policy experimentation, monitoring and evaluation and good location. The study recommends amongst other things that, Nigerian Leaders should learn from the leaders of China who were selfless, nationalistic and competent, without which the operation of Free Trade Zones cannot be successful.

Key words: Chinese model, Development, Free Trade Zones, Export Processing Zones, Special Economic Zones

Introduction

The contemporary stage of economic boom in China cannot be discussed without reference to the unimaginable growth of the industrial sector, particularly the success story of Free trade Zones in 1980s and 1990s (Zeng, 2011). This has attracted global attention with many developing countries desiring to implement the copycat of the Asian model (Farole and Moberg, 2014). While Nigeria is desirous of implementing the Chinese model; China on the other hand has initiated a political and economic agenda through its “Going Out” policy, leading to the establishment of FTZs in Nigeria. This has led to the establishment of Chinese constructed and operated zones of Lekki and Ogun Guangdong FTZs in Lagos and Ogun state respectively, following the signing of bilateral agreement between Nigeria and China. The goal is to educate Nigerian elites on China’s experience on FTZs, with the hope that the success story of Chinese FTZs, particularly in Guangdong, Shanghai, Shenzhen and Taiwan, can be replicated in Nigeria (Farole, 2011).

Historically, the origin of FTZs in Nigeria is traceable to 1986, when the Babangida administrations introduced a Structural

Adjustment Programme (SAP) as part of his economic and political reform. SAP as an economic policy has as part of its objectives, the establishment of Export Processing Zones (EPZ) as a way to attract FDI, transfer technology, generate employment and promote export. This has led to the establishment of the Nigerian Export Processing Zone Authority (NEPZA) in 1991, following the enactment of Act No. 63, in continuation of the economic liberalization policy of the Babangida administration, leading to the establishment of FTZs in Nigeria. The act empowers the Nigerian Export Processing Zone Authority (NEPZA), which was set up for the general-purpose, and the Oil & Gas Free Zone Authority (OGFZA), which was later set up for oil & gas zones, to inaugurate, control, license and monitor EPZs in Nigeria. This was later followed by the establishment of Calabar FTZ in 1992 and Onne oil and gas free zone in 1997 (Harry, 2016).

An issue of concern is whether the Chinese model of Free Trade Zones has been successful replicated in the country or not. If not, then what is responsible for the failure? Meng and Zeng (2019) noted that the success of Free Trade Zones in China cannot be discussed without reference to government effectiveness, as the governments of this nation were not only willing to acquire political power but were competent and pragmatic rather than being dogmatic. Their bureaucrats were also of very high caliber and were willing to abandon initiatives that went wrong, responsive to the needs of business, yet isolated from corruption or undue pressure from special interests.

Worthy to note is the fact that, the provision of trade incentives such as tax holiday, zero custom duty and lower taxes, can go a long way in addressing our industrial crises; notwithstanding, the provision of tax incentive may not yield positive outcomes when the implementation of the process is characterized by various cases of bad leadership. There is no doubt however, that Nigeria will overcome her challenges in Free Trade zones if this model of leadership, as adopted in China, is being replicated in the country.

It is against this backdrop, that this study entitled “Domesticating the Chinese Development Model of Free Trade Zones in Nigeria: A Critical Analysis” was setup. The study is divided into six (6) sections, starting with the introduction, followed by the concept of Free Trade Zones, before delving into theoretical framework. This was followed by Chinese development framework of Free Trade Zones, and then “domesticating the Chinese model of Free Trade Zones was considered. The study ends with conclusion and recommendations. This paper has the following objectives:

1. To examine the nature of Chinese development framework of Free Trade Zones
2. To identify various leadership challenges that militates against effective implementation of Chinese development model of Free Trade Zones in Nigeria

Methodology

The study relied on the sourcing of relevant information and data through secondary sources. The major source of data for this work was from the Nigeria Export Processing Zones Authority (NEPZA). The researcher had to visit the Nigeria Export Processing Zones Authority (NEPZA) to collect such data. Other sources of data were drawn from textbooks, journals, magazines, newspapers, seminar papers, internet, reports, yearbooks and government publications. The study is qualitative in nature and as such requires the use of content analysis in the analysis of the available data. The use of content analysis for secondary data includes performance evaluation on the impact of Chinese constructed and operated Free Trade Zones of Lekki and Ogun-Guangdong in Lagos and Ogun state respectively.

The Concept of Free Trade Zones

As a result of several names of FTZs, such as Export Processing Zones (EPZs), Special Economic Zones (SEZs), Free ports and Free Industrial Zones, there is lack of consensus in the literature as

to which version should be used as an umbrella term. For instance, the International Labour Organization (ILO) for example, refers to zones as EPZs, while the United Nations Conference on Trade and Development (UNCTAD) uses Free Zones, and the World Economic Processing Zones Association (WEPZA) uses Economic Processing Zones. Generally, in the opinion of FIAS (2008), the modern term that encompasses all variants of economic zones is special economic zone. While this exists, each and every country has decided to use a particular name that fits into the model of zones they operates. In Nigeria, FTZ, EPZ and FZ are usually used interchangeably, but FTZs is commonly used.

Generally, Free Trade Zones as an industrial reform strategy usually refers to a perimeter of land set aside where goods may be imported, stored, handled, manufactured or reconfigured and re-exported under specific custom regulations and generally not subject to custom duty (Farole, 2011). In the opinion of stein (2012), FTZs are a geographic area where goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. At the beginning of FTZs, they may specialize on the manufacturing of low-value added products like apparel, footwear, toys, electronic goods, but gradually they progress and started to produce high-value added products by introducing high-technologies and other strategies.

Theoretical Framework

This study adopts statist theory as basis of operational theoretical framework. The central thrust of statist theory is premised on the fact that the underdevelopment of Africa, Asia and Latin America emerged due to bad administrative technique applied by the ruling elites, corruption, problem of policy implementations, patron-client permutation and other variables that undermines modern innovations and democracy (Igwe, 2012). In other words, embezzlement, misappropriations, mediocrity in place of

meritocracy, among others are factors that have retarded development in the states of Africa, Asia and South America.

The major contributions to Statist Theory were Stepan in 1978; Peru in 1978; Krasner in 1978; Skocpol in 1979; and Nordlinger, in 1981. Each of them presented the statist approach as a superior alternative to Marxism. They equally see the state as an autonomous actor concerned with long-term objectives, in which effective interventions through the adoption of strong bureaucratic apparatus with sufficient corporate coherence will usher the state into the path of economic development.

The proponents of the theory also believed that the failure of the modernization theory to address the problems of the Third World Countries does not only lie on the capacity of the theory itself but on leadership quality as well. Modernization was seen to have been largely society-centric in its interpretation of the developmental process, and as well have neglected the central role that states play in shaping development process (Amin, 1985). The statist orientation sought to correct this neglect by looking at the state as the central analytical variable in the study of developing societies. The state appears to be standing above society, and the state is expected to induce appropriate changes in a given society towards the desired goals of economic development and political stability. This notion of leadership attitudinal pattern of administration justified statist paradigm.

Although the theory was criticized for its failure to acknowledge external factors such as porous external boundaries, lack of technology and the interplay of globalization, with the believe that these among other factors still influence and determine the decisions of leaders in LDCs; notwithstanding, it is still relevant in this study due to the provision of ineffective leadership in the country, characterized majorly by corruption, injustice, and lack of transparency and accountability, amongst others.

The Chinese Development Framework of Free Trade Zones

By simply allocating land and offering tax incentives for foreign investors to relocate to the land is not a sure ticket for economic development (Farole, 2011). It is generally believed that the success story of FTZs' programmes in China cannot be replicated anywhere in the World, if the right policies are not put in place. In the opinion of Alexianu, Saab, Teachout & Khandelwal (2019), those policy measures as adopted in China include: policy experimentation, effective governance structure, provision of infrastructural facilities, the choice of good location, adoption of specific approach for FTZs' initiative, and the adoption of monitoring and evaluation strategy. These will be explained in the subsequent section.

In the first instance, Free Trade Zones are not expected to be first choice policy, but can serve as a means for policy experimentation to test reforms and measure their impact before being scaled to the rest of the economy on a long-term frame. This was captured in the opinion of Alexianu et al (2019), who noted that the first four Special Economic Zones of Shenzhen, Zhuhai, Shantou and Xiamen in China were used as testing grounds in 1970s and 1980s before being scaled down to the rest of the country. In the opinion of Khandelwal and Teachout (2016), FTZs are grounds for testing liberal ideology, which serves as a necessary instrument to measure the performance of zones and the desirability of liberal reforms in the country.

Secondly, although tax incentives play an important role on industrial development of the zones, however, the provision of incentives may not lead to the development of FTZs in the presence of bad governance. There is no doubt however that any government which cannot provide adequate infrastructure for the generality of the people is said to be involving in the practice of bad governance. FTZ cannot achieve success if properly serviced industrial infrastructures are not provided. Due to good

governance in China, the contemporary China society is boosting of quality infrastructural facilities such as reliable supply of power, good road networks, good source of water supply and many other amenities, and as such the implementation of the industrial strategy of FTZs were largely successful (Meng and Zeng, 2019).

Thirdly, the choice of location for operation of FTZs was particularly important in the establishment of Free Trade Zones in China. Logistically, zones in China are mostly located near ports of entry; air, land or sea. This was captured in the opinion of Zeng (2010) who noted that, most of the FTZs in China are all located in the coastal cities that either have better links to the international market or better historical trade relations and experience. For example, Guangdong province is one of the biggest hometowns of Chinese overseas where Guangdong FTZ is being located. This city is located close to airports, railways and seaports, as well as the presence of adequate infrastructures. This location facilitates entry to the zone as well as the exit and entry to the customs territory.

Fourth is the need for the adoption of monitoring and evaluation (M&E) strategy. Monitoring and evaluation usually provides support to policymakers for the purpose of enforcing regulations, such as incentives measures and environmental standards needed for the growth of the zone (Farole, 2011). As captured in UNDP (2015) China has an established regular evaluation of their SEZs in the first four Special Economic Zones of Shenzhen, Zhuhai, Shantou and Xiamen to tracks zone performance in both static and dynamic dimensions. This is to ensure that zones are catalysing structural transformation rather than stagnating as centres for inexpensive and/or labour-intensive industries.

In conclusion, the success of Free Trade Zones in China cannot be discussed without reference to the adoption of specific approach for FTZs' initiative. One of the clearest lessons learned from China is that, the operation of zones was not viewed as a substitute for a country's larger trade and investment reform efforts, rather, it was

seen as one tool in a portfolio of mechanisms commonly employed to create jobs, generate exports, and attract foreign investment, through the provision of incentives, streamlined procedures, and custom-built infrastructure (Farole, 2011). In the opinion of Alexianu et al (2019), the decision to establish FTZs should be backed by a framework that demonstrates why such zones constitute an appropriate form of policy intervention.

Domesticating the Chinese Development Model of FTZs in Nigeria: What Lessons?

The effort put in place by the Nigerian and Chinese government through the signing of bilateral agreement, was to replicate the Chinese model of Free Trade Zones in Nigeria (Farole, 2011). As stated earlier in the introductory part, this has led to the establishment of Chinese constructed and operated zones of Lekki and Ogun Guangdong FTZs in Lagos and Ogun state respectively. The goal is to educate Nigerian elites on China's experience on FTZs, with the hope that the success story of Chinese FTZs, particularly in Guangdong, Shanghai, Shenzhen and Taiwan, can be replicated in Nigeria (Farole, 2011).

The policy kicked started with the allocation of land by the Nigerian government, and later followed by subsequent construction of the sites by Chinese consortia in 2006, but effective operation commenced in 2008. The Lekki Free Zone (LFZ) is located in the Ibeju-Lekki area of Lagos state (LFTZ, 2018). It is a Sino-Nigeria joint company developed as a model of cooperation between Nigeria and China for the purpose of mutual benefits (UNDP, 2015). It was launched following the execution of a Tripartite Agreement in early 2006 between China-Africa Lekki Investment Ltd, Lagos State Government and Lekki Worldwide Investments Ltd (Lawanson and Agunblade, 2018). On the other hand, the Ogun-Guangdong Free Trade Zone is located in Igbesa, Ogun State, in collaboration with a Chinese consortium, to locate a Free Trade Zone in Igbesa. The OGFTZ is owned by a joint

venture between the Ogun State government and a Chinese consortium called the China African Investment Company. It received approval from NEPZA in mid-2008 to kick start its operation.

An issue of concern is that, since their operations about two decades ago, it is difficult to conclude that they have succeeded in attracting FDI or transferring the required technology. This has generated several debates among scholars. Notwithstanding, reports from NEPZA statistical bulletin has shown that the Lekki and Ogun Guangdong Free Trade Zones, which were Chinese constructed and operated Free Trade zones in Lagos and Ogun State, are yet to generate the expected outcomes after about two decades of operation. This was captured on NEPZA statistical records (as indicated in table 1.1) which show that the contribution of Lekki FTZ to FDI and direct employment as at September 2022 are US\$432,067,327.80 and 1,036 respectively. This was not largely different from what is obtainable in Ogun-Guangdong Free Trade Zones, which value of FDI and direct employment stands at US\$426,850,000.00 and 3,529 respectively.

In terms of technology transfer in the two zones, report from NEPZA statistical bulletin, as indicated on Table 1.1, also captured that the total value of expatriates in both the Lekki and the Ogun-Guangdong FTZs stands at 324 as at September, 2022. This is far from the expected outcomes and is a call for concern.

Table 1: Contribution of FTZs to FDI, expatriates and employment generation

FTZ	Year Est.	Direct Employment (Nigerians)	Expatriates	Value of Actual FDI (US)
Lekki FTZ, Lagos State	2008	1,036	164	432,067,327.0
Ogun Guangdong FTZ, Ogun State	2008	3,529	160	426,850,000.00
Total		4,565	324	858,917,327.80

Source: NEPZA (2022)

It is therefore pertinent to discover the root causes of the problem and quickly address them. Although there are various causes of the failure of Free Trade Zone in Nigeria, however, bad leadership is viewed by many scholars as the major cause of the problem. Evidence generated by an International Growth Centre (IGC) funded project in Kigali FTZ in Rwanda shows that financial incentives are among the least important factors for the flow of investment into the zone (FIAS, 2008). By contrast, infrastructures, zone location, power supply, level of technology and good governance play significant roles to the success of zones. In other words, the provision of tax incentives may encourage multinational enterprise to involve in the process of economic exploitation of the country as long as possible (FIAS, 2008). This by indication portrayed that the operation of Free Trade Zones cannot be successful without effective leadership, which is the hallmark of good governance.

The issue of infrastructures needs to be further stressed. It is important to note that the operation of Free Trade Zones in Nigeria has been affected by lack of adequate infrastructural facilities. FTZs cannot achieve tremendous success if properly serviced industrial infrastructures are not provided. Farole (2011) noted that there is a strong correlation between infrastructure quality and levels of investment, exports, and employment within FTZs. He further argued that poor infrastructure has detrimental effects on investment levels in many FTZs in Nigeria. Due to good governance in China, the contemporary China society is boosting of quality infrastructural facilities such as reliable supply of power, good road networks, good source of water supply and many other amenities, which ordinarily have encouraged the implementation of the industrial strategy of FTZs.

The issue of effective leadership, as reflected in the works of Smith (2007), encompasses Transparency & accountability, None violence and constancy in Political system, Effectiveness of Government in policy formulation and implementation, eradication

of corruption, quality of governance, and the effectiveness of the justice system. In application, one could understand that if the above situations are being handled properly, there will be absence of poor performance of Free Trade Zones, as the problems will be addressed and consequences will be positive. Unfortunately, the case of Nigerian Free Trade Zones is characterized by high rate of corruption, as manifested in various acts of bribery, money laundering, embezzlement, nepotism, and miscarriage of justice, amongst others (Farole and Moberg, 2014).

There is no doubt however that most government officials including custom officers and NEPZA official do collect bribes to allow the importations of manufactured products to Free Trade Zones. This has led to the importations of various assemblies from China to Nigeria. As such, the main objective of Free Trade Zones has been defeated, thereby turning the Zones into a ground for assemblage of Chinese products.

In addition, the issue of weak institutions has been considered by many Scholars as the major cause of failure in FTZs. In the opinion of FIAS (2008), one of the major factors contributing to the outcome of the FTZs is the autonomy and effectiveness of the body charged with regulating Free Trade Zones. In Nigeria, the Nigerian Export Processing Zone Authority (NEPZA) has been saddled to regulate FTZs. While a wide range of institutional arrangements have been used, experience suggests that this agency does not succeed due to absence of capacity, inadequate funding, absence of customer orientation and ethos, absence of partnerships with private zone operators and enterprises, and inability in maximizing the role of the private sector in service provision.

It should be noted that, most of the enterprises in Nigeria's FTZs are multinational corporations who wish to operate in countries with repressive administrations where the rule of law is weak, where the independence of the judiciary is questionable, and where arbitrary arrest, detention, torture and extra-judicial executions occur. The absence of strong institutions to manage the

above mentioned problems could lead to the failure of FTZs. It is not always easy to use weak institutions to manage the affairs of MNCs, who are always financially and legally strong.

Finally, effective implementation process through proper supervision, control and implementation of regulatory framework of FTZs in Nigeria has not been properly carried out. For instance, the licensing procedures and supervision of activities in FTZs are often complicated and bureaucratic, which can lead to insufficient oversight, thereby creating lack of clarity regarding regulations covering the control of free trade zones. According to Harry (2016), in some cases, it is not clear if the government or the Customs authorities have the jurisdiction to exercise controls. The scope and degree of the Nigeria Customs Service control over goods introduced, and the economic operations carried out in FTZs, is practically non-existent, in consistent with the purposes of establishing free trade zones. Due to all these, the replication of the Chinese model of Free trade Zones in Nigeria become difficult.

Conclusion

The study concluded that the quest to replicate Chinese model of Free Trade Zones in Nigeria has failed to generate significant upticks in investment, exports, or job creation in recent years. The failure as observed in the study was due to ineffective leadership provision such as inadequate infrastructural facilities, absence of good governance and corruption. This is basically true because Nigeria of today is not China of 1980s where Free Trade Zones were generally successful. It should be noted that Free Trade Zones in East Asia were largely successful and were undertaken in order to provide support for wider economic reforms through free trade policy, export-oriented industrial policy and deregulation, usually seen as an open door policy in a liberalized economy. Unfortunately, as noted in the study, this success story was not replicated in Nigeria, a situation that seems Nigeria is not ripe for

the adoption of an open door policy needed of a liberalized economy.

The study therefore recommended that the Nigerian government should take a bold step in overcoming the challenge of poor implementation, infrastructural deficits, globalization, economic dislocation, and most importantly, the challenge of good governance, without which the implementation of the operational framework of Free Trade Zones cannot be successful. In addition, the Nigeria government should adopt protectionist measures and as well encourage members of civil societies to wake up to their responsibilities in order to checkmate the activities of Chinese multinational corporations in Free Trade Zones for the purpose of enforcing compliance. On the implementation process of protectionist measures, the government should introduce strict penalties and sanctions to curb corrupt practices; reduce tax incentive to discourage the activities of Chinese MNCs; and adopt the implementation of corporate environmental policy to minimized environmental hazards.

References

- Alexianu, M., Saab, M., Teachout, M. & Khandelwal, A. (2019). *Doing special economic zones right: A policy framework*. Synthesis brief of the International Growth Centre. London: Oxford University Press.
- Amin, S. (1985). *Delinking: Towards a Polycentric World*. London: Zed Books.
- Farole, T. & Moberg, L. (2014). It worked in China, so why not in Africa? The political economy challenge of Special Economic Zones. *World Institute for Development Economic Research (WIDER)*, Working Paper Series 152: 1-12.
- Farole, T. (2011). *Special economic zones in Africa: Comparing performance and learning from global experience*. Washington, DC: World Bank Publications.
- FIAS (2008). *Special Economic Zones: Performance, Lessons Learned, and Implications for zone development*. Washington DC: World Bank Publication.

- Harry, D. M. (2016). Export Processing Zones and Economic Diversification in Nigeria, 2001 – 2013. *Journal of Political Science and Leadership Research*, 2(2): 24-34.
- Igwe S.C (2012). *How Africa underdeveloped Africa*. Port Harcourt: Prime Print Technologies.
- Khandelwal, A. K. & Teachout M. (2016). Special economic zones for Myanmar. IGC Policy note. Available at <https://www.theigc.org/wp-content/> (accessed 17 June 2021).
- Lawanson, T. & Agunblade, M. (2018). Land governance and Megacity Projects in Lagos, Nigeria: the case of Lekki Free Trade Zone. *Area Development and Policy*, 3(1): 114-131.
- Lekki Free Trade Zone (LFTZ) (2018). Data on Lekki Free Trade Zone. Available at <http://lfzdc.org/> (accessed 22 November 2021).
- Meng, G. & Zeng, D. Z. (2019). Structural transformation through free trade zones: the case of Shanghai. *Transnational Corporations*, 26(2): 95-115.
- Nigeria Export Processing Zone Authority (NEPZA) (2022). Free Trade Zones in Nigeria. Available at <http://www.nepza.gov.ng/> (accessed 22 March 2022).
- Smith, B. C. (2007). *Good Governance and Development*. New York: Palgrave Macmillan.
- UNDP (2015). If Africa builds nests, will the birds come? Comparative study on special economic zones in Africa and China”. *Working Paper Series*, No. 6.
- Zeng, D. Z. (2011). How do special economic zones and industrial clusters drive China’s rapid development? In: Zeng D Z (eds) *Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters*. Washington DC: The World Bank, pp.1–53.
- Zeng, D. Z. (2010). *Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones & Industrial Clusters*. Washington DC: World Bank.