



# “Flying Geese” or False Promises: Assessing the Viability of Foreign Direct Investment -Driven Industrialization in Nigeria’s Shoe Manufacturing Industry

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“Flying Geese” or False Promises:  
Assessing the Viability of Foreign Direct Investment–Driven  
Industrialization in Nigeria’s Shoe Manufacturing Industry

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A Thesis in the Field of International Relations  
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## Abstract

The flying geese theory (FGT) describes the sequential order of the industrialization catch-up process. When foreign direct investment from economically advanced countries enters a less-developed economy, the under-developed host country has the opportunity to engage in regional knowledge and technology transfer with foreign multinationals. This enables the creation and integration of private businesses into the global industrial value chain.

Business analysts and economists alike applied this paradigm to Nigeria, and identified Chinese industrialists as leading geese. Based on semi-structured interviews in Nigeria, this thesis investigates what the flying geese paradigm looks like within the shoe manufacturing sector by studying Chinese direct investment in Lagos and Chinese partnership in technical vocational education training in Aba, Nigeria.

Ethnographic surveys support reasons to believe that Nigerian shoemakers, rather than Chinese industrialists, are passing on knowledge and skills to enter into the shoe manufacturing sector. More specifically, the skill passed on is an artisanal ability to craft a shoe by hand through master-apprentice relationships. Although these on-ground realities undermine the promises of structural transformation associated with Chinese investment, they expose the host government's need to refashion a more inclusive industrialization strategy that harnesses the expertise of indigenous artisans and engages foreign investment more thoughtfully.

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## Glossary of Acronyms

BRI	Belt and Road Initiative
FDI	Foreign Direct Investment
FGT	Flying Geese Theory
FOCAC	Forum on China Africa Cooperation
GDP	Gross Domestic Product
GNI	Gross National Income
IFI	International Financial Institutions
MNC	Multinational Corporations
NSE	New Structural Economics
TVET	Technical Vocational Education Training

## Chapter I

### Introduction

For many business analysts and economists the question of how Nigeria should develop in the twenty-first century was solved in 2011. The general consensus is that in Nigeria, industrialization is the fundamental path to economic growth and development, and manufacturing can pave the way. A World Bank policy working paper<sup>1</sup> prescribed targeted government interventions: (1) macroeconomic policies that create a more favorable environment for private investment, and (2) sectoral policies, such as a banking consolidation exercises that directly boost growth in the economy in industries such as food processing, light manufacturing, suitcases, car parts, petrochemicals, and shoes.

This strategy of investment promotion is historically funded by foreign direct investment (FDI) and remittances. With Chinese direct investment in Africa exhibiting considerable growth since 2015 and reaching West Africa in unprecedented levels in 2019, the capture and utilization of Chinese investment to accelerate national development is ever more important. However, it remains unclear how well the Nigerian government is engaging public and private Chinese stakeholders to achieve mutually beneficial outcomes.

The goal of this thesis is to offer insights into Sino-Nigerian economic relations through an impact assessment of Chinese manufacturing investment and partnership in

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<sup>1</sup> Justin Yifu Lin, and Volker Treichel, "Applying the Growth Identification and Facilitation Framework (GIFF): The Case of Nigeria," Working Paper no. 5776 (World Bank, 2011): 1-46.



technical vocational education training (TVET) on Nigeria's shoe production industry. At the core of this investigation is understanding whether the flying geese paradigm, a "catch-up" development theory underpinning GIFF, is at play, whereby interaction with Chinese investment enables the integration of Nigerian entrepreneurs into industrial shoe manufacturing.

Flying geese theory (FGT) focuses on three dimensions: the intra-industry dimension, the inter-industry dimension, and the international division of labor dimension. Specifically, FGT dictates that lesser-developed economies with lower wage costs can industrialize via knowledge and technology transfer from the FDI of economically advanced countries. The V formation associated with the increased efficiency of geese flying together illustrates the role of the foreign firm as the pacemaker to break the wind. FGT thus describes the movement of manufacturers from country to country and also the process of industrial upgrading from crude to complex products within each country. In this paradigm of economic transformation, knowledge and technology transfer,<sup>2</sup> which traditionally occurs through emulative learning facilitated by multinationals (MNCs) and government activities, is a powerful catalyst for development. For this reason, this investigation is particularly interested in assessing the impact of knowledge and technology transfer.

My mixed-method approach involves a literature review and field research conducted in August and September 2019. The literature review provides a context for underdevelopment, entrepreneurship, and FDI in Nigeria. The fieldwork is an ethnographic study comprised of semi-structured interviews. Field research in Lagos and

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<sup>2</sup> Wealth-creating innovations in the form of industrial upgrade, managerial skills acquisition, and access to export markets constitute knowledge and technology transfer.

Aba, Nigeria assesses the creation of entrepreneurial opportunities through the transformation of knowledge into wealth-creating innovations from a well-established Chinese-owned shoe manufacturing plant in Lagos and a vocational exchange program that sends shoemakers from Aba for training in China.

I used primary sources from my ethnographic study and site visits. My fieldwork involved site visits to a flip-flop factory in Ikorodu Industrial Estate and Ariaria International Market, where the majority of indigenous shoemakers house their production. Using semi-structured, open-ended questionnaires, I conducted 90-minute semi-structured interviews with the factory's General Manager, Mr. Hillary, and the Head of Human Resources, Mr. Monday. I also conducted 20-minute interviews with 7 TVET program participants.<sup>3</sup> In addition, scholarly journal articles and books on industrialization, global manufacturing value chains, and African economic history comprised my secondary resources and informed my study analysis.

Collection of Nigerian trade and FDI data is limited due to the scarcity of official figures available online and the difficulty of accessing government archives on the ground. I sought a diversity of sources, making a serious effort to have a balance of authors from the global North and global South (mainly, China and Africa). However, it falls short due to the algorithmic bias of using North American search engines combined with the scant availability of written work by Nigerian scholars on the topic. The majority of my Chinese sources are written in or had already been translated into English, due to the time-intensive nature of translating Chinese texts and for ease of conducting the

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<sup>3</sup> Pseudonyms are used to protect the identify of all study participants.

literature review. Likewise, the References feature Francophone African scholars, but I use English translations of their works for the reasons just stated.

The ethnographic surveys support the reason to believe that Nigerian shoemakers, rather than Chinese industrialists, are passing on the knowledge and skill required to enter the shoe manufacturing sector. In particular, what is passed on is an artisanal ability to craft a shoe by hand through master-apprentice relationships. By contrast, knowledge acquired from Chinese engagement with advanced techniques in automated shoe production was not implementable by local actors while actionable knowledge like the organizational management of operating a factory had no means of transmission to the local economy.

Finally, within this large and growing number of Nigerian shoemakers, a significant segment is producing high-quality shoes that do not compete with low-priced, mass-manufactured Chinese shoes yet are price-competitive with North American and European imports. These leathersmithing entrepreneurs add value to the national brand and shatter the myth that “Made-in-Nigeria” goods are inferior. The on-ground realities signal that industrial upgrade and the mechanization of workers must necessarily look different in Nigeria from its comparative development partner, China.

This thesis builds on decades of research into Nigerian development, but it responds to two particular claims. By 2017, industrialization-led development entered the mainstream as the most sensible path for Africa following the publication of a McKinsey & Company report, “Dance of the Lions and Dragons: How Are Africa and China

Engaging, and How Will the Partnership Evolve?”<sup>4</sup> That report was the first of its kind in scope, covering eight African countries that together make up approximately two-thirds of Sub-Saharan African’s gross domestic product (GDP). Collectively, the team interviewed more than 100 senior African business and government leaders, as well as the owners and managers of more than 1,000 Chinese firms and factories.

A subsequent book by report co-author Irene Sun put names to numbers.<sup>5</sup> Sun references work by Lin in new structural economics, asserts that industrializing manufacturing will lead to “broad-based prosperity”<sup>6</sup> in Africa, and that Chinese firms are leading the way. Receiving an honorable mention in the book is the world’s highest-volume flip-flop factory, based in Lagos since 1962 and Chinese-owned. Sun claims that this firm with “99.99% market share” of flip-flop production and manufacturing 1.2 million pairs a day, is “no better proof that Africa can industrialize.”

By comparison, Aba (Nigeria), a commercial hub for shoe manufacturing in Abia state and the largest labor market of local shoemakers, produces 30,000 pairs a week or 4,300 a day. Since 2015, Okezie Ikpeazu, the Governor of Abia state, has actively directed policy to industrialize shoe manufacturing and promote “Made-in-Aba” goods. On October 1, 2016, an e-commerce site was launched to sell Aba-made goods across the country. In 2017, the government began courting Chinese investment and firms, and in January 2018, responding to increased intra-industry competition, the local government

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<sup>4</sup> Irene Yuan Sun, Kartik Jayaram, and Omid Kassiri, “Dance of the Lions and Dragons: How Are Africa and China Engaging, and How Will the Partnership Evolve?” McKinsey & Company, 2017. Available from: <https://www.mckinsey.com/featured-insights/middle-east-and-africa/the-closest-look-yet-at-chinese-economic-engagement-in-africa>.

<sup>5</sup> Irene Yuan Sun, *The Next Factory of the World: How Chinese Investment Is Reshaping Africa* (Boston: Harvard Business Press, 2017).

<sup>6</sup> Meaning full employment and a new crop of home-grown factory owners.

partnered with the Chinese government to sponsor Nigerian shoemakers who went for TVET in Chengdu, China. Lagos and Aba, two major industrial nerve centers, comprise an interesting case study on the viability of industrializing and the reality of job creation, knowledge transfer, and entrepreneurship in Sino-Nigerian relations.

Sun and Governor Ikpeazu envisage a skills and knowledge transfer between Chinese industrialists and Nigerian entrepreneurs that would lead to a diffusion of entrepreneurial opportunities, wealth-creating innovations, industry knowledge, and managerial expertise to run a factory. This acquired knowledge would transmute into the creation of indigenous small to medium-size enterprises within the industry.

This popular application of the FGT to Nigeria assumes that there are minimal barriers for entrepreneurial diffusion between Chinese and Nigerian business communities, that the Nigerian business ecosystem is conducive for indigenous entrepreneurship, and that factory jobs are the basis of board-based prosperity. What remains unclear about this catch-up theory for Nigerian development is: (a) whether industrialization via the FGT necessarily results in the creation of *indigenous* businesses; (b) the robustness of enabling fundamentals for industrialization in Nigeria; and (c) whether Nigerian enterprises can compete with other manufacturing juggernauts.

Post-colonial Nigeria has had many relationships with more advanced countries since its independence in 1960, including its former colonialist, Great Britain. In fact London's industrial revolution was fueled by its export of Nigerian palm oil (1760–1840) but Nigeria has not experienced industrial development. What makes now and “China's flying geese” different?

Geopolitics plays a role. On September 3–4, 2018, the (seventh) Forum on China Africa Cooperation (FOCAC) was held in Beijing. FOCAC hosted twice as many African presidents than did the United Nations General Assembly, which was held two weeks later in New York. The summit concluded with a pledge of US\$60 billion by the Communist Party of China to the African continent—the same amount it had pledged three years earlier. Analysts anticipate a stagnation in investment into the continent. The implication for African countries is that competition for Chinese FDI is poised to increase. Correspondingly, the question facing African policymakers is how to effectively utilize Chinese investments to spur local development.

China, on the other hand, struggles to maintain its image of a “peaceful rise,” with transnational initiatives like the Belt and Road Initiative (BRI) (一帶一路). Beijing’s strategy of transnational economic diplomacy is under increasing pressure to show proof that engaging with Chinese investment cultivates “mutually beneficial relationships” and “win-win partnerships.” Since Abuja signed on to the BRI in November 2018, it behooves both governments to prioritize understanding the fundamentals of their partnership. In so doing, substantive and effective outcomes can be achieved and real contributions to long-term productivity growth (a key variable of any balanced economic growth model) can be made.

This thesis interrogates the aforementioned questions and underlying assumptions while drawing from neoclassical economics and post-colonial theory. I deploy a realist worldview to examine the viability of a flying geese paradigm. The thesis is organized as follows. First I present background on African development discourse and its phenomenon of “underdevelopment” since colonial independence and the history of FDI

in Nigeria. Then I discuss gaps in the existing literature between prevailing economic development theory and the history of Chinese manufacturing investments in Nigeria. Finally, I present the results of my field research, adding remarks on the nature of knowledge transfer in Sino-Nigerian relations, and its impact on the creation and entry of private indigenous business into the footwear industry.

## Chapter II

### Background on African Development

Africa as a whole has long epitomized the wealth-poverty dilemma in economic development circles.<sup>7</sup> For some scholars, African economic growth has been merely a statistical illusion predicated on a commodity price boom.<sup>8</sup> Across the continent, incomes, assets, and access to essential services are unequally distributed. The region contains a growing share of the world's absolute poor who have little power to influence the allocation of resources.<sup>9</sup> Overall, in the past 60 years economic growth was barely able to keep up with population growth; on nearly half of the continent the average person was poorer in 2000 than in 1970.<sup>10</sup> For the 33 countries for which data are available, 16 saw their economies erode rather than expand, and were poorer in 2000 than 30 years earlier.<sup>11</sup>

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<sup>7</sup> Horace Campbell, "Discourses on Development and the Realities of Exploitation." *Jindal Journal of International Affairs* (2011). 77.

<sup>8</sup> Ewout Frankema, and Marlous Van Waijenburg, "Africa Rising?: A Historical Perspective," *African Affairs* 117, no. 469 (2018): 543-568. Those same scholars might also lodge the criticism that economists and policymakers overemphasize economic growth in the discourse on development. There are, of course, many other ways to measure and define development but economic growth—the increase in value of production and income for a given geographical space, i.e., gross domestic product (GDP) or gross national income (GNI)—is an extremely useful concept and is the basis metric for comparison in this study.

<sup>9</sup> Moeletsi Mbeki, *Architects of Poverty: Why African Capitalism Needs Changing* (Johannesburg: Picador Africa, 2009): 10.

<sup>10</sup> Todd Moss, *African Development: Making Sense of the Issues and Actors* (Boulder, CO: Lynn Reiner, 2011): 91.

<sup>11</sup> Moss, *African Development*, " 94, (Table 6.1).



## Nigeria's Development Outcomes

Nigeria was listed among the countries cited by Moss that had negative growth rates. The number of Nigerians living below the poverty line increased from 19 million in 1970 to 90 million in 2000—accompanied by a massive rise in inequality.<sup>12</sup> Nigeria continues to do worse today, with real GDP per capita growth rate at -4.3% in 2016 compared to 22.18% in 1970. For Nigeria's growing and youthful population, this is a tremendous burden that is reflected in steep and positive increases in the rate of youth unemployment.<sup>13</sup> In 2018, Nigeria earned the title of “poverty capital of the world” from Quartz, a global business news organization.

What happened? At the dawn of independence from colonial rule, Africa's economic prospects were considered bright. For the most part, Africa's economies built a modest foundation, usually in mining or farming, which was expected to expand and be leveraged toward rapid industrialization.<sup>14</sup> Africa seemed poised for take-off, with government policies emphasizing industrial sectors, a small but promising industrial base left behind by European colonizers, and a general sense of optimism from being newly independent.

Africa's growth in the immediate post-independence was fairly positive, with income per capita rising about 2.6 percent per year during the 1960s.<sup>15</sup> Thandika Mkandawire, Chair in African Development at the London School of Economics, points

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<sup>12</sup> Mbeki, *Architects of Poverty*, 21.

<sup>13</sup> Nigeria has a “youth bulge.” The proportion of children under the age of 15 in 2018 was 43.87%, 53.39% were between 15 and 65, and 2.75% were 65 years or older.

<sup>14</sup> Moss, *African Development*, 91.

<sup>15</sup> Moss, *African Development*, 94.

out that if one takes a growth rate of 6 percent over more than a decade as a measure of successful development performance, in the 1967 to 1980 periods, ten countries on the continent managed to enjoy such growth. Among them was Nigeria and much of this growth at the time was sustained by domestic savings, which increased significantly after independence, reaching an average 21.5 percent by 1980.<sup>16</sup>

However, the post-independence 1960s “big push” for African industrialization, fueled by nationalistic intentions, was a failure, and few countries successfully made the transition beyond a skeleton of the inherited colonial economy. Chinua Achebe, a Nigerian scholar and author, sides with the prevailing consensus that Nigeria was not one of the fortunate few. In his 2012 memoir,<sup>17</sup> Achebe details the civil war between 1967 and 1970 that precipitated a cycle of coups and fostered a culture of in-group/out-group bias and godfatherism that continues to hamper the nation’s development today.<sup>18</sup>

By the 1970s the economic strategies pursued by most African countries had become unsustainable. Economies failed to grow fast enough, debts mounted, and capital left the continent in a huge wave. Many African economies turned to international finance institutions (IFIs), heralding an era of structural adjustment whereby loans were used to encourage policy changes. The 1980s—often called the “lost decade”—saw average incomes decline by one percent per year. The continent’s average growth rate slowed to just 0.9 percent per year in the 1980s, and the numbers were dismal

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<sup>16</sup> Mbeki, *Architects of Poverty*, 4.

<sup>17</sup> Chinua Achebe, *There Was a Country: A Personal History of Biafra* (New York: Penguin, 2012).

<sup>18</sup> Nigeria’s civil war, also called the Biafra War, was termed a genocide by some scholars and specialists. Dan Jacobs, author of *The Brutality of Nations* (1987) details the United Nation’s assistance with quashing secession through the mass starvation of two million people (predominantly children) in Southeast Nigeria.

thereafter.<sup>19</sup> The 1990s were a time of falling backward, albeit slightly less quickly, with income per capital losing 0.4 percent per year. The World Bank observed that despite gains in the second half of the 1990s, average income per capita was lower than at the end of the 1960s.<sup>20</sup> Average growth in Africa returned to 2.6 percent per year between 2000 and 2008 but this nowhere near China-style explosive growth.<sup>21</sup>

### A “New” Approach

In 2019, 59 years after the first “big-push,” the development path of choice for Africa is yet again industrialization, but this time in the spirit of structural transformation inspired by China’s miraculous rise since 1979.<sup>22</sup> Justin Yifu Lin, former Chief Economist for the World Bank, writes extensively on New Structural Economics (NSE). NSE is part of the third wave of development thinking, taking a neoclassical economic approach to analyze structural differences between advanced economies and developing economies.

The starting point of analysis in NSE is an economy’s endowments and endowments structure, which are given at any specific time and changeable over time. From an NSE perspective, the best way to achieve dynamic, inclusive, and sustainable growth in a country is for that country to develop its industries according to the

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<sup>19</sup> Moss, *African Development*, 94.

<sup>20</sup> Alan Gelb, Ali A. G. Ali, Tesfaye Dinka, Ibrahim Elbadawi, Charles Soludo, and Gene Tidrick (editors). *Can Africa Claim the 21st Century?* (World Bank Group E-Library, 2000). Available from: <https://elibrary.worldbank.org/doi/abs/10.1596/0-8213-4495-1>. ISBN: 978-0-8213-4495-8.

<sup>21</sup> Moss, *African Development*, 94.

<sup>22</sup> For Nigeria, this means that economic policy will allocate national resources toward labor-intensive, export-oriented industries and FDI promotion in line with the Commitment to Investment Act of 1995.

comparative advantage determined by its endowments in a market economy.<sup>23</sup> Based on Nigeria's endowments, GIFF identifies labor-abundant and/or resource-rich comparator countries. These countries have a per-capita GDP of 100 to 300 percent of that of Nigeria and grow at least 6 percent per year. Indonesia, China, Vietnam, and India all meet these criteria, yet China stands out as the only nation presenting an industrial, focused-growth path for imitation.<sup>24</sup>

Structural transformation, which I take to be synonymous with industrialization<sup>25</sup> refers to (1) labor productivity growth in all major sectors of the economy; (2) a continued transition of labor out of low productivity sectors (e.g. subsistence agriculture, informal economy) towards high productivity growth areas; and (3) a relatively even distribution of income growth that results from labor productivity growth.<sup>26</sup> The engine behind structural change is the strong linkage between the accumulation of “useful knowledge” and the development of new industrial technologies. The result is wealth-creating innovations, a byproduct of unencumbered, productive entrepreneurship (i.e., positive-sum activities). The growing nodes of feedback loops between innovations in industrial production in today's age of information and globalization is believed to be an “advantage of backwardness” for Africa. Furthermore, according to Lin, Africa does not have to wait to start its industrialization, structural transformation, and dynamic growth

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<sup>23</sup> Jiajun Xu, and Justin Yifu Lin., “Applying the Growth Identification and Facilitation Framework to the Least Developed Countries: The Case of Uganda” (United Nations, 2016): 3.

<sup>24</sup> Lin and Treichel, “Applying the Growth Identification and Facilitation Framework,” 17.

<sup>25</sup> Alemayehu Geda, Lemma W Senbet, and Witness Simbanegavi, “The Illusive Quest for Structural Transformation in Africa: Will China Make a Difference?” *Journal of African Economies* 27, Supp-1 (2018): 6.

<sup>26</sup> Frankema, “Africa Rising?,” 544.

until after it improves its infrastructure, business environment, governance, education, and health—a belief stressed by the global academic and development community.<sup>27</sup>

A critical caveat to the realization of structural transformation is that governments must play a proactive, enabling role by providing adequate incentives proactively to attract FDI and assist domestic firms to enter sectors in which they have comparative advantages (acting in the interest of the local community, not personal interest).<sup>28</sup> The government acts like a market-facilitating or market-enhancing agent, orchestrating a few things: (1) institutions to accelerate growth and facilitate development of industries under a poor infrastructure and business environment conditions; (2) domestic firms sector entry; and (3) a well-functioning market where relative prices reflect relative scarcities.<sup>29</sup> Via the FGT, economists like Lin anticipate that the jumpstart for Africa’s engine of structural change can be imported through the transmigration of Chinese industrialists, who are being pushed out of mainland China due to increased competition, saturated markets, and rising wages.

The flying geese theory (sometimes referred to as the “Asian model”) of labor-intensive, export-led industrialization, was formulated by Kaname Akamatsu in the 1930s to describe patterns within the process of industrial development and the changing dynamic of comparative advantage. However, he left the causal mechanism of structural upgrading largely unexplained. Akamatsu’s work was translated to English in the early 1960s. It received some attention from two American economists, Steven Radelet and

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<sup>27</sup> Justin Y. Lin, “China’s Rise and Opportunity for Structural Transformation in Africa,” *Journal of African Economies*, 27, Supp-1 (2018): 26.

<sup>28</sup> Lin, “China’s Rise,” 26.

<sup>29</sup> Lin, “China’s Rise,” 23.

Jeffery Sachs in the late 1990s, until recently when Lin, a Chinese economist, resurrected the theory.

The FGT originally described Japan's development experience after World War II. Japan became the first non-Western economy to transition from an agrarian economy toward a modern industrial economy. The main idea underpinning the theory is that countries tend to be leaders and followers in particular parts of the global value chain depending on their level of skills and costs.<sup>30</sup> A rapid rate of structural upgrading in more advanced countries, combined with a fast rise in wages and flexible labor markets among catching-up countries, facilitates a transmigration of labor-intensive manufacturing to economies with higher wage costs to economies with lower wage costs.<sup>31</sup> The lower wage-cost countries then take over parts of the global industrial value chain from economies with higher wage costs in a regional pattern of technology diffusion and increasing capital investment that takes a V shape.<sup>32</sup> This V describes not only the movement of entrepreneurs and factories from country to country, but also the process of industrial upgrading from product to product within each country.<sup>33</sup>

Over time, countries are expected to move along an entrepreneurial learning curve from the production of lower technology goods (e.g. textiles and simple assembly) to more complex products. FGT is a major doctrine of catch-up strategy. FGT stresses interactive growth via emulative learning among the economies operating at different

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<sup>30</sup> Xiaoyang Tang, "8 Geese Flying to Ghana? A Case Study of the Impact of Chinese Investments on Africa's Manufacturing Sector," *Journal of Contemporary China* 27, no. 114 (2018): 30.

<sup>31</sup> Terutomo Ozawa, "The (Japan-Born) 'Flying-Geese' Theory of Economic Development Revisited – and Reformulated from a Structuralist Perspective," *Global Policy* 2, no. 3 (2011): 277.

<sup>32</sup> Frankema, "Africa Rising?," 545.

<sup>33</sup> Sun, *The Next Factory of the World*. 26.

stages of economic growth. In this development paradigm, emulative learning, facilitated by MNCs, FDI, and government activities that accompany industrial upgrade, managerial skills acquisition, and access to export markets, becomes a powerful catalyst for development.

Japanese firms sparked an industrial boom in Asia in just this way. In the 1960s, higher labor costs and trade quotas pushed Japanese firms to relocate. 9.7 million manufacturing jobs from Japan to Korea, Taiwan, Hong Kong, and Singapore.<sup>34</sup> Industrialists in textiles and auto parts also moved to Thailand where Chinese business networks distributed and sold the goods. These industrialists provided stimulus for investment and joint ventures with their ethnic Chinese business partners. Twenty years later, few Japanese textile firms remained in Thailand as they had been bought out by their Chinese partners who by then dominated the industry.<sup>35</sup> Eventually, South Korea, Hong Kong, Singapore, and Taiwan (with China further behind) would follow suit, creating a way for Vietnam, Cambodia, and Bangladesh to more recently make impressive inroads into global manufacturing markets.

Around 2005, as China began its own structural transformation and process of industrial upgrade to manufacture more sophisticated, higher value-added products, production costs in China's coastal factory belt began to rise. Challenges like over-capacity created incentives for companies to move to less-competitive areas overseas. According to UNCTAD (2007), which based its data on China's Ministry of Commerce

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<sup>34</sup> Lin, "China's Rise and Opportunity for Structural Transformation in Africa." (2018): i25.

<sup>35</sup> Deborah Brautigam, "'Flying Geese' or 'Hidden Dragon'? Chinese Business and African Industrial Development," UCLA Globalization Research Center-Africa and the UCLA Center for Chinese Studies, 2007. Available from: <https://www.semanticscholar.org/paper/%22Flying-Geese%22-or-%22Hidden-Dragon%22-Chinese-Business-Brautigam/4cfa6c960ae36c9ad042d4e0339613382e8d91271>.

between 1979 and 2000, Chinese firms already established 230 manufacturing investments in Africa with a significant Chinese factory presence in Nigeria.<sup>36</sup> By 2006, the Nigeria-China Investment Forum was founded, and both countries agreed to establish a Nigeria Trade Office in China and a China Investment Development and Trade Promotion in Nigeria. The fact that Chinese entrepreneurs run factories in Nigeria has given rise to the possibility that the next wave may very well be African.

Might the increased Chinese presence play a positive role in Nigerian industrial development, stimulating spinoff manufacturing, and jumpstarting local investment? Can Chinese factories have the same spillover effects for Nigerian manufacturing, transferring technology, and diffusing skills as did Japan factories when it shifted its factories to cheaper Asian locals? Are Chinese industrialists in the Nigerian shoe manufacturing industry forming forward and backward linkages and being the catalytic “flying geese” that economists and analysts surmise them to be?<sup>37</sup>

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<sup>36</sup> UNCTAD, cited in Deborah Brautigam, Tang Xiaoyang, and Ying Xia, “What Kinds of Chinese ‘Geese’ Are Flying to Africa? Evidence from Chinese Manufacturing Firms,” *Journal of African Economies* 27, Supp. 1 (2018): 31. The authors found that while Chinese manufacturing investments in Africa are expanding, the official data overstates the actual number of investments in operation.

<sup>37</sup> On the other hand, Brautigam noted that the catalytic effect of industrial investment may be limited to countries and regions where conditions are particularly favorable. Sanjaya Lall’s study of ethnic Chinese (Taiwanese) investment in the apparel industry in Lesotho found that even after 15 years, not a single local entrepreneur followed the Asian investors into manufacturing; knowledge spillovers or backward linkages [were] almost wholly absent in Lesotho. Brautigam, “‘Flying Geese,’” 4.



## History of Chinese FDI in Nigeria

A historical look at Chinese direct investment in Nigerian light manufacturing (i.e., production, processing, assembly, or smelting) begins to answer this question by uncovering the track record of entrepreneurship in Sino-Nigerian relations to date.

Chinese manufacturing investors tend to run private, medium-size operations, target local markets, make business decisions based on long-term thinking, substitute for imports, and rely on reduced input costs and local knowledge to create a higher profit margin. Many were previously involved in trade and had experience starting, working in, and managing their own factories.

Ethnic Chinese from Shanghai and Hong Kong began investing in Nigeria in the 1960s, producing textiles, shoes, bread and biscuits, plastic bags, steel, and ceramics for the local market.<sup>38</sup> They soon dominated in the production of enamelware, plastic sandals, and building materials. These industrialists viewed a market like Nigeria as underserved, so in pure capitalist fashion, responsiveness to consumer needs is the name of the game as Chinese entrepreneurs targeted ever-lower price points to access mass markets.<sup>39</sup>

### Auto Parts Industry

Deborah Brautigam, an American China-Africa researcher and Director of the China Africa Research Initiative at Johns Hopkins School of Advanced International Studies, documented the contacts between Nnewi Nigerian manufacturers and ethnic Chinese traders and manufacturers. In 1997, she found that Chinese-branded parts

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<sup>38</sup> Brautigam, et al., "What Kinds of Chinese 'Geese' Are Flying to Africa?," i35.

<sup>39</sup> Sun, *Next Factory of the World*, 10.

successfully undercut the original manufacturer, selling at less than half the price. China's "Super Filter" sold for ₦200, while original "Bolos" and "Dorian" oil filters sold for ₦550. A 2006 study of Nnewi manufacturers found that 75 percent of the firms ranked the "Asian challenge" as "very severe," and local Nigerian manufacturers accused Asian exporters of "dumping."<sup>40</sup>

Brautigam also found that contacts between Chinese and Nigerian entrepreneurs enabled the diffusion of information and examples. In 2004, Nnewi firms each hosted an average of four foreign technical staff, many from China. Some Nnewi companies sent groups of workers to Shenzhen, China, for on-the-job training in Chinese factories. In 2016, a fact-finding mission led by Brautigam went China seeking to learn about knowledge and technology transfer in manufacturing between China and Nigeria. Joint ventures were found to be an effective vehicle for knowledge and technology transfer, citing a well-known indigenous firm, Innoson Vehicle Manufacturing, which holds a 55 percent stake in a tire and tube company located in Wuxi, China. However, the overall impact on the local economy appeared limited in scope.<sup>41</sup>

### Textile Industry

In 1955, northern Nigerian government officials, working together with the British textile firm of David Whitehead & Sons, began arrangements to build the first large textile manufacturing mill in Nigeria. Kaduna Textiles Ltd. (KTL) began

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<sup>40</sup> Brautigam, "'Flying Geese' or 'Hidden Dragon'?", 3.

<sup>41</sup> Yunnan Chen, Irene Sun, Rex Ukaejiofo, Tang Xiaoyang, and Deborah Bräutigam, "Learning from China?: Manufacturing, Investment, and Technology Transfer in Nigeria," IDEAS Working Paper Series, RePEc (2016): 19.

production in 1957,<sup>42</sup> and was an immediate success, turning a profit in its first month of operation. With British direct investment providing the industrial base, shortly after independence other textile companies such as Afprint, Asaba Textiles, Enpee Plc, Aswani, and Five Star were established. United Nigeria Textile, Plc, (UNTL), established in Kaduna in 1964 by Hong-Kong group CHA Textiles, became the largest company in Nigeria and the biggest textile factory in Africa within the first 20 years of its existence.<sup>43</sup> During the oil boom years of the 1970s, textile manufacturing further expanded in Kaduna.

By the late 1980s, the Nigerian textile industry's principal products were cotton and synthetic materials as well as multi-colored fabrics, wax, and prints popularly referred to as *Ankara*.<sup>44</sup> The cloth produced in Nigeria's factories was prized not only within its own borders, and not only in West Africa, but also in Great Britain. Beyond factory jobs, there were jobs for raw cotton growers, gunners that did the initial processing, parts suppliers that provided machinery components, and distributors that sold the finished cloth. At its height, the industry directly employed a million workers, an was indirectly responsible for several million other jobs along this value chain. It included 200 firms and was the second-largest employer after the government.<sup>45</sup> Nigeria became the second-largest textile industry in Africa, after Egypt.

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<sup>42</sup> Salihu Maiwada, and Elisha Renne, "The Kaduna Textile Industry and the Decline of Textile Manufacturing in Northern Nigeria, 1955–2010," *Textile Industry* 44, no. 2 (2013): 171.

<sup>43</sup> United Nigeria Textile employed over 20,000 workers and had an integrated mill capacity of 33,000 spindles, including 360 modern rotor spindles and 2,300 looms. Sola Akinrinade, and Olukoya Ogen, "Globalization and De-Industrialization: South-South Neo-Liberalism and the Collapse of the Nigerian Textile Industry," *Global South* 2, no. 2 (2008): 163.

<sup>44</sup> Akinrinade, "Globalization and De-Industrialization."

<sup>45</sup> Sun, *Next Factory of the World*, 34.

As late as 1970, more than 40 percent of Nigeria's exports were non-oil, but by 1973 that figure had dropped below 20 percent, and below 10 percent by the 1990s.<sup>46</sup> By 1997, KTL and UNTL—the factories that had blazed the way—were barely functioning, operating with obsolete equipment, no capital to obtain spare parts, and without a consistent source of electricity. In 2007, both iconic mills had closed and more than 170 textile companies went under. Today capacity utilization in the industry is estimated at only 20 percent, with only ten companies still operational and employing 18,100. According to J.P Olanrewaju, Director-General of the Nigerian Textile, Garment and Tailoring Employers' Association, more than a half million textile workers lost their jobs; beyond that, more than two million Nigerians whose jobs are linked to the textile industry, such as traders, contractors, cotton farmers and the dependents of textile workers lost their jobs as well.<sup>47</sup>

Internal problems such as changes in political leadership, which contributed to abrupt shifts in industrial policy, and a failure to maintain the power infrastructure, adversely impacted the textile industry. Because of an irregular supply of electricity, and despite government promises to improve the situation, “it is virtually impossible even for the most efficient Nigerian textile manufacturers to compete with Chinese products.”<sup>48</sup> External factors, such as the implementation of a structural adjustment program in 1986, deregulated the naira and made imports of spare parts and modern weaving equipment

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<sup>46</sup> Sun, *Next Factory of the World*, 36.

<sup>47</sup> Akinrinade, et al., “Globalization and De-Industrialization,” 164.

<sup>48</sup> Maiwada, et al., “The Kaduna Textile Industry,” 171, 189. In 2005 the Multi Fibre Agreement (1974), introduced to protect developing countries' nascent textile industries, with local quotas on imports being introduced, was phased out under the auspices of the World Trade Organization's General Agreement on Tariffs and Trade (GATT). Notably, some countries, including the United States, maintain some quota restrictions.

prohibitively expensive. In addition, there were significant changes in international textile trade agreements and the liberalization of local textile manufacturing.<sup>49</sup>

As their product became less affordable, Nigerian textile producers went from being strong exporters to serving only the domestic market. At the same, Chinese textile exports were providing cheaper varieties of fabrics. Textiles made in China were available in a range of prices to Nigerian brokers who brought them to Nigeria for sale. Because Nigerian brokers intentionally purchased textiles priced lower than Nigerian textiles, these imports further undermined local textile mills' ability to operate at a profit.<sup>50</sup> Scholars, analysts, and stakeholders generally believe that importing relatively cheap fabrics, especially from China, exerted an exterminatory impact on the Nigerian textile sector. Moreover, investigations revealed that 80 percent of textile consumption in Nigeria came from smuggled textile materials from China and other Asian countries.<sup>51</sup> With the closure of Nigerian textile manufacturing firms in Kano and Kaduna, cloth traders today almost exclusively sell textiles manufactured in China. Nigerian traders that went to China to order and buy cloth have also been edged out of the market as Chinese traders have largely taken over the textile wholesale market.

Having entrenched themselves in the market, the Chinese moved to dominate nearly all facets of the industry by acting as suppliers, distributors, and retailers.<sup>52</sup> Sun points out that the rise and decline of Nigerian textile manufacturing demonstrates that for Chinese entrepreneurs there is “no national allegiance when it comes to making

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<sup>49</sup> Maiwada, et al., “The Kaduna Textile Industry,” 171.

<sup>50</sup> Akinrinade, et al., “Globalization and De-Industrialization,” 185.

<sup>51</sup> Akinrinade, et al., “Globalization and De-Industrialization,” 165.

<sup>52</sup> Maiwada, et al., “The Kaduna Textile Industry,” 188.

money. First the Chinese industrialists helped create the Nigerian textile industry, then Chinese smugglers helped kill it.”<sup>53</sup> In their 2018 study, Brautigam et al. found no Chinese textile or garment factory in Nigeria. Consumers benefit from lower-priced Chinese textiles of reasonable quality but are plagued by high levels of unemployment as a direct result of the decline of textile manufacturing.

### Footwear Industry

Historically, the Nigerian footwear industry was dominated by indigenous firms in an area known as Igboland in Southeastern Nigeria. One scholar attributed their success in the industry to an extensive distribution network and greater willingness to extend credit to “stranger Igbos.”<sup>54</sup> The Igbo distributive system fanned out from Onitsha (Aba) through Igboland, Efik-speaking Calabar, and into non-Yoruba urban areas of the North.<sup>55</sup> In Igbo and Yoruba distribution systems, sales to the final consumer were generally made in shops and stalls in or near indigenous open-air markets. In the north, Hausa production of footwear was a small part of national output specializing in leather goods. Production mainly centered in Kano and Sokoto.

In his 1968 study, Wayne Nafziger saw that amongst indigenous footwear firms there were few business dealings between ethnic group systems. He hypothesized that migration among footwear entrepreneurs was confined to their ethnic group areas. The

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<sup>53</sup> Sun, *The Next Factory of the World*. 41. Indeed, some textiles manufactured in China have the phrase “Made in Nigeria” printed on the selvedge, as well as imitations of popular textile trademarks. Maiwada, et al., “The Kaduna Textile Industry,” 187.

<sup>54</sup> Wayne Nafziger, “Inter-regional Economic Relations in the Nigerian Footwear Industry,” *Journal of Modern African Studies* 6, no. 4 (1968): 532, 537.

<sup>55</sup> Nafziger, “Inter-regional Economic Relations in the Nigerian Footwear Industry,” 53.

scale of production was also skewed. There were only two large-scale operations (employing 100 or more) at the height of the industry. This attested to limited if not non-existent transgenerational knowledge of how to manage and organize labor for large-scale industrial production. On the other hand, micro-sized enterprises defined as businesses employing 1-5 people were in abundance. Table 1 shows the illustrates the location and size of urban footwear firms in 1965.

Table 1. Number of Indigenous Footwear Firms in Urban Areas, March 1965.

Region	Size of Firm: Workers Engaged					Total
	1—5	6—9	10—24	25—99	100 or more	
East	1,450	40	32	3	1	1,526
Mid-West	300	8	2	0	1	311
North	730	8	1	1	0	740
West	330	9	10	1	0	350
Federal Territory	40	10	6	2	0	58
Total	2,850	75	51	7	2	2,985

Source: Nafziger, 533.

In 2019, the footwear market exhibited greater polarization. The privately owned Chinese flip-flop factory identified by Sun dominates the industry while the majority of remaining producers are indigenous micro-scale operations collectively earning just a small fraction of total market share. As of 2014, the contribution of shoe manufacturing to Nigeria's economy was valued at N700 billion (US\$1.93 billion in 2014). Although textile production is nearly obsolete, footwear manufacturing remains the second largest contributor to Nigeria's manufacturing sector, making up 21% of all manufactured

products. Of that subsector, footwear comprises 40%. All players compete against the 90.89% of shoe imports that come from China.<sup>56</sup>

Conservatively, the impact of Chinese manufacturing investment in Nigeria's local economies in terms of technology transferred, skills diffused, and linkages formed to indigenous firms, so far is fairly limited. Chinese firms and indigenous manufacturers seem to pay more attention to competition from cheaper imports while adjusting to Nigeria's unpredictable business ecosystem. Technical partnerships with Chinese companies exist (usually machinery export firms that send experts to install factory equipment and train Nigerian staff), but some scholars still call knowledge transfer a "mirage." Language barriers, as well as cultural, infrastructural, and political contextual differences weigh heavily against the transfer of knowledge from Chinese to Nigerian entrepreneurs. The historical reality of Chinese investment in Nigeria introduces reason for pause over its potential to catalyze industrialization. In doing so, a deeper set of questions arises that encourages us to look at the underlying assumptions associated with replicating China's production structure.

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<sup>56</sup> The Growth Lab at Harvard University, "Growth Projections and Complexity Rankings, V2." 2019. Available from: <https://doi.org/10.7910/dvn/xtaqmc>.



## Chapter III

### Addressing Gaps and Puzzles

The existing literature falls short in answering three key questions concerning the flying geese hypothesis and its applicability to Nigeria:

(1) Are Chinese investments “flying geese” in industrializing Nigeria’s shoe manufacturing sector?

(2) Does industrialization via an FGT necessarily lead to an increase in the number of local entrepreneurs in shoe manufacturing?

(3) Are factory jobs a foundation for broad-based prosperity for the average Nigerian?

Being a flying goose ultimately is not only about the ability to pass on knowledge and technology that empowers the trainee to become a participant in the industrial supply chain. Knowledge and technology transfer is not automatic and must be negotiated by the host country government. The Chinese approach of seeking a market for technology gave foreign firms access to China’s abundant labor market via some kind of joint venture. The United States government called this “forced technology transfer,” but regardless of the name, this method was instrumental in China’s fast ascent up the technological value-added ladder, where today it seems necessary for developing countries.

In the case of Nigeria, the capability of the government to negotiate outcomes that alleviate extreme poverty and grow the indigenous capitalist class is hindered by the government’s history of instability. In theory, the host-country government has an

outsized role to play in adequately capturing enough benefits from FDI to alleviate extreme poverty and grow an indigenous capitalist class like its Asian counterparts. This is most apparent in the efficacy of the governmental institutions to perform that important task of creating an enabling environment for business.

Creating such an environment for businesses has been a consistent challenge plaguing Nigeria's leadership since the rarely acknowledged, but highly impactful Biafra War (1967–1970). The sociopolitical effects of the war led to coup plots, decades of dictatorships, and many failed attempts at good governance, all the while imposing years of negligence, corruption, and leadership inadequacy that stalled the systemic and organic creation of structures that would have encouraged FDI. This still ongoing leadership failure translates to a remarkably low Ease of Doing Business score, with Nigeria ranking 131 of the 190 countries ranked, compared to South Korea (5), China (31), Indonesia (73) to name a few Asian counterparts that have experienced so-called successful FGT-inspired transformation.

Moreover, the available research that determines whether the productivity spillover effects of Chinese FDI result in entrepreneurial diffusion or the increase in entrepreneurs in the region, are few and far between. Brautigam's 1997 watershed fieldwork showed that contacts between local Nnewi manufacturers and Chinese traders and manufacturers based in China, Taiwan, and elsewhere enabled the diffusion of information and example (i.e. emulative learning).<sup>57</sup> However, the project was not longitudinal and did not follow up on the impacts of investment within that community over time. Therefore, research has not conclusively confirmed a direct causation between

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<sup>57</sup> Brautigam, "‘Flying Geese’ or ‘Hidden Dragon’?," 4.

the presence of Chinese FDI and productive outcomes (positive-sum activities that enable capital accumulation) for Nigerian entrepreneurs.

On the second question, FDI is assumed to benefit local communities, primarily in its informing and training a local class of industrialists through emulative learning. Although Japan's business community sparked an industrial boom in Thailand in the 1960s with the translocation of textile and auto parts manufacturers, by the 1980s Chinese partners had bought out the Japanese factories, and Chinese investment eventually dominated light manufacturing of auto parts and textiles in Thailand. In other words, local investors—indigenous Thai entrepreneurs—saw no growth in their stake in these sectors nor did they capture any benefits from foreign investment; rather, such benefits were captured by another foreign investor in the host country.

A report by on Chinese investments in Ghana's light manufacturing sector by Tang seems to suggest a similar phenomenon playing out.<sup>58</sup> Since 2005, Chinese investment has formed a cluster in plastics recycling and pellet production (plastic water sachets made of polyethylene). In a flow chart, Tang illustrates how these investors from Wenzhou<sup>59</sup> are connected with each other through familial, communal, or professional ties.<sup>60</sup>

These two examples reveal an important caveat of the flying geese paradigm: productivity spillover of FDI can be captured by other foreign investors within a host country; it is not promised to local entrepreneurs. The FGT paradigm does not require

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<sup>58</sup> Tang, "8 Geese Flying to Ghana?," 928.

<sup>59</sup> A city in the extreme southeast of Zhejiang province of China, with a population of more than 9 million, according to a 2010 Chinese Census (第六次全国人口普查).

<sup>60</sup> Tang, "8 Geese Flying to Ghana?," 936.

that foreign investment eventually be transferred to the ownership of an indigenous class of industrialists. Could such a thing be happening in Nigeria?

Finally, there is a prevailing assumption that factory jobs necessarily result in broad-based prosperity, significant job creation, and the means to save and make strategic investments for the future. However, how many jobs can realistically be created in Nigeria in an age of rapidly developing artificial intelligence and automation capabilities? In a 2017 study from Peking University, Jiajun Xu, et al. surveyed 640 Chinese firms, including footwear manufacturers. The researchers concluded that in response to the widespread challenge of rising wages across mainland China, firms were investing in automation. In fact, few firms were relocating overseas and if they were, Southeast Asia rather than Africa was a preferred destination. Xu and his colleagues said their findings suggest “a need for realism on the potential for jobs transfer to low-income host countries.”<sup>61</sup>

Another study by Chris Blattman and Stefan Dercon ran an experiment on five factories in Ethiopia.<sup>62</sup> They found that workers often took factory jobs out of desperation, and then experienced deleterious health outcomes. They determined that working in a factory did not significantly improve participants’ income relative to the people in the control group. Moreover, it was unclear whether employment as a factory worker enabled the hired to gain the capital, industry knowledge, and managerial skills needed to become a factory owner.

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<sup>61</sup> Jiajun Xu, Stephen Gelb, Jiewei Li, and Zuoxiang Zhao, “Adjusting to Rising Costs in Chinese Light Manufacturing: What Opportunities for Developing Countries?” *Policy File* (2017): iv.

<sup>62</sup> Christopher Blattman, and Stefan Dercon, “The Impacts of Industrial and Entrepreneurial Work on Income and Health: Experimental Evidence from Ethiopia.” *American Economic Journal: Applied Economics* 10, no. 3 (2018): 1-38. DOI: 10.1257/app.20170173.

Having overtaken India in 2018 as the poverty capital of the world (with an estimated 87 million people living on less than \$1.90 a day), the state of manufacturing in Nigeria today begs the question: will transplantation of “China-modeled” mega-factories have the intended impact of entrepreneurial empowerment or wage earning at the lowest rung of the value chain within the industry?

Furthermore, this scenario overlooks the sheer difficulty of building and operating a factory in an exceedingly difficult business environment like Nigeria’s. The business terrain is a serious barrier to entry for foreign and local investment. Over past years, Nigeria has ranked pitifully low on the World Bank’s Ease of Doing Business Index, ranking as low as 170 of 190 countries in 2015. The reasons why are apparent: unfriendly business policies, mismanagement of funds, unethical practices, to name a few. Regarding the ability to create an enabling environment, Lemuel Odeh voiced a commonly held sentiment: “The absence of true leaders on the Nigerian side who are capable of articulating and enforcing a long-term development strategy that adequately addresses the needs of the majority of Nigerian citizens remains a key challenge.”<sup>63</sup> Ultimately, Nigeria’s political and infrastructural reality clashes with the FGT paradigm, questioning whether it is indeed playing out.

Thus, following the practice of scholars in the field, and seeking to shed light on these critiques, I conducted field research to assess the viability of FDI-driven industrialization in Nigeria’s shoe manufacturing industry. Over three weeks and in two industrial cities, I examined (1) a Chinese direct investment in Lagos, Nigeria since 1962, which was identified by Sun and (2) a Chinese partnership in TVET which took place in

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<sup>63</sup> Lemuel Ekedegwa Odeh, “Dynamics of China-Nigeria Economic Relations Since 1971,” *Journal of the Historical Society of Nigeria* 23 (2014): 162.

Aba in 2018. Knowledge and technology transfer that produces high growth in indigenous entrepreneurship or structural changes in indigenous businesses would be signals of structurally transformative Sino-Nigerian linkages.

My research found that a system of knowledge transfer in handicraft production via an apprenticeship model grew more effective indigenous entrepreneurship and created more economic opportunities for Nigerians in shoe manufacturing than did Chinese direct investment in Lagos or TVET in Aba. Nigeria's indigenous apprenticeship model offers a pragmatic platform to industrialize existing local processes. Additionally, the inwardly sourced, labor-intensive approach appears less risky and more cost efficient than imitating the "Chinese model" of capital-intensive mass production.

## Chapter IV

### Field Report Findings

The previous chapters identify a pattern of unfettered FDI into Nigeria's light manufacturing industries, a strong tradition of indigenous micro-sized business, and an unpredictable business environment that incentivizes profit-maximizing and near-sighted firms. With myopic business practices set in a tumultuous socio-political backdrop, FDI has historically cannibalized entire sectors of Nigerian economy. Largely absent in this narrative is a proactive and benevolent government. Since the country gained its independence, the government struggles to orchestrate outcomes that bring positive long-term social impact and advance the local community. For these reasons, the Abia State government is a good example of local engagement and proactivity.

#### Chinese Vocational Exchange Training Program, Aba

Aba is about 11 hours by road east of Lagos in Abia State.<sup>64</sup> Conservative estimates place the number of independent shoemakers in Aba between 16,000 and 30,000. The majority operate independent micro-enterprises that employ one to nine people, and are generally located in Ariaria International Market. The market is an active and convenient locus for suppliers, manufacturers, and distributors in shoe production. As an open-air ecosystem for shoe production, Ariaria is also prone to flooding and subject

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<sup>64</sup> Travel time by road is protracted due to poor or no road infrastructure. In *The Guardian* newspaper of September 6, 2019, traditional rulers described the roads as "death-traps."

to unreliable electricity. The market is loud, densely populated, and lined with narrow mud paths, some shaded from the sun and rain by rusted tin corrugated roofs. There shoemakers engage in artisanal production using hand-crafted rather than industrial techniques. Prices for their products start at retail ₦500 (US\$1.39).

For the past five years, the current governor of Abia State, Okezie Ikpeazu, made consistent effort to put forward an industrial strategy for the shoe manufacturing sector. Abia state government identified tapping the domestic market and influencing consumer behavior as key components of their development strategy. To industrialize shoe manufacturing, the administration committed to enhance local production, promote locally made goods across the country, and “improve business processes and systems” in view of incoming Chinese investment and competition.<sup>65</sup>

Since 2015, the state administration actively promoted local production to be sold across the country. In 2016 an e-commerce website was launched promoting “Made-in-Aba” goods. By 2017, on his personal blog, Ikpeazu published the result of a meeting with the local shoemakers union he promised to protect the shoemakers in view of increasing competition from Chinese investors. In response, and with the intention of improving local competitiveness, a vocational exchange was arranged with sponsorship from a Chinese ministry. The program sponsored 30 leather goods manufacturers to travel to China as part of a skills training initiative in automated shoemaking launched by the Abia State government. The program was intended to prepare local entrepreneurs to improve and upgrade their processes in light of enhanced Chinese investment and thus strengthen competition in the sector.

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<sup>65</sup> Quoted from Abia State Governor Okezie Ikpeazu’s personal website, May 3, 2017.



In January 2018, the 30 shoemakers travelled to Chengdu, Sichuan Province to study automated shoe production techniques in a Chinese industrial factory for one month. The program was conducted in the Chinese language and relied on one physical translator and the participants' cellphone apps to ask one-on-one questions. Participants rotated through three departments with most of the skills training focused on learning to operate machines. The participants returned from Chengdu in February 2018 and when asked in November 2018, a government official announced that there were not yet any plans to conduct an impact assessment of the program. The field research into the TVET program offers a window into the efficacy of public/private partnerships as a knowledge transfer mechanism.

With a translator, I conducted separate 20-minute interviews with 7 of the 30 program participants; we talked about the trip to China, the nature of the program, and the changes to their pre-existing business model. Through these semi-structured interviews, interviewees expressed their viewpoints about the learning outcomes of the vocational exchange program and its impact on their shoe production and prospects. They also provided insights into the domestic market and the extreme conditions of Nigeria's business environment and uncertain economy.

Among the sample group, one of the seven program participants was a woman. The oldest was in his late fifties. Six of the shoemakers had learned their trade as a means of subsistence. All seven were micro enterprises, employing less than seven people. Two of the participants held university degrees.

Abia State government provided support money in the amount of ₦100,000 Naira (~US\$278) to each of the 30 participants. Most participants used the funds for their living

expenses while in China and gifts for family members. However, one participant acquired pointed women's high-heeled shoes, heretofore unavailable in Aba, before leaving Chengdu—with no practical option available to reorder from the supplier in China to enable her to offer the shoes locally.

All participants expressed a high degree of satisfaction with the program, as they said it was eye-opening to learn about business formalization, design making, product finishing, and the efficiency of machines. One participant mentioned that he learned about selling shoes online and about the value of branding, which led him to register his business upon returning to Nigeria. Another participant said that after returning from China he began adding hardeners to shoe adhesives to improve the bond—a technique he learned in China.

It was striking that all participants said they were confident in their ability to operate the machines after leaving Chengdu, despite not having used any machine since returning to Aba. Furthermore, a year and a half later only one of the seven interviewees, named Promise, made a structural change to his business. This suggests that overall the cohort has experienced low levels of positive-sum entrepreneurial activities as a result of taking the trip to China.

After returning from China, Promise moved out of a workspace he shared with 10 others in Ariaria International Market and set up shop in a private workplace. Using his personal savings he purchased an industrial sewing machine. As a result of the private workspace and his capital investment, he said he has increased his monthly output by 50 additional pairs of shoes.

Six of the seven interviewed shoemakers still produce low-priced footwear; three participants in fact still do not brand their shoes. On the other hand, a participant named Norah represents a niche segment of Aba-based shoemakers, those who target a medium-to high-price for their shoes, starting at ₦15,000 (US\$41.55) per pair. These shoemakers leverage their hand-crafted production to supply bespoke shoes to a market that competes with Italian and Canadian imports in both quality and affordability.

Overall, it seems apparent that the vocational exchange program had a limited impact on engendering productive outcomes in the purely economic sense of monetary creation (i.e., capital accumulation). While the program facilitated knowledge exchange and increased exposure to industry advancements, participants remarked that as a result of the program they are now keenly aware of how disadvantaged Nigeria is when attempting to compete globally. Such awareness is emblematic of how little of the newly acquired knowledge from the trip was tangibly implemented back home. Few participants were able to take away any piece of technology or act on the new knowledge acquired due to capital constraints, inaccessibility to inputs (not available for purchase in Nigeria), and, most critically, not be able to use or practice on the automated machinery they learned about in China. Table 2 summarizes data about the seven participants in the vocational exchange.

Table 2. Technical Vocational Training Exchange to China: Participants' Summary Data, September 2019.

Participant	Gender	Industry Entry for Subsistence	Years in Industry	University Degree	Producing Low-Priced Shoe	Served/ing as Apprentice	Has Apprentices	Structural Changes to Business After China
1. Chidubem	Male	Yes	31	No	Yes	Yes	Yes	No
2. Chiamaka	Female	Yes	5	Yes	No	No	Yes	No
3. Elder Uche	Male	Yes	37	No	Yes	Yes	Yes	No
4. Emeka	Male	Yes	8	No	Yes	Yes	Yes	No
5. Promise	Male	Yes	15	No	Yes	Yes	Yes	Yes
6. Nwachukwu	Male	Yes	30	No	Yes	Yes	Yes	No
7. Onyema	Male	No	3	Yes	N/A*	Yes	N/A**	No

A common thread I heard was that many shoemakers who learn the trade have a passion for crafts and to have “something doing.” Shoe making was described by Earnest as a “last hope” for many people when it comes to having “something doing”—honest work to provide and sustain himself and his family. Because employment opportunities are few and far between, having “something doing” gives people a way to earn money, to survive.

What also emerged was that an indigenous apprenticeship model (and the internet) were educating and equipping shoemakers more than Chinese investment or a vocational exchange. Six of the seven served as an apprentice in the hand-crafted production of shoes, and they have since become masters who employ apprentices in their shoe manufacturing. Most participants reported that they themselves were trained by a master for three to four years in an apprenticeship, during which time the apprentice assisted the master and learned how to cobble a shoe from scratch and by hand; in turn, the master covered housing and food for the apprentice.

In contrast, Chiamaka, the youngest interviewee, learned shoe folding via the Internet, beginning with videos on shoe folding. She began this as a means of earning money for school fees while in university. She was alternatively considering joining her friends in prostitution as a means of surviving.

They all produce shoes by hand: 50 to 100 leather sandals per week. These shoes are distinct from the industrial, mass-produced flip-flops from Lagos, for several reasons. First, the primary material used for these shoes is leather. Second, the shoes are distinct in the attention paid to detail, and there is a larger range of products offered with design variety. Provided they can find a buyer, production in low-priced sandals returns

wholesale ₦20,000–40,000 (US\$55.33–110.65) a bundle, or ₦400 (\$1.11) per pair at retail in Lagos, and other regional cities for ₦1,000-2,000. These low-priced shoes compete directly with industrially mass-produced shoes from Chinese factories in Nigeria and abroad.

There is also an overlooked segment of bona fide artisans producing bespoke shoes, who are struggling to meet domestic demand for “non-inferior” shoes.<sup>66</sup> Many of these shoe artisans have university degrees but were unable to find work in their respective field of study, and so opted for fabric weaving and leathersmithing bespoke shoes. By focusing on their competitive advantages of craftsmanship and creativity, these Nigerian shoemakers avoid direct competition with Chinese and Euro-North American products. The shoes surpass expectations when it comes to attention to detail, quality, and craftsmanship. But yet these shoemakers struggle to drop off a perception of inferiority that seems to surround Nigerian-made shoes. Despite the accessible price, middle- and upper-class consumers still feel more comfortable purchasing imported shoes from Italy and Canada that can start at ₦75,000 (US\$207.47).

In an unexpected twist, the self-described, underdog Nigerian shoemakers turned out to exhibit more “flying geese” attributes than their Chinese counterparts. As evidenced by the large and growing number of shoemakers in Aba alone, Nigerian shoemakers are transferring trade knowledge that economically empowers new entrants into subsistence entrepreneurship but with greater earning potential than factory employment. Those shoemakers, with a little more education, exposure, and commitment

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<sup>66</sup> “Non-inferior” refers to the economic term for a normal good that will increase in demand as consumers’ incomes increase. This is in contrast to inferior goods where demand decreases even when consumer income rises.

to making higher-priced shoes, can be empowered by the government to lead a new generation of shoemakers to become entrepreneurs who produce higher-end shoes that will not compete with Chinese-made products, a segment of the sector in which Nigerian hand-crafted shoes are simply not as competitive.

Vocational training schools that impart the skills that result in higher sophistication in shoe making will take budding entrepreneurs in a direction that is not only more lucrative and commensurate with the intensiveness and craftsmanship of shoemaking, but also begins to tackle the myths around Nigerian-made goods—all in an effort to stimulate domestic consumption of locally made goods, yet another critical component of economic development.

My interviews challenged the notion that the Chinese are the leading geese. An indigenous apprenticeship model in Aba and a YouTube video turned out to be two mechanisms that added knowledge and crafting techniques. The presence of Chinese investment and vocational exchange did not actually lead to an increase in local shoe entrepreneurs. Given the barriers to entry into the shoe sector from an industrial standpoint, most shoemakers become more skilled by studying the hand-crafted production of shoes. Acquiring this knowledge is passed through generations via family members, or a master, or the Internet. This transfer of knowledge fundamentally challenges the idea that Nigeria's development will look like the Chinese "factory of the world" model. In fact, those very factories with heavy machinery and assembly lines that might be imagined are far out of reach given the infrastructural limitation and capital constraints that are realities for the Nigerian shoemaker.

## Chinese FDI, Lagos

In Lagos, Nigeria's largest city, I visited a Chinese company that expanded from mainland China to Hong Kong, then made the leap to Nigeria in 1962. The company is a conglomerate that produces steel, plastics, and footwear, each made in a different factory. Surviving the majority of locally owned enterprises, this business stands out in its ability to persist through three military regime changes, civil war, and corresponding economic downturns, which Nigeria has seen since the nation's independence in 1960. Today, this company's low-priced ₦500 (about US\$1.40) flip-flop is ubiquitous throughout the country.

I visited the flip-flop factory, located in Ikorodu, an industrial area of Lagos. The factory is off an undeveloped road, better navigated by *okada* (a local motorcycle taxi). The factory is distinct for its white-and-blue motif and massive silver machinery that gives the factory vertical height in addition to width. Turning off of a pothole-ridden road into the factory premises, the main gate was flanked by a sea of *okadas* neatly parked in rows and several young men who hovered pensively with pens and papers, presumably filling out employment applications.

Behind the blue gates was a completely different atmosphere from the world outside. The factory grounds were orderly and calm, designed with a traditional style of Chinese architecture and masonry. It was clear the company invested heavily in creating and maintaining an ecosystem for their shoe production, one that won the 2018 "Best Kept Industrial Premises Competition." The start-up costs alone signify that this factory is an advanced level of business seemingly out of reach for the typical Nigerian entrepreneur.



The interview was conducted at the factory in Ikorodu, an industrial estate in the main part of Lagos. I was allowed to tour inside and outside the compound, but I was not permitted to tour factory floors per company policy. During the interview, I obtained firm's history and data about operations, challenges, knowledge transfer.

I conducted a 90-minute joint interview, within the compound, with Mr. Monday, a Nigerian, who is Head of Human Resources, and with Mr. Hillary, the Chinese General Manager, who was hired six years ago after a successful career teaching middle school students in Shaanxi Province.

In our discussion, I learned the basic operations and business model of the company. The managers explained that ultimately, Nigeria's business environment remains too formidable a challenge to business sustainability given the unpredictable and often precarious macroeconomic conditions. As a result, the flip-flop factory does not engage in any formal knowledge transfer with the local community or its employees; rather, it reinvests all productivity surplus back into the operations of the company. The nature of factory employment, combined with the realities of extreme poverty, do not prepare the hires to be a later-day factory in the industry. However, although their presence and business activity do not spark greater entry of local entrepreneurs into shoe manufacturing as predicted by the FGT, yet within the local market the company appears to play a primary role in providing stable employment and wages to the locals.

The factory employs about 3,000 workers (including factory-floor workers, janitors, security, and cooks), 50 managerial staff, and has new applicants every day. Mr. Monday explained that what differentiates the firm as an employer within the labor market is a corporate culture of transparency, sacrifice, discipline, and integrity at the

managerial level. In his 20 years of working at the flip-flop factory, Mr. Monday has never received a late payment, in stark contrast to local enterprises, and he remarked that the company would rather take loans to pay workers' salaries than to owe. HR has more than 100 files of employees that have worked at the factory for 10, 20, and 30 years. He highlighted that in this way, organizational management is a cornerstone of the firm's sustainability.

The factory operates from 7am to 6pm daily, occasional night shifts, and until recently even on Saturdays. It has been powered entirely by generator for years.<sup>67</sup> Although costly, having a generator allows the factory to run its machines at night. As a counterbalance, the company manages its margins by following a simple product strategy: a single flip-flop design. The machines churn out hundreds of precisely one type of shoe.

The factory floor is divided into five or six departments, each performing a specialized and designated task in the manufacturing process. Employees are trained only in their one task. Given the demands of the job, the company hires the "lowest cadre of workers"<sup>68</sup> that are committed to working hard and abiding by company regulations,

Since the company produces only one type of flip-flop, its production relies primarily upon rubber, a raw material locally sourced from Ogun State and nearby countries like Benin. All other inputs such as the Y-shaped shoe strap is imported along with the machinery to mold, cut, and bond the rubber within seconds.

Relying on majority imported inputs, the flip-flop factory is vulnerable to import duties and price fluctuations, a challenge cited by Mr. Monday. Distribution relies on

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<sup>67</sup> As of August 24, 2019, company ended work on Saturdays.

<sup>68</sup> Those seeking laborer jobs on the factory floor are normally illiterate, with their subsistence on precarious footing.

informal networks of Nigerian buyers. Being located in Lagos is a large advantage because the city is a major consumer market making the factory's goods accessibility to local distributors who hawk shoes on the expressways and in markets directly.

Mr. Monday pointed out several more economic constraints to the business, but he emphasized road infrastructure, multiple taxes, levies and tolls, port access, cheap imported substitutes, and distribution issues. Nigeria's severely difficult business environment outstrips concerns of threats by new entrants or rivalry amongst competitors.

In response to questions about knowledge and technology transfer, Mr. Hillary admitted it is not happening. He explained that although Nigeria has regulations requiring local understudies for foreign expertise knowledge, it is not enforced. Therefore, despite being just up the road from the Lagos State Polytechnic Ikorodu, management directs productivity spillovers to tackle daily operational challenges of the factory as opposed to engaging the local community (who could potentially become their direct competition).

For this reason, Mr. Hillary said, "it is not up to employers and employees to enforce technology transfer." He also cited China's developmental programs with multinationals that enforced knowledge and technology transfer as an example of serious and deliberate state adherence to the practice, which resulted in successful knowledge and technology transfer. Mr. Hillary agreed with Mr. Monday that the onus for knowledge transfer is on the state.

Ultimately, becoming an industrialist in shoes at a large, capital-intensive scale remains largely inaccessible for the local population even if utilized by a successful shoe factory for decades as a professional conduit. The transgenerational knowledge of how to organize and operate a factory, high capital start-up costs, and the economic uncertainty

that comes with leaving stable employment neutralizes any entry into industrial production of shoes for Nigerians hired at the factory.

The stark contrast between the flip-flop factory and the working conditions of independent Aba shoemakers shows a chasm in production levels. The flip-flops in Lagos and the factory in Chengdu differed greatly from the Ariaria Market. Rather than imitation, the disparate production levels inspire more creative thinking about how industrialization should necessarily look different from the Chinese model of mass production.

## Chapter V

### Conclusion

Nigeria's pathetic attempt to crush the idiosyncrasies rather than celebrate them is one of the fundamental reasons the country has not developed as it should and has emerged a laughingstock.

—*There Was a Country*, Chinua Achebe (2012: 76)

This project aimed to provide a contextually and historically sensitive analysis of the adoption of the “flying geese” paradigm within Nigeria’s industrial sector.

Advancement toward industrialization requires an outsized role by government. To avoid circumstances from degenerating to the use of blunt instruments like economic sanctions or federal force—a diplomatically alienating move that still fails to address the macroeconomic disparities—local governments must look first with greater curiosity at their endowments.

My field research revealed that within Nigeria’s footwear sector, Chinese investment in and knowledge of large-scale industrial shoe production has not yet been a catalyst for industrialization. Compared to the foreign industrialist, the shoemaker from Aba, who tries to engage in large-scale production, operates from a relative disadvantage due to capital, production, and operational constraints. Because Nigerian shoemakers face high barriers to industrial upgrade, their hand-crafted mode of production is vastly more accessible, presenting an opportunity to harness a local core competency in

craftsmanship<sup>69</sup> and an “advantage in backwardness” regarding technology. Small investments, rather in less capital-intensive machines, may enable indigenous shoemakers to shift into a higher value-add market of medium- to high-priced shoe production, thereby avoiding direct competition with Chinese goods. An indigenous model of apprenticeship shows promise as a mechanism for substantive knowledge transfer and economic transformation more broadly.

Knowing this, when we consider how Nigeria can strategically engage China, government officials should understand that they should not try to beat “China at its own game” by trying to duplicate a model of mass-manufactured capital-intensive goods, but utilize what Nigeria has and focus on batch-sized labor-intensive produced goods in order to reap the benefits of hand-crafted goods. Scaling up artisanal manufacturing techniques that prioritize enhancement does not have the appeal as do automated factories but it appears to be a more realistic and inclusive starting point for Nigeria’s development strategy.

Chinese expertise may come in to show how to manage a scaled operation of hand-crafted shoe production. In this way, Nigerian products may not need to compete with Chinese imported or locally made goods because Nigerian production could potentially be geared to produce normal goods as opposed to inferior goods. While inferior goods give more people access to those goods and participation in the market, an inferior good is a one whose demand decreases as consumer income rises. However, a normal good will find that its demand increases as an individual’s income increases.

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<sup>69</sup> A tradition that dates back to the ancient kingdoms of Nri and Benin.

Prudent development strategy could focus instead on equipping local shoemakers to handle Chinese competition by improving basic choices in their production process. Technical progress that shifts the entire production function outward can arise from the used of improved, more productive inputs or from better methods of economic organization.

On the basis of endogenous theories of economic growth technological change reflects advances in human knowledge acquired from education and research and development. Economic growth is therefore ascribed to labor not capital. By reorienting approaches to development this way, investing in local shoemakers provides an out for sustainable development utilizing what Nigeria has to enter the growth path toward industrialization and structural transformation for the country.

The reality is that Nigeria's history of craftsmanship highlights a population of skilled and passionate craftspeople who excel at producing detailed, unique, and bespoke goods. Hand-crafted products are a comparative advantage with greater returns. Automation was found to be too advanced and not commensurate with Nigeria's production environment. At the same time there is a desperate local demand for flip-flops and sandals that are normal goods—meaning durable, aesthetically pleasing and affordable). Nigerian shoemakers have an opportunity to meet that local demand.

There is opportunity to reposition the Nigerian shoemaker as a shoe artisan. Rather than mass production, an endogenous approach would focus on a batch-production model, producing a few different designs in limited quantity. This strategy is complementary to hand-crafted production while still harnessing the core competencies and competitive creative advantages to produce higher-quality shoes. From an economic

sense these shores are non-inferior, meaning consumers will purchase more as their incomes grow, as opposed to inferior goods that are consumed less as incomes grow. This would take Nigerian craftsmen out of direct competition with the Chinese industrialist.

In the wake of the COVID-19 global pandemic, the findings of this study hold particular significance as we reconsider hyper-integration and Nigeria's dependence on development strategies for the global market. Although COVID-19 will not kill globalization, it will expose globalization's profound political and economic vulnerabilities, possibly reversing the movement toward interdependence that has defined the past 30 years. If that were to occur, I hope my research will engage with the ongoing development debate between more endogenously focused development strategies and the prevailing neo-liberal prescription that relies on global markets. The phenomenon of "growth without development" in Nigeria, coupled with the COVID-19 global pandemic, I believe warrants a level of urgency for research that explores internal and regional methods of achieving sustainable development through labor-intensive approaches.

Follow-up research could encourage investigation of the leather value chain (a primary raw material for Nigerian shoe producers), a deeper exploration of Nigeria's domestic market at a household level, and the transfer and application of managerial expertise from Chinese industrialists about how to run factories and create programs that enable those being trained vocationally to learn how to scale up their ventures.



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