China's Economic Growth Driven Reform Strategies 1978 – 2010: Any lessons for Nigeria?

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Abstract
China's rapid economic transformation over the past thirty years has come as a surprise to many considering the previous condition of the country. This has resulted mainly from China's open door policy, adopted in 1978, thus facilitating massive inflow of foreign direct investments (FDI) into its manufacturing sector. China's manufacturing sector continues to churn out complex export products that have created an unprecedented export-led growth. China's experience, especially when compared with other developing economies, is exemplary. This is unlike Nigeria's resource-driven economy, where even the meagre FDI that comes in is channelled into the oil industry, while manufacturing production receives limited attention. The article highlights the lessons that Nigeria could learn from China in view of the similarities between the two countries.

Introduction

China and Nigeria have a lot in common although there are also some differences between them. In terms of differences, whereas Nigeria operates the Western neo-liberal economic system with a developing multiparty democratic system, China operates a socialist democratic/market economy dominated largely by one party although there are other smaller parties in parliament. On the other hand, China, like Nigeria is a multiethnic and multireligious society. Both have histories dating back to centuries. They also have the largest populations in their different continents with vast natural resources. But China obviously has developed faster than Nigeria. What are the reasons behind this?

The sustained economic growth of any nation is important because it is what provides the basis for its future development. A nation's economic growth could contribute to advancements in every field of human endeavour, by creating beneficial outcomes and solutions to human problems. What engenders economic growth, especially among developing nations, has equally remained a matter of conjecture among scholars. In the past, many have attributed it to the availability of natural resources. But that seems to have changed now, as human skills and competences, technology and innovation, trade and investment, macroeconomic policies and governance issues, as well as the availability of functional infrastructure and efficiency of domestic production systems, seem to have taken centre stage.

Ocampo believes that the economic growth of developing countries is intrinsically tied to the dynamics of production structures and to the specific policies and institutions created to support it, especially those that facilitate the diffusion of innovations generated in the industrialised world and the creation of linkages among domestic firms and sectors.[1] Bleaney adds that good macroeconomic management is also associated with faster growth for a given rate of investment.[2]

Other scholars, including Borensztein[3], Makki[4] and Loots and Kabundi,[5] emphasise the critical role of foreign direct investment (FDI) to economic growth. According to Borenstein, FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. Makki also points to the strong positive interaction between FDI and trade, especially in advancing economic growth, which in the end stimulates domestic investment.[6] While reviewing the case of Africa, Loots and Kabundi report that FDI flows to the continent are unevenly spread and are concentrated in the largest economies and/or in petroleum/oil-exporting countries. Nevertheless, it is also important to note that whereas FDI is making a substantial contribution to the economies of small countries, oil exporters and the sise of the economy are powerful explanatory variables in explaining FDI flows to Africa with trade openness acting as a positive, but less powerful variable.[7] Asiedu supports this view, but warns that when it comes to what attracts FDI and its impact, Africa must be treated differently given that policies that have been successful in other regions may not be equally successful in Africa[8], due to the continent's peculiar sociopolitical and economic conditions. Corroborating this view, Zhang argues that the extent to which FDI is growth-enhancing actually depends on a country's specific characteristics. Using eleven economies in East Asia and Latin America, he tries to show that FDI tends to promote economic growth when host countries adopt liberalised trade regimes, improve education and general human capital

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[1] J. Ocampo (2003) "Structural Dynamics and Economic Growth in Developing Countries", www.newschool.edu/scepa/events/papers/workshop/ocampo_2004002.pdf 9accessed 2 December, 2012)

[2] M. Bleaney (1996) "Macroeconomic Stability, Investment and Growth in Developing Countries," *Journal of Developing Economies*, 48, 461 - 477

[3] E. Borensztein et al (1998) "How does Foreign Direct Investment affect Economic Growth", *Journal of International Economics*, 48, 115 - 135

[4] S. Makki (2004) "Impact of Foreign Direct Investment and trade on Economic Growth: Evidence from Developing Countries", *American Journal of Agricultural Economics*, 86, 3, 795 - 801

[5] E. Loots and A. Kabundi (2012) "Foreign Direct Investment to Africa: Trends, Dynamics and Challenges", *Sajems*, 15, 2, 128 - 141

[6] Makki (2004)

[7] Loots and Kabundi (2012)

[8] E. Asiedu (2002) "On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?", *World Development*, 30, 1, 107 - 119

conditions, encourage export-oriented FDI, and maintain macroeconomic stability.[9]

There are yet other scholars who project industrialisation as the catalyst of economic growth. Foremost among them is Kniivila, who has used the examples of China, India, Korea, Taiwan, Indonesia, Mexico and Brazil to demonstrate that industrial development has been an important basis for economic growth.[10] The peculiar challenge of a number of developing countries, in terms of resource-driven economic growth, has equally received the attention of scholars. Most of these countries have been categorised as suffering from the 'resource curse'. In fact, it has been shown that most resource-abundant countries engender a political state that is mostly factional or predatory and distorts the economy in the pursuit of rents,[11] given that natural resource abundance creates opportunities for rent-seeking behaviour, even as it is an important factor in determining a country's level of corruption.[12] Moreover, resource-abundant countries tend to be high-price economies and, as a consequence, these countries tend to missout on export-led growth.[13] This probably explains the situation in Nigeria and indeed other oil-exporting countries.

These are the main issues involving industrialisation and economic growth in developing nations. We shall proceed to use China and Nigeria to demonstrate the potency or otherwise of these arguments by reviewing some of the economic policies and programmes implemented by the two countries, especially since the 1970s up to 2010, with emphasis on how such policies have facilitated the growth or otherwise of the two economies.

The study adopts the framework of Neoliberal economics, an ideology based on the primacy of individualism, market liberalism, entrepreneurship and state contraction, with the central assumption that competitive, unregulated markets represent the optimal mechanism for economic development. The argument initially was in favour of government taking a leading role in the allocation of

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[9] K. Zhang (2001) "Does Foreign Direct Investment Promote Economic Growth? Evidence from East Asia and Latin America", *Contemporary Economic Policy*, 19, 2, 175 - 185

[10] M. Kniivila (2007) "Industrial Development and Economic Growth: Implications for Poverty Reduction and Income Inequality" in United Nations, *Industrial Development for the 21st Century: Sustainable Development Perspectives*, Department of Economic and Social Affairs

[11] R. Auty (2001) "The Political Economy of Resource-driven Growth", *European Economic Review*, 45, 839 - 846

[12] C. Leite and J. Weidmann (1999) "Does Mother Nature Corrupt? Natural Resources, Corruption and Economic Growth", IMF Working Paper No. 99/85, http://ssrn.com/abstract=259928 (accessed 3 December 2012).

[13] J. Sachs and A. Warner (2001) "Natural Resources and Economic Development: The Curse of Natural Resources" *European Economic Review*, 45, 827 - 838

investment, thus controlling the commanding heights of the economy and intervening to compensate for market failures. However, by the 1970s and early 1980s, several governments in most developing economies had been mired in economic policies that were manifestly unworkable.[14] Hence, state interference with the market mechanism was considered ineffective and counterproductive.

Overtime, the argument of the Neoliberals began to take centrestage. For these scholars, human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade.[15] The primary role of the state, therefore, is to create and preserve an institutional framework appropriate to such practices. As former American president Ronald Regan put it, 'societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in sise, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the market place'. Millions making their own decisions in the market place, he argued, will always allocate resources better than any centralised government planning processes.[16]

From the early 1980s, therefore, the views of Neoliberals increasingly favoured limiting the role of the state, creating a liberal economy and instituting a strict monetary policy according to the guidelines of the International Monetary Fund (IMF) and the World Bank as the major policy options especially for the several Third World countries that were already enmeshed in deep financial crisis. It was against this background that several developing countries, including China and Nigeria, began to embrace policies tailored towards deregulation and privatisation of their economies.

China's Economic Reform and Growth Strategies Since 1978

By 1978, China's economy was largely backward and underdeveloped. Decades of social and economic mismanagement had left most of its sectors in bad condition. To worsen matters, the decade-long Cultural Revolution (1966 – 1976) not only affected the people's sociocultural life but also dealt a devastating blow on the economy. In fact, nearly three-fourths of industrial production was accounted for by centrally controlled state-owned enterprises and according to centrally planned output targets. Private enterprises and foreign-invested firms were almost non-existent. In fact, the central goal of the

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[14] A. Krueger (1990) "Government failures in Development", *The Journal of Economic Perspectives*, 4, 3, 9 - 23

[15] D. Harvey (2005), *A Brief History of Neoliberalism* (Oxford: Oxford University Press), 2

[16] R. Peet (2003), *Unholy Trinity: The IMF, World Bank and WTO* (London: Sed Books)

government, according to official sources, was to make its economy relatively self-sufficient. Hence, foreign trade was limited to obtaining only those goods that could not be made or obtained in China.[17]

That the country was in dire need of change was self-evident, especially to avoid another revolution. It was therefore not surprising that at the third full meeting of the Central Committee of the 11th term of China's Communist Party (CPC) in 1978, the four modernisations (Agriculture, Industry, Defence and Science & Technology) were added to the revised rules and new Constitution of the party. It also became obvious that the country's leaders had decided to break with the Soviet-style economic policies, by gradually reforming the economy according to free market principles and opening up trade and investment with the West, in the hope that this would significantly increase economic growth and raise living standards. As Deng Xiaoping (Chinese leader at the time) put it, 'black cat, white cat, what does it matter? It does not matter, what colour the cat is, as long as it catches mice'[18]..

Deng Xiaoping's pronouncement indeed set the tone for economic reform, which was what transformed China and enabled it to join the league of vibrant and dynamic economies of the world. Within a space of thirty years (1978 - 2008), China's Gross Domestic Product (GDP) grew by 9.7% annually, from US$216.5billion to US$4.4trillion. What triggered this rapid economic growth and transformation? What economic reform strategies were adopted? It is these issues that the subsequent paragraphs will address.

Beginning from 1978, China adopted different policies to promote industrialisation and economic growth. The country's development process, in fact, went from rural-agricultural reform (1978 – 1984) to urban-industrial reform (1985 – 1989); and from the open-door policy (since 1978) to macroeconomic structural reform (since the 1990s). These measures not only improved its economic performance but also transformed its economic system from one characterised by central planning to one driven essentially by the market system.[19]

In fact, the aim of the post-Mao Chinese reformers from the outset seems to have been to build an economic system of 'socialism with entirely Chinese characteristics' a system characterised by the maintenance of elements of the centrally planned economic system side by side the adoption of elements of market socialism. And with this in mind, the reformers introduced various

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[17] W. Morrison (2009) "China's Economic Conditions", Congressional Research Service 7-5700 (prepared for members and Committee of Congress), www.crs.gov accessed November 12, 2012

[18] Morrison (2009)

[19] K. Liou (1999), "Strategies and Lessons of China's Post-Mao Economic Development", *Policy Studies Review*, 16, 1, 183 - 208

policy measures that gradually improved the country's economic system and promoted its overall performance.[20]

Nevertheless, we shall concentrate on China's open-door policy, which successfully attracted massive foreign investments into the country, thus facilitating rapid economic growth; and, the establishment of Special Economic Zones (SEZ), with multiple variants including Economic and Technological Development Zones (ETDZ) and the High-technology Industrial Development Zones (HIDZs).

The Open-door Policy and its Implications for Foreign Direct Investment (FDI)

At the Second Session of the 5th National People's Congress in July 1979, the 'Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment' was adopted, thus granting foreign investment a legal status in China. Similarly, in December 1982, the decision to open up China to the world economy was formally included in the State Constitution adopted by the 6th National People's Congress.[21] The immediate consequence of these decisions was a direct upsurge of foreign direct investment (FDI) into China.

Indeed, it is easy to appreciate what the open-door policy did to China's economy, in terms of attracting FDI, especially once the period before it was put into context. For instance, up till 1979, no foreign-owned enterprise operated in China as foreign money was viewed with suspicion by its leaders. Prior to the introduction of reform, the state monopolised virtually all trading activities through the state trading corporations. No firm or individual could export or import goods without the intermediation of one of these corporations. There was also no close link between the world and domestic prices of tradable goods given that the state trading corporations purchased imports at the world price and later sold them domestically at prices determined by the state, which typically did not vary with the world price or domestic demand. Similarly, a state trading corporation purchased exportable goods from domestic firms at a plan-dictated price and sold them at a world market price; even as foreign exchange was tightly controlled. Likewise, all foreign exchange resulting from exports was retained by the state, while all imports had to be part of a state plan to materialise.[22]

China's preference for FDI was never hidden. The overall motive, as government records suggest, was to develop a diversified industrial base;

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[20] Ibid

[21] C. Chen et al (1995) "The Role of Foreign Direct Investment in China's Post-1978 Economic Development", *World Development*, 23, 4, 691 - 703

[22] S. Wei (1995) "The Open Door Policy and China's Rapid Growth: Evidence rom City-level Data" in T. Ito and A. Krueger (eds), *Growth Theories in Light of the East Asian Experience* (Chicago: Chicago University Press), 75

introduce and transfer new technology; stimulate economic growth; upgrade managerial and labour skills; and increase exports, especially of manufactured goods.[23] Looking critically at a dynamic pattern of FDI in China since 1979, one would immediately distinguish three phases: first was the period between 1979 and 1983, largely characterised by sluggish increase; then, the period 1984 to 1991, during which inflows of FDI attained an appreciable increasing trend and finally, the third phase (since 1992), when the country witnessed a massive expansion of FDI, which has made it the second largest recipient in the world.[24]

It has been argued that the success of FDI, especially in the case of China, could be accounted for by two reasons. First, the low factor costs and tax concessions, which often ensured high returns even in a short time; and, secondly, the fact that overseas Chinese could use their connections and familiarity with Chinese culture to get things done without the procedural protection of the laws. In fact, the later was one important reason for Hong Kong's prominence as a primary source of FDI in China.[25]

Opinion was initially divided on the likely impact of foreign investments on China's economy. For instance, it was initially feared that an open-door policy of this kind could have disruptive effects on the socialist economic system, and that great damage could be done to domestic economic development, especially if the policy were to fail. Perhaps, it was because of this that the authorities initially put various restrictions, especially geographical, on the first foreign investments essentially to minimise risks. It may equally have been for this reason that the Special Economic Zones (SEZs) were used as experimental grounds for attracting FDI. Along this line, the SEZs were sited in economically underdeveloped areas so that any damage to the economy caused by a possible failure of the open-door policy, initially conceived as an experiment, would be limited.[26]

FDI in China is concentrated in manufacturing, which accounted for nearly 70% of total inflows by 2002 as Table 1 below shows. The primary sector (Agriculture and Mining) accounted for only 3% in that year, with services including Research and Development (R & D) accounting for the remainder.[27]

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[23] Ibid

[24] S. Dees (1998) "Foreign Direct Investment in China: Determinants and Effects", *Economics of Planning*, 31, 175 – 194

[25] Wei (1995)

[26] A. Bohnet et al (1993) "China's Open-door Policy and its significance for Transformation of the Economic System", *Intereconomics*, 28, 4, 191 - 197

[27] Y. Zhou and S. Lall (2005) "The Impact of China's FDI Surge on FDI in South-East Asia: Panel data analysis for 1986 – 2001", *Transnational Corporations*, 14, 1, 40 - 65

Table 1: Share of Utilised FDI, by Sector and Industry 2000 – 2002

Sector	2000	2001	2002
Farming, Forestry, Animal Husbandry & Fisheries	1.66	1.92	1.95
Mining & Quarrying	1.43	1.73	1.10
Manufacturing	63.48	65.93	69.77
Electricity, Gas & Water	5.51	4.85	2.61
Construction	2.22	1.72	1.34
Geological prospecting	0.01	0.02	0.01
Transport, Storage, Post & Telecommunication Services	2.49	1.94	1.73
Wholesale & Retail trade & Catering	2.11	2.49	1.77
Banking & Insurance	0.19	0.08	0.20
Real Estate Management	11.44	10.96	10.74
Social Services	5.37	5.54	5.58
Healthcare, Sports & Social Welfare	0.26	0.25	0.24
Education, Culture & Arts, Radio, Film & Television	0.13	0.08	0.07
Research & Development Services	0.14	0.26	0.37
Others	3.57	2.24	2.50

Source: *Y. Zhou and S. Lall (2005) "The Impact of China's FDI Surge on FDI in South-East Asia: Panel data analysis for 1986 – 2002"*

Owing to continued improvements in the open-door policy, by 2002, China had for the first time, surpassed the United States of America (USA) as a prime destination for FDI with an inflow of US$53billion. It also became the largest recipient of FDI in the world.[28] FDI inflows to China in 2002 were twenty-eight times higher than it was in 1986, while its share of global FDI inflows increased from 1.4% to 8.1% over the period. Similarly, the country's large and fast-growing market, cheap and productive labour, large pool of technical skills, growing export competitiveness and accession to the World Trade Organisation (WTO) all increased Trans National Corporations (TNCs) interests in locating operations there.[29]

Without doubt the massive FDI inflows into China, especially since the 1990s, has implied the import of advanced technology and equipment and narrowing the technology gap between it and the rest of the world. It has also introduced new management serving as reference for domestic enterprises. Moreover, FDI impact on state revenue and employment has been substantial. It has also increased export of manufactured goods.[30] In fact, the creation of employment opportunities in particular (directly or indirectly) has been one of the most prominent impacts of FDI on the economy of China. Records show that by the end of the 1990s, foreign firms alone employed

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[28] Zhou and Lall (2005)
[29] Ibid
[30] Dees (1998)

about 20million workers (3% of total) in China.[31] This number has continued to increase over the years.

Furthermore, through FDIs, China's manufacturing exports have been greatly increased. While its exports were ranked 26th in the world in 1980, with the volume of US$18billion and 47% of the exports as manufactured goods, the corresponding numbers in 1998 were 9th in the ranking, US$184billion and 89% respectively.[32] Similarly, increases in foreign-invested enterprises (FIEs) have not only augmented China's export volumes, but also upgraded its export structure. Exports by FIEs in China rose 66.7% annually over 1980 – 1998 and the value of their exports in 1998 (almost all of them as manufacturing goods) were US$88.6billion comprising 44% of China's total exports in that year.[33]

In spite of the foregoing, perhaps China would still have benefitted more from its open-door policy, which has attracted massive FDI, but for its imperfect property and contractual laws. Legal enforcement is generally weak in spite of the laws that exist in written form. There is in fact very little doubt that FDI from other than ethnic Chinese would have been greater had there been a better and more transparent legal environment for business, even as improving the creation and particularly the enforcement of property and contractual laws remains an important factor for the continued success of China's open-door policy.[34] Nevertheless, it is evident that China's open-door policy with its concomitant impact on foreign direct investment is a major catalyst for the country's economic growth over the past thirty years.

The Special Economic Zones (SEZ)

Closely related to China's open-door policy is the adoption of the Special Economic Zones (SEZs) as a fundamental strategy for industrialisation and economic growth. In fact, once the country adopted the open-door policy on foreign investment and trade, it announced the setting up of four Special Economic Zones (SEZs) in the south-eastern provinces of Guangdong and Fujian between 1979 and 1980. The promulgation of the 'Regulation on Special Economic Zones' law was therefore seen as a landmark in the country's reform efforts. The law defined a Special Economic Zone as an area where enterprises were treated more preferentially than in other areas in

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[31] N. Madariaga and S. Poncet (2007) "Foreign Direct Investment in Chinese Cities: Spillovers and Impact on Growth", *The World Economy*, 30, 5, 837 - 862

[32] K. Zhang (2001) "How does Foreign Direct Investment affect Economic Growth in China?", *Economics of Transition*, 9, 3, 679 - 693

[33] Ibid

[34] Wei (1995)

relation to such matters as the tax rate and the scope of operations in order to attract foreign capital and advanced technology for modernisation.[35]

It was hoped that by granting special investment incentives to foreign investors, an export-oriented industrial base might be created in the SEZs using foreign capital and technology. Many of these privileges were also to be extended to the domestic enterprises to encourage their participation in the SEZs and thus increase their contact with foreign technology and managerial skills.[36] The Zones were considered special in the sense that different sets of rules and regulations were allowed to operate such that their 'economy' will develop and thrive, as different from that of the rest of the country.

According to Wu Nansheng, head of the Guangdong Provincial SEZ administration, China hoped through the adoption of the SEZ to gain an understanding of the development of modern capitalist economies. Thus, the SEZs were seen as testing grounds for integrated development in infrastructure, regulation and law, industrial projects, construction, tourism and foreign investment.[37]

Given this framework, the initial four SEZs of China were therefore located along the coast of South China, each close to the other especially to benefit from the long-established trading ports. They equally had easy access to existing port facilities and were conveniently located for international trade. Two of them, Shenzhen and Zhuhai, also shared borders with Hong Kong and Macao and benefitted from the urban markets of these two established far eastern trading ports. Hong Kong in particular offered the nearby zones excellent transport and communication services as well as a major source of outside investment, being itself a siseable economy.[38]

Three reasons have been advanced as to why China decided to establish the SEZs in Guangdong and Fujian provinces located near Hong Kong, Macao and Taiwan. First, China, it was argued, has kept promising 'one state-two systems' to Hong Kong, Macao and Taiwan, which would allow capitalist and socialist systems to co-exist within the same environment. Thus, the SEZs were seen as a trial area for the construction of socialism based on this one state-two systems approach, which was unique to China. The second reason, it is further suggested, may have been the potential use of the economic power of overseas Chinese. The nearby presence of the strong

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[35] X.Chen and T. Medici'II (2009), "The 'Instant City' Coming of Age: China's Shenzhen Special Economic Zone in Thirty Years", Centre for Urban and Global Studies, Trinity College Connecticut, Inaugural Working Paper Series

[36] E. Wong (1987) "Recent Developments in China's Special Economic Zones: Problems and Prognosis", *The Developing Economies*, 25, 1, 73 - 86

[37] Ibid

[38] V. Sit (1985) "The Special Economic Zones of China: A New type of Export Processing Zone?", *The Developing Economies*, 23, 1, 69 - 87

economic power of Hong Kong, Macao and Taiwanese businessmen was an important consideration, especially in establishing the SEZs of Shenzhen, Zhuhai, Shantou and Hainan in the Guangdong area and Xiamen in the Fujian area. There was also a third reason, which concerns the multiple layers of China's unique economic structure necessitating a development strategy to satisfy the features of each area, instead of implementing a nationally uniform strategy. In other words, China could achieve advancement of the entire state economy only through the improvement of each economic area.[39]

Some of the initial challenges that arose from the establishment of the zones were economic crimes, such as black racketeering of foreign currency and smuggling. For instance, using their import and export privileges, businessmen and some corporations in the zones occasionally imported consumer goods, such as cars, radios, tape recorders and colour television sets with foreign currencies, which they bought at the black market at high exchange rates of between 60, 000 - 70, 000 Yuan to one USD (two to two and half times over the official rate). They would later resell these goods at higher prices to customers from the interior of the country. In this way, SEZ autonomy was grossly abused.[40]

However, once these initial setbacks were successfully resolved, the new zones began to power a steep increase in labour-intensive manufactured exports. For instance, Guangdong and Fujian moved quickly to welcome investments from overseas Chinese entrepreneurs, many of whom had family ties in those provinces. Overseas investors were classified as 'compatriots' (tongbao) rather than 'foreign merchants' (waishan) and were therefore accorded special privileges. China thus benefitted enormously from a historical accident. Beijing's decision to allow inflows of foreign direct investment came just as steep increases in labour costs prompted Taiwanese and Hong Kong entrepreneurs to seek new locations for their labour-intensive export operations. This resulting marriage of ethnic Chinese business operators with Chinese migrant workers provided a massive boost to nascent reform efforts and launched China on a trajectory toward its current status as the 'workshop of the world'.[41]

The four initial SEZs established in 1980 were similar in that they comprised large areas within which the objective was to facilitate broad based comprehensive development. They were also encouraged to pursue pragmatic and open economic policies, serving as testing ground for innovative policies

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[39] J. Park (1997), *The Special Economic Zones of China and their Impact on its Economic Development* (USA: Praeger Publishers), 3

[40] Ibid, 6

[41] L. Brandt et al. (2012) "From Divergence to Convergence: Re: Evaluating the History Behind China's Economic Boom" Global COE Hi-Stat Discussion Paper Series 217, Hitotsubashi University, Japan

that once proven effective would be implemented more widely across the country.[42]

The case of the Shenzhen SEZ is self-evident. Its annual average growth of 30% since 1980 has remained unequalled around the world, with a GDP of almost US$100billion in 2007, ranking 4th among all Chinese cities. Shenzhen's GDP per capita surpassed US$10, 000 (the first Chinese city to do so), with its projected GDP per capita possibly reaching US$20, 000 by 2020. In fact, Shenzhen industrialised at a greater rate than any other Chinese city between 1980 and 2007. Yet, only thirty years ago, the same Shenzhen barely had a siseable road linking its centre to the outside world; it developed into an export logistics hub, boasting of the world's 4th largest container port behind only those in Singapore, Shanghai and Hong Kong.[43]

By 1981, the four SEZs accounted for 58.8% of total FDI in China, with Shenzhen alone accounting for the lion's share of 50.6%, while the other three accounted for roughly 3% each.[44] Once the early success of the SEZs had been confirmed, Chinese authorities from 1984 decided to open the economy further, by extending similar favourable policies to 14 coastal open cities and in the following years to cities in the Pearl River Delta, the Yangtse River Delta and the Min Delta in Fujian.[45] In fact, it was at this time that the central government created another variant of SEZs, which it dubbed Economic and Technology Development Zones (ETDZs) informally known as China's National Industrial Parks.[46]

The contributions of the SEZs to the economic growth of China, especially in terms of share of GDP, FDI, employment creation, technology and skills spill overs cannot be overemphasised. From experimental beginnings as policy test beds for controlled economic liberalisation and market-oriented reforms in 1979/1980, Chinese SEZs by 2007 accounted for more than 22% of GDP and 50% of FDI.[47]

On the whole SEZs played a key role in China's industrialisation and economic growth as a testing ground for economic reforms, for attracting FDI, catalysing industrial clusters, and for learning new technologies and incubating new management practices. In fact, SEZs were used to reduce

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[42] Y. Yeung (2009), "China's Openness and Reform at 30: Retrospect and Prospect", The China Review, 9, 2

[43] Chen and Medici'II (2009)

[44] Yeung (2009)

[45] Ibid

[46] Seng (2011)

[47] D. Brautigam and X. Tang (2011) "Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned", www.american.edu/sis/faculty/upload/Brautigam-Chinese-Investment-in.pdf, accessed 1 December, 2012

resistance and opposition to critical reforms and build broad support for reforms through demonstration and controlled experimentation. A World Bank study in 2007 revealed that SEZs still accounted for about 22% of national GDP, about 46% of FDI, about 60% of exports, even as they generated in excess of 30million jobs. They have also benefitted from the gradually loosened household registration system as well as other policies that promote labour mobility.[48]

Nigeria's Efforts at Industrialisation and Economic Growth

It is not in doubt that Nigeria's policymakers and successive and administrations have been grappling with the challenge of how to achieve rapid industrialisation and economic growth since the country's independence in 1960. It is against this backdrop that the country has experimented with several economic development policies and strategies among which are the Import Substitution Strategy (ISS), Indigenisation Policy and the Structural Adjustment Programme (SAP). That none of these policies have proved to be panacea to the country's development challenge is manifested in the poor economic circumstance of the country. Even the discovery of crude oil, which immediately became Nigeria's primary export commodity and major foreign exchange earner, seemed to have only worsened the situation leading to the almost total neglect of other sectors. Unfortunately, the volatility of international oil prices only seems to have led Nigeria's resource expectations into avoidable difficulties, resulting in the resurgence of calls for the diversification of its economy in general and revenue base in particular.[49]

Table 5: Sectoral Contributions to Nigeria's GDP, 1960 – 2009 (%)

Activity Sector	1960 – 1970	1971 - 1980	1981-1990	1991- 2000	2001 - 2009
Agriculture	55.8	28.4	32.3	34.2	40.3
Industry	11.3	29.1	41.0	38.6	28.4
Manufacturing	6.6	7.3	6.1	4.9	3.9
Building & Construction	4.8	8.3	2.3	1.8	1.8
Wholesale & Retail Trade	12.8	17.6	14.5	13.8	14.0
Services	15.3	16.5	9.8	11.5	15.5
Total Value Added	100.0	100.0	100.0	100.0	100.0
Diversification Index	0.2	0.4	0.4	0.4	0.3

Source: S.L. Sanusi (2010) "Growth Prospects for the Nigerian Economy" 8th Convocation Lecture, Igbinedion University, Okada

[48] World Bank Institute (2010) "The 3rd China-Africa Experience-Sharing Programme on Special Economic Zones and Infrastructure Development", Working Paper No. 68922

[49] Obi Iwuagwu (2009) "Nigeria and the Challenge of Industrialisation: The New Cluster Strategy", *African Economic History*, 37, 151 - 180

Table 5 above shows the % contribution of the different sectors of Nigeria's economy to the country's GDP from 1960 to 2009. Although agriculture remained an important component of the GDP, given that over 60% of the population is engaged in it, the contribution of industry (which here includes the oil sector) is noteworthy, while the pitiable plight of the country's manufacturing sector leading to its poor performance is also self-evident. In fact, petroleum and petroleum products account for up to 95% of the country's exports. Of course, such a heavy reliance on rich mineral reserves also makes its economy highly vulnerable to volatile economic fluctuations.

In any case, this is not to suggest that Nigeria is not sufficiently endowed with human and natural resources or is not receiving appreciable foreign direct investments especially to engender its industrialisation and economic growth. On the contrary, Nigeria is not only endowed with a huge population (over 160million people), which makes her an attractive market, but also has enormous natural resources including minerals, vast agricultural land, beautiful climate, strategic location, etc.

It is noteworthy, however, that unlike China, most FDI inflows to Nigeria go into oil-related and resource-based activities rather than manufacturing activities. In fact, the presence of Multi-National Corporations in Nigeria is mainly restricted to the petroleum extraction industry with a few in the food industry. Nigeria seriously lacks the manufacturing investments required to boost the industrial small-scale sector through subcontracting arrangements and inter-firm cooperation.[50] Regrettably, the concentration of FDI inflows to resource-based activities limits technology transfer and inhibits job creation, essentially due to the capital-intensive nature of the extraction process.

Furthermore, Nigeria faces a greater challenge with its industrial capabilities and policies as the industrial sectors contribution to national Gross Domestic Product (GDP) has more or less remained on a steady decline. In fact, prior to independence in 1960, the country was primarily an agrarian state, in production for both domestic consumption and export. Industrialisation was obviously not part of the colonial economic policy, as the different colonial officials were mainly concerned with ensuring that the colony produced raw materials for foreign industries, while receiving imported manufactures. Little wonder why large-scale manufacturing plants were rare in Nigeria until the 1950s.

As a result, the contribution of manufacturing to GDP in 1958 was a mere 4%. However, five years later (1963), it rose to 5.6%, with a corresponding annual rate of growth of 17%. This trend of growth was maintained even in the early post-independence years to the point that by 1967 manufacturing

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[50] M. Albaladejo (2003) "Industrial Realities in Nigeria: From Bad to Worse", QEH Working Paper Series 101

contributed 8.4% of GDP. The high degree of transformation taking place in the sector was very remarkable. From 50% in 1958, the value-added generation from the processing of agricultural products however fell to less than 25% in 1967, even as industrial factory production accounted for the rest. The situation later picked up as industrialisation soared during the oil boom era (1973 – 81) with manufacturing share of GDP reaching 11%, but later declining sharp to about 5% in 2000. Subsequently, manufacturing export became barely 0.4% of exports, while import of manufactured goods shot up to 15% of GDP or more than 60% of total imports. The sector was to record even more worrisome developments in later years. For instance, manufacturing value-added as percentage of GDP stood at just 5% in 2000 (less than the proportion at independence in 1960), thus making Nigeria one of the 20 least industrialised economies of the world.

Between these years, government also took some decisive steps to strengthen the fortunes of the sector. For instance, in 1988 it launched an industrial Policy with several broad objectives. Government also tried to address the challenge of inadequate fund availability to the manufacturing sector by merging the Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry and the National Economic Reconstruction Fund (NERFUND) in January 2000 to form the Bank of Industry (BOI). Similarly, the Nigeria's Bankers Committee in 2001 mandated all banks in the country to henceforth set aside 10% of their profit before tax for equity investment in Small and Medium Scale Industries (SMIs). The Scheme was to, among other things, assist in the establishment of new viable SMI projects thereby stimulating economic growth, developing local technology, promoting indigenous entrepreneurship and generating employment. This fund was called the Small & Medium Enterprises Equity Investment Scheme (SMEEIS). However, this laudable initiative was frustrated by the inaccessibility of the funds by small businesses owing to systemic bottlenecks and poor understanding of the operations of the system even by the small businesses.

Thus, the fortunes of the country's manufacturing sector continued to decline. In fact, a combination of numerous factors including low capacity utilisation; unstable infrastructure (which impacts on cost of doing business); absence of venture capital for business start-ups; high cost of capital especially from banks and other financial institutions; lack of long-term loans; absence of enabling macroeconomic environment; multiple taxation by the different agencies of government, etc; have combined to ensure the poor performance of Nigeria's industries.[51]

Furthermore, Nigeria is highly deficient in infrastructure. In fact, Nigeria's infrastructure is largely publicly owned and thus very poorly maintained. It is

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[51] Albaladejo (2003)

characterised by inefficient telecommunications, epileptic power generation and distribution networks, as well as inefficient ports, roads and railways, all of which deter investors and further push up unit labour costs, thus offsetting any potential comparative advantage that the country may have in any particular industry.[52] This contrasts with China, where following its government's investments in infrastructure, the road network expanded by more than 40% in the 1990s, water production grew by more than 50%, while power generation exceeded 300 gigawatts, thus making it the world's second largest energy producer. Similarly, the development of China's expressways has been particularly remarkable, with the total length increasing from 147 kilometres in 1988 to over 60, 000 kilometres in 2008. The rural highway network also grew considerably. By 2007, the proportion of townships and villages reached by rural highways increased from 98% and 80% in 1995 to 99.5% and 88.2% respectively. During 1990 to 2006, about 400, 000 kilometers of local and township roads were also improved.[53]

Nevertheless, Nigeria's policymakers have in recent times also made efforts to fine-tune policies tailored towards attracting sufficient foreign investments needed to engender industrialisation and economic growth. Such efforts have led to the introduction of several policies and incentives aimed at improving the domestic environment essentially to woo foreign investors. Some examples of these new policies include the implementation of SAP in 1986, which led to the liberalisation and deregulation of the economy especially to empower the private sector. In fact, since the introduction of SAP, government has also churned out several other policies to attract foreign investments. These policies are categorised into five, namely: the establishment of the Industrial Development Coordinating Committee (IDCC); investment incentive strategy; non-oil export stimulation and expansion; the privatisation and commercialisation programme; and, shift in macroeconomic management in favour of liberalisation, deregulation and market based arrangements.[54]

In real terms, it was these new policies that led to the setting up of the Nigerian Export Promotion Council (NEPC). The NEPC was established through the promulgation of the Nigerian Export Promotion Decree No. 26 of 1976 and formally inaugurated in March 1977. It was set up to ensure that Nigeria's non-oil exports become a significant contributor to GDP by helping to diversify the productive base of the economy away from oil and to foster market-oriented, private sector-driven economy. Its objectives include: the promotion of the development and diversification of Nigerian's export trade; encouraging the development of export related industries in Nigeria;

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[52] E. Portnoy (2012) "Foreign Direct Investment in Nigeria" *Dartmouth Business Journal*, www.dartmouthbusinessjournal.com (assessed 30 November, 2012)
[53] Ibid
[54] Ibid

spearheading the creation of appropriate export incentives; and actively articulating and promoting the implementation of export polices and programmes of the Nigerian government.[55]

Also along this line, in 1991 Nigeria adopted the Export Processing Zone (EPZ) Scheme. The scheme allows interested persons to set up industries and businesses within demarcated zones principally with the objective of exporting the goods and services manufactured or produced within the zones.[56] To this end, the construction of the Calabar Export Processing Zone (later the Calabar Free Trade Zone) started in 1991 as Nigeria's pioneer EPZ. This was followed by the setting up of the Nigeria Export Processing Zones Authority (NEPZA) in 1992 charged with the responsibility of licensing, monitoring and regulating free zones in the country. NEPZA has so far registered up to twenty-four free zones in Nigeria, although less than half of the number is functional.

Furthermore, the Nigerian Investment Promotion Commission (NIPC) was set up through Decree 16 of 1995 to absorb and replace the Industrial Development Coordinating Committee (IDCC). NIPC provides for a foreign investor to set up a business in Nigeria with 100% ownership. On the provision of the relevant documents, NIPC approves the application within 14 days or advises the applicant otherwise. The applicant will then proceed to register the new company with the Corporate Affairs Commission (CAC) in accordance with the provisions of the Company's and Allied Matters Decree of 1990.[57]

Government, through the above agencies, has also offered several fiscal incentives aimed at attracting investments. Among the incentives are tax breaks, waived duties on imported machinery, equipment, furniture and raw or semi-finished materials, discounted rent, as well as on-site support services such as broadband, no requirement to pair with a local investor and repatriation of profits. In fact, for the Nigerian free zones the investor is not expected to export all of the products as free zone tenants are equally permitted to sell some of their goods into the domestic market. In spite of these laudable initiatives, Nigeria, perhaps due to its long history of economic mismanagement, corruption, failure of leadership, political instability and poor infrastructure, has not been able to engender sufficient activities capable of leading to the country's rapid industrialisation and economic growth.[58]

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[55] www.nepc.gov.ng

[56] Ogunkola and Jerome (2006), 162

[57] Ogunkola and Jerome (2006), 162; Also see www.nipc.gov.ng

[58] Portnoy (2012)

China's Experience: Any Lessons for Nigeria?

China's rapid industrialisation and economic growth is attributable to its 'reforming the system' and 'opening to the outside world' or 'ga ge kai fang' (in Chinese) since 1978. Its productivity growth could be ascribed to reforms that followed the logic of learning, adaptation and innovation.[59] In fact, China is a clear example of export-led economic growth. From an almost completely isolated economy, it has become the second largest recipient of FDI in the world (next only to the US) since 1993. Aside from helping to radically transform its manufacturing sector, FDI has also had tremendous impact on the entire economy.

Similarly, the key experiences from China's experiment with the SEZs could be summarised as gradualism with an experimental approach, together a strong commitment and the active pragmatic facilitation of the state. Some of the specific lessons include: strong commitment and pragmatism from the top leadership; preferential policies and decentralised decision-making power, and profit/revenue sharing between central government and localities; strong ownership, commitment, support and proactive participation of local governments, especially in the areas of public goods and externalities, public-private partnerships; FDI and investment from the Chinese Diaspora; business value chains and social networks; and continuous technology learning and upgrading.[60]

The first and perhaps most important lesson that Nigeria has to learn from China is the need to stabilise her institutions and enthrone sound macroeconomic policies, as doing so will promote openness and transparency. This would reduce the country's high risk rating. Similarly, addressing problems associated with corruption, inadequate infrastructure and inconsistent regulations remains the key element for Nigeria's future prospects of attracting more efficiency-seeking FDI.[61] It is not in doubt that beyond oil returns that are exceedingly high, most Multi-National Corporations consider Nigeria a risky and costly place to invest. Nigeria's risk rating is worse than her economic fundamentals warrant, suggesting that there is a perception gap.[62] Nigeria, therefore, needs to reduce its perceived risk and uncertainty by implementing sound macroeconomic policies, which will further ensure macroeconomic stability. This will go a long way to encourage the resurgence of foreign private investment. Furthermore, increased openness and integration into the global economy are necessary ingredients for Nigeria, if it hopes to attract global investments. This is given that they tend to promote growth through the channels of better resource

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[59] World Bank Institute (2010)
[60] World Bank Institute (2010)
[61] Ogunkola and Jerome (2006)
[62] Ibid

allocation, greater competition, innovation, transfer of technology, and access to foreign savings.[63]

China's experience has equally shown the beauty of having a diversified export base that is anchored on a solid manufacturing industry. Hence, the need for Nigeria to adopt and implement fresh strategies with a view to diversifying and expanding her exports increase export revenues which would provide the means to finance increased public sector investment and promote sustainable growth and development.[64]

In addition, given the rapid industrial and economic growth recorded by China using the SEZs, Nigeria equally needs to pay more attention to the development of its free zones. It is evident that more than ten years since the inauguration of the country's first free trade zone[65] not much business has been going on in this zone or indeed any other within the country to make the expected impact on the country's GDP, even as many are still under construction. Some of the problems that have hindered the development of these zones include infrastructure shortfalls, administrative weaknesses, ineffective management, policy inconsistency, and poor strategic and operational planning.[66]

Conclusion

Development is a process that is full of uncertainties and each country has its own peculiar political, cultural and historical backgrounds. But due to this uncertainty and country specificity, development also must be a process of experimentation, self-discovery, learning and innovation.[67] China went through it with her economy and came out stronger. Nigeria can also do the same if she desires to empower her citisens.

Nevertheless, many have also criticised foreign direct investment as a veritable tool for economic growth, highlighting its potential negative impacts, the most potent being anti-competitive and restrictive business practices, tax avoidance and abusive transfer pricing. Similarly, volatile investment flows and related payments may be deleterious to balance of payments, while some FDI are seen as transferring polluting activities and technologies. Moreover, there is also the fear that FDI may have excessive influence on economic affairs, with possible negative consequences on

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[63] M. Iyoha and D. Oriakhi (2002) "Explaining African Economic Growth Performance: The Case of Nigeria", African Economic Research Consortium (AERC), www.Nigeria-IyohaRIPpart2.pdf(application/pdfObject) accessed 29 November, 2012

[64] Ibid

[65] The Calabar Free Trade Zone, which is Nigeria's first free zone although established in 1991, was not inaugurated until 2001

[66] Brautigam (2010)

[67] World Bank Institute (2010)

industrial development and national security.[68] In spite of these, the example of China has also shown the tremendous impact of FDI as the largest and perhaps most stable source of private capital for developing countries and economies in transition. Unfortunately, Nigeria's efforts along this line have never attracted appreciable results.

The success of China's development strategies however owes so much to its long-held tradition of doing things its own way without compromising the long-term interest of the country and, in particular, the welfare of its citisens. For instance, in spite of the widespread economic reforms, Chinese officials still contend that China is a 'socialist-market economy', a term that appears to indicate that although the government accepts and allows use of the free market in a number of areas to help grow the economy, it still plays a dominant role in the country's economic development.[69] It is not surprising, therefore, that China's banking sector is largely state-controlled. In addition, although the number of State Owned Enterprises (SOEs) has reduced considerably, they continue to dominate a number of sectors (such as petroleum), are shielded from competition, and are generally the only companies that are allowed to invest overseas, even as they dominate the listings on China's two stock indexes.

Nigeria's unstable political leadership and policy inconsistency are clear disincentives to her industrialisation efforts and economic growth. Likewise, the concentration of powers at the centre has tended to stifle all avenues for development while frustrating leadership initiatives at the lower levels. These are factors that have encouraged China's industrialisation process. It is also these factors that have determined the country's rapid economic growth within the period. Nigeria certainly has much to learn from China.

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[68] Ogunkola and Jerome (2006), 144
[69] Morrison (2006)

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