A Study of The Limitating Factors of China Contributions To Transport and Entrepreneurial Development In Nigeria

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ABSTRACT:
For any meaningful and sustainable development to take place through FDI, the availability of efficient and adequate transport infrastructure is a key area of attraction and enticement to foreign investors in developing countries like Nigeria. However, this paper identified state of national security; transportation and electricity as the salient factors limiting Chinese Contributions to Transport and Entrepreneurial Development in Nigeria. Cross-sectional data were collected with aid of structured questionnaire that were administered on randomly selected Chinese Entrepreneurs in the Southwestern. The study revealed that, state of security; transportation and electricity are highly correlated variables that are limiting China contributions to the transportation and entrepreneurial development in Nigeria.

KEY WORDS: FDI; Transportation; Entrepreneurial; Development; Economy.

INTRODUCTION
Foreign investment is no doubt a veritable tool for economic prosperity in developing African countries like Nigeria. Wealthier countries, especially in the western world find potentials for economic breakthrough (especially mineral resources) these countries so as to generate enormous gain for them and explore the potentials of such recipient countries. In the same vein, multinational companies and large scale entrepreneurs often decide to invest in other countries outside theirs’ (that is, investment in one country by citizens of another country), having seen market possibilities in such virgin areas in attempt to boost their own business. This is mostly known as Foreign Direct Investment.

The OECD (2004) defines foreign direct investment as obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident other than that of the investor (direct investment enterprise).

It can be assumed that, the concept of FDI started through colonization. Most of the countries that colonized others saw in their colonies requirements for economic breakthrough which are largely raw materials and natural endowments especially in Africa and because Africans could not harness the possibilities of those deposits, they were colonized. However, most of the colonies were exploited as they gained little from the enormous wealth created through their own resources. Today, investments is no more done forcefully, it is based on agreements and stated terms made by involved countries as regards what the benefits of both parties will be. Captivated by the high rates of return, investors from all over the world have now set their sights on Nigeria. As Africa most populous country, Nigeria also boasts the continent second largest oil reserve and has a very promising outlook. Poised to eclipse Africa’s largest economy by 2015, Nigeria is becoming a rather worthy recipient of foreign capital, receiving anywhere from $10 - $12 billion (Ethan, 2012). The foreign direct investment net inflow (% of GDP) in Nigeria was last reported at 3.07 in 2010 according to a World Bank report published in 2012. UNCTAD (1999) found six(6) areas where FDI affects development, viz; structure of markets; technology and skills; fiscal revenue; and political, cultural and social issues. These effects can be static and dynamic, and they can be positive and negative (Dirk, 2006). Nonetheless, the positive aspect of these effects is most noticeable on the economy of the countries.

One of such countries has made so much investment in Nigeria is China. Apart from the effort made by the government of China towards investing in Nigeria, individuals and co-operate bodies have found virgin areas to be explored in Nigeria. More and more, over the years, Chinese
entrepreneurs have kept on trooping into Nigeria for their business endeavours. The government of Nigeria has created an atmosphere conducive for Chinese investors through signed agreements and many memoranda of understanding (MoUs) and this has ensured a cordial relationship between both states. Prior to this, various technical assistance in the areas of military, education and health and has hitherto strengthened the tie that bond the two countries. There is also a body called the Nigeria-China Chamber of Commerce (NCCC) that has been established to ensure further development of trading relations between the two countries.

According to Abiodun (2010), the Sino-Nigerian relationship started in 1972 when the then Chinese Minister of Foreign Trade and Economic Co-operation visited Nigeria, during which trading agreement was signed. By 1975, the two countries were well on course for establishing a relationship that was to be mutually beneficial, even if sometimes, somewhat controversial. The basis of the relationship according Olawale (2008) is that Nigeria was indeed on an aggressive campaign for FDI and Chinese government was also seeking for markets for inputs especially raw materials as well as markets for finished products.

The contributions of Chinese entrepreneurs as regards FDI in Nigeria has increased drastically with an observed inflow of $0.55 million in 1999-2000 to about $5.5 million in 2006 (Olawale, 2008). Nigeria ranks 2nd among the top two-way Chinese trading partners in Africa. In 2009, China has set up 30 companies (some solely-owned and some jointly-owned by Nigerians) in Nigeria (Abiodun, 2010). China and Nigeria have extensive economic links covering a broad range of sectors ranging from construction and retailing to manufacturing and oil production. Some of the types of businesses they engage in include; food and restaurant business; rubber bags and shoes manufacturing; assembling of motorcycles; manufacture, import and distribution of all types of telecommunication gadgets, electronic goods, telecommunication materials and musical instruments; oil exploration; and production, sales, services and investments related to telecommunication.

The Chinese entrepreneurs have also contributed immensely to project development in Nigeria, some of their projects in Nigeria according to Olawale et al. (2008) include;
- China National Overseas Oil Company (CNOOC) 45% stake in OPEL 246 in off deep water oil field valued at $2.7 billion.
- Controlling shares in Kaduna refinery.
- 1st phase modernisation of Nigeria’s one-track rail to standard gauge rail with an estimated amount of $8.3 billion
- Financial support to Reliance Telecommunication Ltd (RelTel) by China’s Development Bank facilitated by Huawei Technologies ($20 billion-worth project).
- Huawei equipment agreement with GV telecoms/prestel.

Generally, the relationship between Nigeria and China has been advantageous in the areas of augmentation of domestic capital, transfer of technology, knowledge and skills; promotion of competition and innovation; and enhancing expert performance.

With over 160 million people and a gateway to ECOWAS, Nigeria has the most attractive environment for investment because Nigeria is a large market in the continent being the second largest economy in the continent. Notwithstanding, with these enormous potentials and possibilities in Nigeria, Chinese investors in the country have not been at their best in that although they generate their income, the expected commensurate improvement and development on the economy is yet to be achieved. Also, the relationship appears to be exploitative at least from the trend in the structure and pattern of FDI inflow to the country. (Olugboyega, 2010). Both countries stand to gain significantly from their economic engagement, but a few stumbling blocks could impede progress (Margaret and Qi Zheng, 2011).

For the purpose of this paper, most perceived and visible factors affecting the performance of Chinese entrepreneurs in Nigeria shall be considered as variables. They include; Exchange rate, Infrastructure; transportation and electricity, Government policies, Culture with language and ideologies as subsets and lastly the state of security in the country.
LITERATURE REVIEW

The exchange rate is one of the most important determinants of a country’s relative level of economic health (Filed, 2010). As such, because FDI is also an essential determinant of growth in a developing country like Nigeria, foreign exchange affects FDI in no small measure. Filed (2010) further stated that exchange rate plays a vital role in a country’s level of trade, which is critical to almost every free market economy in the world. For this reason, exchange rates are among the most watched analyzed and governmantly manipulated economic measures.

According to Ayodele (2006), generically, foreign exchange can be defined as foreign currency or any other financial instrument acceptable as a means of payment or exchange for international transactions. Foreign exchange is made up of convertible currencies that are accepted for the settlement of international transaction-trade or external obligations.

Exchange rate is a key price variable in an economy and performs dual role of maintaining international competitiveness and serving as nominal anchor for domestic prices. (Charles,2006). In a simpler term, it can be said as the price of one currency in terms of another. It is expressed in either units of domestic currency per unit of domestic currency. Using the latter expression (i.e. units of foreign currency), when exchange rate increases (that is, the amount of domestic currency increases), the domestic currency is said to have depreciated while the foreign currency appreciates. Similarly, a decrease in the rate of exchange of the domestic currency for foreign currency implies an appreciation of the domestic currency and a depreciation of foreign currency.

A depreciation of the destination market currency raises the relative wealth of source country agents and can raise multinational acquisitions of certain destination market assets. To the extent that source country agents hold more of their wealth in own currency-denominated form, a depreciation of the destination currency increases the relative wealth position of source country investors, lowering their relative cost of capital. (Linda, 2006).

The foregoing implies that if Chinese entrepreneurs will trade successfully in Nigeria, there is need to change their national currency (that is, Yen) to the accepted one in Nigeria (that is, Naira). However, they often decide to hold their currency in expectation for a relative fall in the value of Naira so as to maximize their gain. Presently N1 is equivalent to ¥1.93. The continuous depreciation of the Naira currency due to factors like inflation, rates of interest, current account deficit, public debt, political instability, economic performance and terms of trade, has generated more wealth for the investors and has equally marred the rate of development of the country. It is however not necessary that foreign wealth be held exclusively in foreign currency. As long as the foreigners hold more of their wealth in their currency than do domestic agents, the result is same as marring the economy FDI purports to build.

For any meaningful and sustainable development to take place through FDI, the availability of efficient and adequate transport infrastructure is a key area of attraction and enticement to foreign investors in developing countries like Nigeria. Not until year 2011, the railway system in Nigeria was in a complete comatose. Years of neglect of both the rolling stock and the right-of-way have seriously reduced the capacity and utility of the system. Railway network span a total of 3,798km through two main lines (south-west to northeast; southeast to north west), inter-linked and terminating at Lagos, Port Harcourt, Kaura Namoda, Maiduguri and Nguru. Over 2.5 million passengers and 1 million metric tonnes of freight were serviced annually during years of service. However efforts have been made to resuscitate the system, notwithstanding this, the level of technology in the system is not one that can guarantee development or be of use in such a fast growing economy. Maijeh (2012) held that due to these old technologies, performance of firms is relatively low.

Nigeria has always had the largest road network in West Africa with roughly 108,000km surfaced roads in 1990. As at 2004, a source disclosed that of the road network of 193,200km, 28,980km are paved. This poor trend also begat poor maintenance of the paved ones leading to the creation of pot holes and ditches which characterizes most of these roads, thereby causing high rate of traffic fatalities which has hitherto instilled fear of travelling by road in investors. In furthermore, Nigeria has five (5)
In the same vein, electricity infrastructure is essential in attempt to reap the full benefits that FDI confers on the economy of a developing country like Nigeria. The state of electricity power in Nigeria is one crucial factor that has kept on militating against the performance of FDI. Every big multinational company cannot but do with constant availability of electricity for smooth running of their businesses. As a result of the epileptic state of electricity in the country, most foreign direct investors incur more costs sourcing for alternatives (most especially petroleum) and this indirectly bring about increment in the cost of their products and services. While other countries have improved on electricity supply, the nation’s electricity consumption per capital is put an all-time of 144 kilowatt-hour (kwh) in 2006 and 122 kilowatt-hour as at 2008 and estimated gas reserve at 184.2 trillion cubic feet (tcf) of recoverable reserve (Alexander, 2012). He further posited that the epileptic power supply has limited income-generating opportunities of the informal sector and led to increase in the cost of doing business. As a result of this incongruity in a country like Nigeria, more prospective Chinese investors get dissuaded from investing in Nigeria and those that come notwithstanding face the costs; they also try maximizing their profits in a way deleterious to the nation’s economy.

Another factor worth considering is the policies government make as regard FDI development in Nigeria. Government policies are critical in determining the rate of economic growth, the levels of private investment and the magnitude of credit to the private sector (Moshi, 1999). Abdin(2009) held that the impact of government policy on business can be explained from two points of view. If we describe the impact of government policies from the political point of view, then we will have to think about ideologies of different political parties in running government and the effect such has on business. Largely speaking, this brings about instability in the regulatory framework of policies administered on foreign investors especially when different political parties emerge in government at different points in time and as such leading to inconsistency. On the other hand, while describe government policy administration from the technical point of view, we will have to consider variables like taxation, subsidies, interest rates, exchange rate, among others. To a large extent, the difficulties in the relationship between China and Nigeria have been due to terms of the contract and the character of business and political environment (Abiodun 2010). In reality, the political climate in Nigeria at the federal level have so far been stable and as such it has been favourable for Chinese investors.

Culture, which refers to the way of life, especially the general customs and beliefs, of a particular group of people at a particular time also influences the contributions of Chinese entrepreneurs in Nigeria. Ideologies of the Nigerians form a major subset of their culture and it determines their acceptance for certain kinds of investment and business. For instance, some Chinese restaurants experience discrimination in Nigeria just because some types of dishes prepared are considered inedible by the Nigerian people. Some of the made-in-China products also are sometimes considered inferior or adulterated because of previous experiences.

Language also happens to be made a principal subset of culture. According to Wikipedia; the free encyclopedia, the number of languages currently estimated and catalogued in Nigeria is 520. This
number includes 510 living languages, two second languages without native speakers and 9 extinct languages. However, the generally accepted language used for business, education and other official purpose is English language. On the other hand, China has 292 living languages and 1 extinct language. Mandarin is spoken officially in China while English language is considered a minor language mainly for international purposes. In Nigeria, English language can only be spoken fluently by the educated and as a result, the uneducated may not be able to speak at all while the semi-educated may often resolve to speaking the diluted and simplified version known as pidgin or colloquially called ‘broken English’. The major problem of communication arises when either the foreign or the national cannot speak English Language. Among the most often cited barriers to conflict freedom in cross–cultural business communication is the use of different languages (Encyclopedia for business 2012). Language problems occur when either of both parties cannot communicate effectively with English in Nigeria as earlier stated and as a result interpretation and misinterpretation of Language can serve as barrier to effective negotiation. However, it has been observed by several researches that most Chinese investors in Nigeria can speak English language because of their negotiators are educated. To our knowledge no study has investigated the effect of communication on FDI locations (Frose, 2010). This implies that in the Nigeria case it cannot be as ascertained perhaps at one point in time Chinese investors had to negotiate with local land owners who are uneducated. Nonetheless in today globalized world English is used as an official businesses. Finally, According to Leadership daily times (2012) in Nigeria, the Honorary Investment Council (HIC) wants the federal government of Nigeria to intensify efforts at stopping terrorism and illegal bunkering to boost FDI. According to reports, Nigeria was ranked in the 14th position as one of the most failed states in the world out of 177 countries that works to prevent violent conflict and promote sustainable security in a ranking by Fund for Peace; an American association. Before the described trend of events, the situation of security in the country had not been worthwhile as the institutional setup of security agencies could be described as porous as corruption and lack of commitment perverted the system. With all these being the order of the day in Nigeria, more prospective investors get scared away and even present ones live under fear and uncertainty and as a result, the foreign direct investment environment in Nigeria remains inconducive for Chinese investors.

METHODOLOGY
This research work was carried out in Lagos, the former administrative seats of Nigeria with the aid of structured questionnaires and interview techniques. The state is known to have existed over the centuries as economics and administrative centre of the former capital territory in this part of the country. The activities of the colonial administration between the mid-20th century reinforce their growth and development. Also of importance is the introduction of relatively advanced transport systems, notably the railways and motorable roads both of which have enhanced their growth since the late 19th century. The state is connected by major and express roads and their locations in the country make them accessible to the more economically developed regions in the country. The state, Lagos is located on Coordinates: 6°27′11″N 3°23′45″E (See Figure 1.1). A total number of 87 registered respondent Chinese entrepreneurs were selected from the list only registered Chinese companies in the States using simple random sampling technique. The collected data were analysed using correlation analysis technique. The identified factors that are limiting the contributions of Chinese to the transportation and entrepreneurial development in Nigeria include: exchange rate, infrastructures, transportation and electricity, government policies, culture with language and ideologies, state of nation’s security and technology/skills. The model is specified as:

\[ Y = a_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 \ldots + b_n X_n + U_i \ldots \ldots \text{Eqn. (i)} \]

Where
a₀ = Constant  
Xᵢ,...,Xᵣ = Explanatory variables  
bᵢ = Parameters to be estimated (i = 1, 2, 3, - - - - n)  
Uᵢ = Error term or disturbance term  
Y = Dependent variable (contributions measured as Gross Domestic Product (GDP))  
X₁ = Exchange rate (EXRT)  
X₂ = Transportation status (TRPS)  
X₃ = Government Policies (GOPS)  
X₄ = Infrastructure that is, Electricity (ELECT)  
X₅ = Culture with languages and ideologies (CULI)  
X₆ = State of security (STOS)  
X₇ = Technology / Skill (TESK)

Fig. 1.1: City of Lagos showing main areas where Chinese Entrepreneurs are located

Coordinates: 6°27′11″N 3°23′45″E

RESULTS AND DISCUSSION

The statistical analysis of the limiting variables of China contributions to transportation and entrepreneurial development in the study area is as shown in Table 1. The matrix (Table 1) shows the relationship between the dependant variable (the China Contributions, \( Y_0 \)) and each independent variable as well as the correlation among the independent variables. The correlation between the dependent variable (\( Y_0 \)) and each of the independent variables showed that there is significant (\( P < 0.05 \)) negative correlation between the China contributions (\( Y_0 \)) and electricity (\( X_4 \)), culture with language and ideologies (\( X_5 \)) and the state of nation’s security (\( X_6 \)). This implies that as these variables \( X_4, X_5 \) and \( X_6 \) militate inversely against the contributions of Chinese to transportation and entrepreneurial development in Nigeria. This finding corroborates Adekoya (2012) which established that, insecurity and renowned hostilities by several groups in the country have continued to pose a threat to the nation’s economy and investments. Insecurity is a risk factor which investors all over the world dread as security uncertainty is not only considered a bad omen for business, it sends warning signals to investors to take their investible fund to another country where there is adequate semblance of security. Trailing behind these, Leadership daily times (2012) ranked Nigeria in the 14th position as one of the most failed states in the world out of 177 countries that works to prevent violent conflict and promote sustainable security in a ranking by Fund for Peace; an American Association. Also, Abiodun (2010), noted that as at 2006, the investment of the Chinese in the oil sector of Nigeria put them on a collision course with the militants fighting the Nigeria state over the management of oil in the Delta, and on a number of occasions, Chinese oil workers were taken hostage by the militants. More recently, the climate of uncertainty in Nigeria took a wider dimension as the mounting spate of bombings and violence turned a corner in the year 2011 with the introduction of suicide bombings; a dangerous trend that had before then remained alien in the nation’s index of social crimes. The attacks are centred in its stronghold of Maiduguri and other neighbouring states.

While, \( X_1 \) (exchange rate) and \( X_3 \) (government policies) were observed to have strong positive relationships with the Chinese contributions, \( X_2 \) (transportation status) and \( X_7 \) (technology/skills acquisition) exhibited a fairly strong relationship.

CONCLUSION AND RECOMMENDATIONS

Conclusively, this study considers the state of insecurity; epileptic electricity supply and renowned cultural hostilities by several groups in the country to have continued posing a significant threat to the nation’s economy and investments in Nigeria. In order to ascertain adequacy in the contributions of foreign investors to Nigeria economy, there should be regular supply of electricity, government must by all means put a halt to insurgency, terrorism and insecurity in the country and ensure perfect image laundering that will encourage foreign investors. Also, there must be tremendous improvement in the state of the nation’s transportation system and awareness must be created among youths on the relevance of technological innovations, entrepreneurship and skill acquisitions.

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