The Impacts Of China's Investment On Nigeria's Development

Ahmet ARABACI
Department of International Relations and Diplomacy, Faculty of Administrative Sciences and Economics, Tishk International University - Erbil, Kurdistan Region, Iraq
ahmet.arabaci@tiu.edu.iq
DOI: 10.23918/ICABEP2023p29

Abstract:

This conference paper aims to explore the impacts of China's investment on Nigeria's development. The paper employs qualitative research approach with secondary sources. The method of data collection is the document analysis from the scholarly journals, books and even news. The researcher uses the impact analysis reports and scholarly evaluations about the Chinese investment projects all around Nigeria. The data analysis method is content analysis. The paper presents data and findings in a qualitative, positivist and inductive approach. The findings illuminate, especially, the impact of Chinese investment on Nigeria's economic development in different localities and, also on some development items such as skills transfer and human capital development. One of the implications of this research is the aggregate value of the Chinese investments should bring technology and skills transfers from the China's investors/institutions to Nigeria's society.

Key Words: China, Nigeria, Investment, Development, Skills Transfer

1. Introduction

The aim of this conference paper is to elaborate impacts of China's investment on Nigeria's development. The paper will focus on China's real investments in various local government areas of Nigeria. Development refers to economic growth, technology and skills transfer and improvements in human capital.

The study inquires whether the China's investments have brought development for Nigeria. It further analyses the extent to the level of developments in the form of local economic activities leading growth, level of technology transfer and volume of employed and skilled population as a result of China's investment.

This paper employs qualitative approach by using secondary sources. The method of data collection is the document analysis from the scholarly journals, books, reports and even news. The researcher observes the impacts through reports and news available about different local governments all around Nigeria. The data analysis method is content analysis. The paper presents and elaborates data and findings in a qualitative approach.

China's investment projects have been potential elements of economic opportunities, income, employment, and technology/skills transfer. The assessment of the impact of the investment carries importance.

The paper assesses the impact of China's real investment in Nigeria by China's state-owned companies, state-sponsored companies, and other private companies. Since the impacts of these projects appear in a long term, the study uses a large time scope which assumes the projects started after the signing of MoU between Nigeria and China. The ongoing effects of these projects are being studied once it appears in the literature or findings from the local data.

First part of this work reviews the literature in a thematic approach. It shows the empirical findings of research on the area. It also reveals the theories that had been used by several scholars in the area studied. Second part presents the findings of the author with systematic way. The findings are classified according to the items matching the relations between the real impact of the projects and any element of development. Third part critically discusses the realized added value, the level of growth and employment, the level of human skills/technology acquisition versus potential expectations from these projects. The final part concludes the study by indicating some policy recommendations.

2. Literature Review

China has been actively investing in Africa for many decades. However, China's FDI is mostly in oil sector. Only a small proportion of the China's FDI is on other manufacturing sectors such as pharmaceutical, telecommunications and agro-processing (Oyeranti et al., 2011: 189) Nigeria is one of the top countries receives Chinese FDI and investments. China has also been very active in constructing of airport terminals, railways, highways in Nigeria as well as other parts of Africa.

The existing literature presents data about the Chinese firms operating in few states of Nigeria. Most of the studies examined the investment projects and industries in Lagos and Ogun States in the Southwest; Calabar city in Cross Rivers State; and Onitsha and Nnewi cities in Anambra State. However, there are many other Chinese investments in different parts of Nigeria. Chinese companies are investing in various sectors like construction (roads, highways, railways, airports), light industries and manufacturing of furniture, ceramics, paper, and packaging.

a. Local Production and Local Inputs

Some of the Chinese manufacturing companies are supposed to produce the whole product in Nigeria. However, due to supply chain problems of some critical materials, the companies had to import many parts from China. Thus, the benefits of local production cannot reach to Nigerian economy. For instance, a Chinese baggage manufacturing company established a factory in Nigeria. However, due to supply-chain related issues, the company had to import many parts from China to finish the products. (Gu, 2009: 575)

Chinese companies are supposed to use local inputs and local content for manufacturing. However, the data shows that only 29 per cent of inputs were locally sourced. Adunbi and Stein (2019) presented the results of another survey which researched on fifty-four companies in Nigeria, found minimum level of local inputs of materials and technology (Adunbi and Stein, 2019: 205).

Even if Nigerian government emphasize on local content requirement, the compliance of this condition is met in way that helps Chinese investors rather than Nigerian economy. For example, the local content requirement in furniture sector was 35 percent. The requirement was met low value-added items such as wood which brings small contribution to local economy. Many of the high-value added inputs are imported from China (Adunbi and Stein, 2019: 211).

b. Impact of Construction Projects: Airports, Dams, Roads and Railways

Some of the China's investment projects are in construction industry which is labor intensive. In addition to construction workers, projects create additional job opportunities for construction material vendors, restaurant or food vendors, hotel businesses and other small vendors selling daily needs of the people around the projects (Dalibi and Bello, 2017: 538). On the other hand, negative elements, such us environmental problems of these projects should be considered (Oyeranti et al., 2011: 196).

Roads are essential elements for socio-economic development. Road construction can ease economic activities, improve opportunities for employment, education, and health. There are also countless benefits of road construction for the development such as the improvements of technology, service and material delivery and customer welfare. Railways also greatly contributes to the increased chances of mass-merchandise transfer, public transportation and urbanization thus leads to further socio-economic developments (Dalibi and Bello, 2017: 584).

Beside positive sides of construction projects, there are several negative aspects. These may reduce the economic welfare of the laboring community and also overall public health and safety. Environmental concerns are also high and always occupy the agenda. Gu (2009) claims that Chinese companies cause same level of environmental hazards and damages that Western firms did in different parts of the world (Gu, 2009: 583).

The sector produces welfare issues such as fierce price competition due to short-term labour contracts, seasonal work and wage dumping. The projects also reduce life quality such as bad air quality, disturbing noise and traffic jams. Traffic-related issues cause safety issues, traffic disruption and delays (Dalibi and Bello, 2017: 583).

Some of the investments of China disturb and limit residential development around them. The technical requirements for airports and hydropower dams cause resettlement of local indigenous communities. On the other hand, there are also positive externalities of these projects such as providing urban water, promoting tourism, controlling floods, facilitating agricultural production by irrigation (Dalibi and Bello, 2017: 584).

c. *Resettlement of Indigenous Communities*

Projects have many negative aspects such as the resettlement of communities, health and safety issues, such as poor air quality, heavy noise and disruption of traffic. Even if jobs provided during the construction phases of the projects, after the completion of the projects were terminated due to their contractual basis. In Lagos, the government promised to provide jobs for those communities who are displaced by the projects initiated by Chinese and Nigerian companies in the industrial zones. According to Adunbi and Stein (2019: 206), after the settlement of indigenous communities, the communities complain that they have not seen jobs.

d. *Low level of Sectoral Clustering and Competition*

According to investment master plans and intentions of Nigerian government, Chinese investments supposed to increase competition thus led to economic growth and development. However, the level of sectoral clustering and competition is very low according to studies. For example, in the Calabar Free Trade Zone of Bayelsa State in Nigeria, out of 74 companies 24 of them were manufacturing companies. Out of these, only 9 of them were Chinese investments according to data compiled in 2014. The companies were focusing on different sectors such as iron rods and billets, textiles, electronics, appliances, and automobiles. One of the steel firms, Bao Yao Steel, has no other competitor in the same region of Nigeria. Even if there are three electronics and appliance companies active in the same region, they belong to the same investor which is Skyrun International (Chen et al., 2016: 9). The lack of firm clustering reduces the chance of competition and economic efficiency of the production.

In another example, Yuemei Company has intended to create the cluster of textile manufacturing in Calabar FTZ. The plan was to invest $50 million to build a textile industrial park in the zone. "Once the industry park is completed, it is expected to have an initial complement of 15 Chinese textile firms, and will employ more than 3000 African workers." (Gu, 2009: 576). Initially 20 firms invested by Zhejiang company, Yuemei. The survey indicated that only two Chinese textile firms (Mawa and Jinmei) accepted the invitation to join textile cluster. These two companies in different areas of textile industry were lasted very short period, about 4 years. The companies experienced shortages of input and the lack of demand for the products. Besides, there are some serious claims about the Yuemei firm. Nigerian observers reportedly argue that "the Yuemei investors were more interested in transshipping products from China without paying appropriate duties than in local production" (Chen et al., 2016: 11). Both companies were legally expelled and sold out to non-Chinese industrialists. The findings show that the initial ambitious plan and employment targets have never been realized.

The intention of creating industrial parks by Chinese investors seemed very ambitious. However, the plans have not been realized or very short-lived before finalizing the whole project. For example, one o of the Chinese-state-sponsored companies, Hazan Shoes, had a factory inside Ogun State Free Trade Zone, stopped production before the completion of the industrial park planned initially. As it is explained above, the Yuemei cluster project was full of hopes. However, it turned out to be “only a cluster of empty factories located in Nigeria’s Calabar Free Trade Zone”(Chen et al., 2016: 6).

e. Local Employment

There are mix results about the employment impacts of the projects run by Chinese investors. The findings of Farole (2011) imply that the employment generation effect has not been promising as expected. Only 46 per cent of managers were Nigerian nationals in the surveyed Chinese-led businesses (Adunbi and Stein, 2019: 205). On the other hand, there are positive evaluations of the Chinese projects in terms of their contribution to local employment. There has been heavy criticism over the Chinese labor import by these investors. One of the case studies of Dalibi and Bello (2017: 586) observed that Chinese construction companies always prioritize and insist on bringing Chinese workers to conduct most of the projects. These negatively affect the Nigerian construction experts in terms of reaching out employment opportunities and gaining experience. Another survey data shows that the industries generate substantial local employment. For example, Skyrun company have a clear policy of the localization of its labor force. The study also indicates that bringing Chinese labor is not feasible due its costs (more costly than hiring locally). Although Nigerian government had initiated policies to allow only skilled expat workforce, Chinese investors demanded higher quotas of Chinese labor. However, Chen et al. (2016) found that “on average, the Chinese firms we sampled employ over 80 percent of their workforce locally”. Besides, Chinese expats work at managerial positions whereas Nigerians mostly work at the factory floor (Chen et al., 2016: 12).

Although there have been promising developments of the Chinese investments in terms of the expanding of Nigeria’s workforce, the outcome of employment has been problematic and has caused criticisms. Some of the criticisms are as in the following: Chinese investments hardly allow Nigerians in managerial positions which hinders skills transfer. Chinese companies barely employes local experts. Chinese companies’ behaviour to Nigerian workers are very problematic. According to reports, Chinese firms maltreat their workers and force them to work in unhuman conditions such as 12 hours working. There are deadly accidents caused by the Chinese managers in the factories in Nigeria. For example, in 2002, 37 Nigerians were caught in fire as the doors locked in a Chinese-owned factory (Oyeranti et al., 2011: 194; Igbokwe, 2020: 146). There are also recent critics of dehumanizing behaviors by Chinese employers in Nigeria (Osimen and Micah, 2022: 51).

f. Skills Training and Technology Transfer

Chen et al. (2016) reported scientific investigations how Nigerian businesspeople developed their skills in manufacturing after visiting factories in Asia. Later they shifted personnel to obtain skills from other workers trained by a new investor (Chen et al., 2016: 7). On the other hand, there are some signs of technology transfer during the servicing and maintenance of the imported machines from China (Adunbi and Stein, 2019: 199). The Nigerian Chinese joint ventures provide training for local labor thus upgrade industries with Chinese assistance (Chen et al., 2016: 13).

Chinese manufacturing firms are providing basic health and safety training and machine operation training (Chen, 2021: 10). This training is mostly in informal character. In the meantime, Nigerians learn how to operate machines and they also transfer these skills to other fellow Nigerians.

In terms of formal education, China's Confucius Institutes are active in Nigeria. A few Nigerian universities co-operating with the Confucius Institutes to teach Mandarin (Chinese) language to Nigerians. Later, these trained Nigerians are hired by Chinese companies in Nigeria (Chen, 2021: 11).

Cehn et al., (2016) observes that Chinese investments have low level of formal skills training. They mostly give on-the-job training which is not satisfactory. Only a few Chinese companies heavily invested on the training of their workers. In Calabar, for example, the Baoyao steel mill trained personnel as welders, and they have become highly skilled in welding. Even the Nigerian Maritime College reportedly sent their trainees to Baoyao to get welding training. Although many trained workers leave job after obtaining sufficient training, the companies consider this 'giving back to society' as part of their corporate social responsibility (Chen et al., 2016: 13-14).

g. Farming

Although Nigeria has large and fertile arable land, China's investments in agricultural sector of Nigeria has the lowest among other investments. Thus, China's investments in this sector contributes little to employment generation in Nigeria. Because China's investment is capital intensive, though Nigeria has abundant labor (Daniel and Maiwada, 2015: 283).

Few Chinese companies are active in agricultural sector investments. One of them is Ofada Vee Tee Rice Limited operating in Ogun State. The company collects paddy rice from Nigerian farmers and process the rice to produce high quality rice. The company contributes domestic production of high-quality rice which reduces the need for rice import. Thus, it helps self-sufficiency of Nigeria and revenue generation via import saving for Nigerian economy. As of 2011, 30 thousand farmers were supposed to supply paddy rice to the company (Oyeranti et al., 2011: 191).

Another Chinese investment in agricultural sector of Nigeria is The Green Agricultural West Africa Ltd (GAWA). The GAWA reached 500 hectares of yearly rice production in Nigeria. Later the GAWA made partnership with another Chinese company and expanded its investments in other areas of agricultural sectors, agricultural equipment, breeding, seeds, and agricultural research. The GAWA also trained local farmers (Nyiayaana and Jack, 2021: 17-18).

3. Findings and Discussion

In general, Chinese investments have attracted huge Chinese labor from China to Africa. The numbers have dramatically increased from 100, 000 in 1990s to over 1 million Chinese manpower as of 2011 (Nyiayaana and Jack, 2021: 13). Recently, there are also serious claims of increasing Chinese importation of labor into Nigeria. This number reached to 12199 as of 2019, according to the estimation of Nyiayaana and Jack (2021: 20).

The industrial zones have been disappointing, attracting a small number of Chinese firms, while generating little employment, and few of the other desired effects. Nigerian manufacturing exports have not expanded (Adunbi and Stein, 2019: 212).

Chen (2021) found out that Chinese companies mostly contribute local employment. The findings falsify the claims that Chinese firms bring their own employment from China. The research based on interviews in Lekki Free Zone found out that 83% of staff is local (Chen, 2021: 10). Nyiayaana and Jack (2021) estimate that about 4000 Nigerians are employed in Lekki Free Zone (Nyiayaana and Jack, 2021: 17).

The figures clearly show that Chinese investment projects increased employment rates. Adunbi and Stein (2019) calculated by using surveys' data that the workforce have increased more than twofold (from 551 to above 1000) from 2015 to 2018. Only about eighty-six of the employees were non-Nigerian (Adunbi and Stein, 2019: 209). On the other hand, Gu (2009) found out that Chinese investments mostly use local workforce in production, whereas they employ Chinese in managerial positions (Gu, 20098: 576).

The number of Chinese workers and managers is not high as criticized by some. Chinese are working as managers whereas Nigerians as workers. Chen et al. (2016) interviewed 12 Nigerian companies (joint ventures with Chinese). They observed that there are only 54 Chinese or foreign staff working whereas the number of Nigerian workers in 14063. One of the companies CEO reportedly told them the Nigerian workers 'can do the work without any input' from Chinese partners. The number of Chinese staff is decreasing as the local staff are trained. Chen et al. (2016) concludes that Chinese staff transfer technological skills to local staff and leave their positions to local ones (Chen et al., 2016: 15). However, some authors opine that Chinese investments hardly transfer technical and managerial skills to Nigerians (Nyiayaana and Jack, 2021: 24).

Once Nigerian Federal Government insist on the issue of training of local force, it has given some results. One of the Chinese investments in Nigeria, Huwaei, has created a training center in Nigeria to train 2,000 engineers annually (Oyeranti et al., 2011: 190). However, the insistence of local authorities is inconsistent or less durable. Thus, many Chinese investments bring little skills transfer. The findings of Adunbi and Stein (2019: 209) show that were no training facilities around the projects and projects were not cooperating with vocational training schools anywhere. On the other hand, language barrier between the Chinese and Nigerians are very high. Investment projects needs translators who have also experience in building industrial zones (Adunbi and Stein, 2019: 209). Chen (2021) finds that Confucius Institutes have initiated some language course to fill this gap. They are somehow successful in this regard. Technology transfer is another important expectation from the Chinese investments by Nigerians. Chen et al. (2016) investigated that there are some evidence of positive, albeit limited, technology transfer by the Chinese investments in Nigeria (Chen et al., 2016: 2). Chen et al. (2016) found that there has been more significant practice of technology transfer in automotive and construction sectors (Chen et. al., 2016: 13).

The free trade zones in Nigeria which are incentivized by the Nigerian Federal Government supposed to bring long term investments which can produce skills transfers and technology transfer. However, the findings of Adunbi and Stein (2019) and Chen et al. (2016) show that they are short-lived, and they do not provide sufficient level of technology transfer. Nyiayaana and Jack (2021) argue that Chinese investments obviously neglected technology transfer in their investments in Nigeria (Nyiayaana and Jack, 2021: 24). Due to the shortage of skilled labor in Nigerian job market, those trained staff do not contribute to the development of further human capital due to their volatility in the same company for long time.

Although many Nigerian industrialists import machinery from China due to their low-cost, they end up with regret because of poor technical qualities of Chinese-made machinery. Chen et al. (2016) found out that some of those Nigerian manufacturers who imported machines from China faced several problems such as missing parts, easily broken down in less than one year (Chen et al., 2016: 13). On the other hand, Chinese investments in Nigeria brings old and sub-standard technology to Nigeria (Osimen and Micah, 2022: 50). Because they cannot use them in China anymore due to regulations. However, they want to use these sub-standard poor-quality machines in Nigeria. Although Nigeria has regulations to check these, corrupt officials undermine the efforts of Nigeria in this regard. For instance, most of the of machinery from Baoyao Steel in Calabar FTZ were brought from China due to Chinese regulations and they were being shipped to Nigeria (Chen et al. 2016: 13).

4. Conclusion

The research finds that the Chinese investments in manufacturing sectors in Nigeria have brough some positive and some negative impacts. The study focuses on two broad topics, impacts of employment and the transfer of skills which is linked to human capital development.

On the issue of employment, there are mixed results. It is evident that Chinese investments in manufacturing sector has contributed to the employment of local workforce. The data show increasing numbers of Nigerians employed in the free zones and all other projects realized by the Chinese initiatives and capital. However, the findings also indicate that the number of local managerial level staff is still low. Local staff mostly employed at the level of ordinary workers. Unfortunately, there are many serious claims and evidence that Chinese investments use dehumanizing behaviors towards Nigerians.

As the second part of the findings indicate, Chinese companies have brought some initiatives for skills and technology transfer. The data show that skill transfer is minimal and limited. As an analysis, if one compares the number and size of Chinese investments in Nigeria with the level of skills transfer activities, the comparison rate will be clearly very low. Similarly, technology transfer is also very limited and problematic. There are scientific claims that Chinese initiatives clearly ignores the aspect of technology transfer in the projects. This is not acceptable for a developing country like Nigeria. Since skills and technology transfer are very limited in these investments, the level of human capital development stays very low. In sum, these are not helping the overall development of Nigeria. This kind of investments bring little benefits but more harms in terms of their side effects such as losing of Nigeria's national interest due to the incentives (tax evasion, free land etc.), human suffering due to health and safety issues, problems in labor welfare issues and serious environmental degradation.

As recommendations, Chinese investment projects should be incentivized, observed, regulated and implemented more wisely by the Nigerian Government. Project incentives should be designed realistically in a way that they should prioritize Nigerian national interests as well as local development. Projects should be monitored strictly. The Nigerian authorities should also use their regulatory powers to implement projects properly so that they give expected developmental impacts. They should not allow any sufferings of local labor and industrialists.

Secondly, skill transfer policies should also be strictly followed, regulated and also incentivized by the Nigerian Federal Government as well as by the state and local governments where applicable. It should be a pre-condition for Chinese projects. This precondition should not be removed by any local authority for any reason. The developmental impacts should be given the status of priority National interests.

5. References

Adunbi, O. & Stein, H. (2019). The Political Economy of China's Investment in Nigeria: Prometheus or Leviathan?. In A. Oqubay J. Y. Lin (Eds.), *China-Africa and an Economic Transformation*. (pp. 192-215) Oxford University Press.

Chen, Y. (2021). Africa's China': Chinese manufacturing investment in Nigeria and channels for technology transfer. *Journal of Chinese Economic and Business Studies*, 19(4), 335-358.

Chen, Y., Sun, I.Y., Ukaejiofo, R. U., Xiaoyang, T. & Brautigam, D. (2016). Learning From China? Manufacturing, Investment, and Technology Transfer in Nigeria. *SAIS China Africa Research Initiative,* Working Paper Series: 2, January 2016.

Dalibi, S. G. and Bello, B.S. (2017). Socio-economic impacts of Chinese government financed infrastructural development projects in Nigeria. *Advances in Economics*, *Business and Management Research*, 33, [Second International Conference on Economic and Business Management (FEBM 2017)], 579-588.

Daniel, G. H. and Maiwada, S. (2015). Chinese Trade and Investment in Nigeria's Agricultural Sector: a Critical Analysis. *American International Journal of Social Science*, 4(2), 277-287.

Farole, T. (2011). Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience. *Directions in Development; trade*. World Bank.

Gu, J. (2009). China's Private Enterprises in Africa and the Implications for African Development. *European Journal of Development Research*, 21(4), 570–587.

Igbokwe C.C. (2020). Nigeria-China Relations: Impact on Power and Development in Nigeria. *Vestnik of Saint Petersburg University*. *Asian and African Studies*, 12(1), 141–151.

Nyiayaanaa K and Jack, J. T.C.B. (2021). Chinese Investments in Nigeria and the Political Economy of Trade, 1999 - 2019: A Leadership Perspective, *Leadership & Developing Societies*, 6(1), 10-29.

Osimen, G. U. and Micah, E. E. M. (2022). Nigeria-China Economic Relations: Matters Arising. *Global Journal of Political Science and Administration*, 10(3), 42-54.

Oyeranti, G. A, Babatunde, M. A. and Ogunkola, E. O. (2011). An analysis of China-Nigeria investment relations. *Journal of Chinese Economic and Foreign Trade Studies* 4(3), 183-199.