

Toward Sustainable Growth of Chinese SEZs in Africa: **The Zhongfu Case Study**

Private Report for Zhongfu International Investment Company

SAIS IDEV Practicum Program

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Preface

The research team would like to extend its sincere thanks to the Zhongfu International Investment Company – and specifically to Managing Director Jason Han and Chief Operating Officer John Xue – for their remarkable hospitality during our visit. We are especially grateful for their candor, transparency, and willingness to facilitate our connection to a broad array of stakeholders of the Ogun Guangdong Free Trade Zone (OGFTZ). Their commitment to our research initiative enabled a productive and insightful visit, and we hope that our reflections prove helpful for the future evolution and sustainable growth of the OGFTZ.

We also note that the following report summarizes both the research team’s field observations and the perspectives of the many stakeholders we interviewed. In an effort to solicit candid responses, research interviews were conducted with the promise of anonymity in the final report; and thus, we have made every attempt to generally identify stakeholder input throughout the document without naming specific sources. A brief description of the categories of stakeholders involved in this assessment has been included in an appendix, and we thank all of them for sharing their time and perspective with this effort.

Introduction

As a student research team from the Johns Hopkins School of Advanced International Studies in the International Development (IDEV) Program, Andrew Caruso, Danielle Nesmith, Teresa Peterburs, and Egle Vilkelyte travelled to Nigeria from January 8-21, 2016. Students in this program are offered an opportunity to participate in a capstone practicum course that is designed to provide students the tools necessary to work with an external client on a development problem. It allows students the opportunity to apply their research, analytical and practical skills to an issue that is of direct relevance to a client. IDEV provides an interdisciplinary approach to the study of developing countries, with the aim of preparing students for careers in development. Students in the IDEV Program receive rigorous academic training that helps them better conceptualize the development process in its economic, political and social dimensions.

The team of students works closely with the client to produce a high quality output in the form of a publishable report, policy or program that may be implemented by the client. As part of this project, the team was matched with the Zhongfu International Investment Company located in Igbesa, Nigeria in order to help inform a sustainable growth plan for the Ogun-Guangdong Free Trade Zone.

During the onsite visit, the team interviewed a broad range of stakeholders, including both Chinese and non-Chinese investors, Nigerian workers, community representatives and government officials. In addition, the team witnessed a major prospective investor delegation

visit in its entirety. These experiences clarified Zhongfu's growth strategy, and provided broader insight on potential Chinese development practice in Africa.

The Ogun-Guangdong Free Trade Zone (OGFTZ) first opened in 2009 as a public-private partnership between the Ogun state government in Nigeria and the Guangdong provincial government in China. The Nigerian government reserved 10,000 hectares for the OGTFZ; currently the zone is operating on an initial plot of 250 hectares, while the government will allocate the rest of the area based on performance. The OGFTZ is located in a small town called Igbesa in Ogun state, which is 30 km (but a 3 hour drive due to poor roads and a circuitous route) from the nearest big city, Lagos.

As of March 2016, more than \$400 million has been invested in the development and construction of the zone¹. There are 27 private companies operating on the OGFTZ with 14 additional companies that have committed investments, five of which are currently under construction. The OGFTZ management is also constructing an incubator space for small enterprises. There are an estimated 4,500 Nigerian employees and 220 Chinese employees on the zone, and tenant-investors range in size from 9 to 2000 employees.

Literature Review

Chinese special economic zones (SEZs) in Africa have been developed using a variety of models, and several have gone through ownership transitions when the original developers were unable to secure financing for their investments or faced other challenges. The OGFTZ, for example, began as a joint venture between a Chinese province and a Nigerian state. It has since transitioned to become one of the only privately managed Chinese SEZ in Nigeria. Other such zones in Africa are more often owned and operated by the Chinese government directly. Nonetheless, evidence from a wide variety of special economic zones suggests that they benefit both the host country and the foreign country involved in the partnership.

Effect on Host Nations

Literature suggests that special economic zones in general attract investments, generate direct and indirect employment, diversify the local economy, catalyze industry through skills transfer expand capital investments in infrastructure, and increase government revenue.² Their presence in developing countries serves to increase value added through the salaries of local workers, fees for utilities and transport, raw materials produced domestically, as well as repair and maintenance costs.³ As a result, evidence from fieldwork suggests that investors in special economic zones could play an important role in "re-vitalizing the Nigerian manufacturing sector

¹ Stakeholder Interview (name redacted). 19 April 2016.

² World Bank (2011) "Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned." World Bank, Washington DC. 23-24, 29, 38.

³ Ibid.

and diversifying the economic base as well as reducing the dependence on imports.”⁴ In the specific case of the OGFTZ, the most prominent successes lie in increases in employment, skills transfer, and regional development. However, in order for China’s SEZs in Africa to promote development, it is necessary for them “to be linked to the domestic economy, provide significant opportunities for domestic participation, and support knowledge-sharing, innovation, and skills development.”⁵

Unfortunately, much of the literature on SEZs focuses on political economy and infrastructure at the expense of the human aspect that is more often than not a key aspect in making or breaking the success of the zone. Among others, the World Bank⁶ identifies successful zone practices as those that create linkages, engage in social responsibility, generate government support, are sources of innovation and technology, build capacity, transfer skills to locals, and build infrastructure. Nowhere in these lists do they outline the importance of management; however in the case of the OGFTZ, this is one of the most salient features of the zone’s success.

The Chinese Development Model in Africa

According to the World Bank, Chinese SEZs in Africa are also a way to transfer China’s own success to other developing countries and as such is a strategy that the government believes to be helpful for recipient countries.⁷ In China, the SEZ policy was recognized as a successful tool for “attracting FDI, promoting export-oriented industrialization and catalyzing market-wide reforms.”⁸ As a result, many developing countries seek to emulate this experience in order to use SEZs as a “policy instrument for economic liberalization and export-led growth, attracting foreign investments and enhancing the competitiveness of the manufacturing sector.”⁹ Consequently, Chinese investments in SEZs have been embraced as a means of benefiting not only from capital injections but also from Chinese expertise in SEZ development and management. Moreover, Chinese investment could lead to greater “spillovers in terms of skills and technology that may benefit domestic enterprises and enhance their competitiveness in regional and global markets.”¹⁰

Benefits to Chinese firms

Additionally, these SEZs not only have the potential to benefit African host nations, but they can also generate large profits for Chinese firms and are a key element in meeting economic goals of the Chinese government. Deputy Minister Fu Ziyang described China’s global development

⁴ World Bank (2011) “Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned.” World Bank, Washington DC.

⁵ Bräutigam, Deborah and Tang, Xiaoyang. “Going Global in Groups: Structural Transformation and China’s Special Economic Zones Overseas.” World Development. 2013.

⁶ World Bank (2011) “Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned.” World Bank, Washington DC. 23-24, 29, 38.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

strategy in 2006 as “a way to support the Chinese companies to 'go global' in groups.”¹¹ In 2007, the former Minister of Commerce Bo Xilai also explained that the strategy ‘reduces anxieties’ Chinese firms have about investing abroad, while providing economies of scale.¹² These comments reflect common sentiments and challenges for investors who choose Chinese-managed African SEZs as a way of managing such risks. By leveraging both personal and professional relationships with partner businesses and concentrating investment in Chinese-managed zones, investors achieve relationship-driven economies of scale and distribute risk. While growth and development may be incentivized through relationship networks, the implementation of a critical mass of Chinese investment in a particular location can pose cultural integration challenges that inhibit sustainable growth and development of the context in which they locate.¹³

Furthermore, Chinese SEZs in Africa can also serve several purposes in terms of the Chinese government’s political and economic goals and individual Chinese business interests. Trade patterns between China and Africa “indicate that the Chinese SEZs can potentially serve as logistics and production platforms for Chinese companies to further penetrate national and regional markets.”¹⁴ Additionally, the zones could help to shift “manufacturing activities from China to Africa and increase processing and value addition of African natural resources and agricultural output in Africa.”¹⁵

Challenges of Free Trade Zones

On the other hand, the complex nature of establishing and running SEZs as well as the diversity of stakeholders involved imply that challenges are inevitable. The World Bank identifies the following challenges as common to Chinese SEZs in Africa: barriers to effective management of customs regulation, sub-par business environments for investors, a lack of strategic planning, strained relations with local communities, and a lack of anchor investors.¹⁶ In light of these challenges, the unplanned transition of OGFTZ’s management into a privately driven model provides unique flexibility and opportunity to address common SEZ challenges. Moreover, in recognition of the opportunity demonstrated by a private management model, the Nigerian Export Processing Zones Authority (NEPZA)¹⁷ has identified a long-term vision to focus

¹¹ Bräutigam, D., & Tang, X. (2014). “Going Global in Groups”: Structural Transformation and China’s Special Economic Zones Overseas. *World Development*, 63, 78-91.

¹² Bräutigam, D., & Xiaoyang, T. (2012). Economic statecraft in China's new overseas special economic zones: soft power, business or resource security?. *International Affairs*, 88(4), 799-816.

¹³ Bräutigam, D., & Xiaoyang, T. (2011). China’s investment in special economic zones in Africa. In Thomas Farole and Gokhan Akinci, eds, *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* Washington, DC: The World Bank, 2011.

¹⁴ World Bank (2011) “Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned.” World Bank, Washington DC.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ NEPZA is a Federal Government Agency under the supervision of the Federal Ministry of Industry, Trade and Investment. NEPZA Is responsible for promoting and facilitating local and international

exclusively on its regulatory oversight and abandon its current role in operational facilitation of zones.¹⁸

The nature and extent of (as well as the response to) these challenges ultimately determines their effect on the zone's success. As of 2011, a World Bank report on Chinese SEZs in Africa found that performance of the SEZ program had been unsatisfactory, both from the perspective of meeting investors' needs and delivering on the wider objectives of the program.¹⁹ The report cited several challenges that SEZs face in various countries across Africa, including poor location decisions, failure to address infrastructure within and beyond the walls of the zone, lack of policy predictability, institutional conflict, excessive focus on incentives rather than services, failure to ensure a comparative advantage in incentives, and lack of monitoring and enforcement.²⁰ Even though the regulatory regime for free zone operations in Nigeria is highly liberal from an investor's perspective, the potential of such a generous regime to attract investment had been undermined by the highly unpredictable and unstable nature of the framework.²¹ Moreover, the plethora of competitive incentives made available in the domestic market by the Nigerian government has significantly diminished the attractiveness of the free zone incentives.²²

Another common challenge free trade zones face is the availability of adequate infrastructure. Reliable electricity and roads are essential to efficient operations, yet free trade zones and the host governments commonly struggle with the provision. The literature points out that zone developers are generally expected to provide road infrastructure within the zones, whereas host governments are in charge of infrastructure outside the zones.²³ The government's commitment to providing infrastructure is cited as a major point of negotiation – often more so than fiscal incentives.²⁴

The literature also highlights that there are concerns about the creation of “Chinese enclaves” separated from the Nigerian economy.²⁵ There is limited local community buy-in stemming from a lack of local knowledge sharing, technology transfer, supply chain linkages, opportunities for

investments into licensed Free Zones in Nigeria. A NEPZA office is located on the OGFTZ with three representatives responsible for regulating and monitoring the on the ground zone activities.

¹⁸ Informal interview with Thomas Farole, December 8, 2015.

¹⁹ World Bank (2011) “Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned.” World Bank, Washington DC.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Bräutigam, D., & Xiaoyang, T. (2011). China's investment in special economic zones in Africa. In Thomas Farole and Gokhan Akinci, eds, *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* Washington, DC: The World Bank, 2011.

²⁴ Ibid.

²⁵ Ibid.

domestic participation and transparency to SEZ agreements.²⁶ By addressing these issues, there is potential for China's SEZs in Africa to promote development, but to date, the lack of local linkages and local participation in the African zones has made it difficult for the zones to promote domestic transformation.²⁷ Another aspect that is cited as a major challenge for the effective operation of SEZs is the language barrier. Both from the Chinese and the African perspective, the difficulty to communicate is identified as hampering SEZ operation.²⁸ Cultural barriers are, however, not discussed as a challenge for the success of Chinese-run free trade zones on the African continent.

Successes

1. Private Ownership

Zhongfu International Investment Company Assumes Private Management Role

The Ogun-Guangdong Free Trade Zone (OGFTZ) began as a partnership between the Chinese Guangdong state government and the Ogun state government of Nigeria, with Chinese partners holding an 82% share and Ogun state holding the remaining 18% ownership share.²⁹ By 2012, however, operational practices of the Chinese state-owned-enterprise (SOE) management team had deeply strained relations with Ogun state officials, ultimately requiring their exit from the zone and motivating a potential shutdown of the project.

At this time, members of what would become the Zhongfu International Investment Company had begun an investor relationship with the zone as an on-site manufacturer. Facing a potential loss of their investment, these individuals accepted the invitation of the Ogun state government to assume management responsibility for the zone (as well as the Guangdong state government's ownership share in the zone) at the end of 2012³⁰. Though the original name for the special economic zone was retained, the Guangdong state government completely exited the project, and Zhongfu emerged as the only case where ownership and management of a special economic zone in Africa has transitioned from a state-owned group to a private company headed by a uniquely credentialed manager with an American MBA. As of April 2016, the Zhongfu International

²⁶ Bräutigam, D., & Xiaoyang, T. (2011). China's investment in special economic zones in Africa. In Thomas Farole and Gokhan Akinci, eds, *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* Washington, DC: The World Bank, 2011.

²⁷ Bräutigam, D., & Tang, X. (2014). "Going Global in Groups": Structural Transformation and China's Special Economic Zones Overseas. *World Development*, 63, 78-91.

²⁸ Ibid.

²⁹ Bräutigam, D., & Xiaoyang, T. (2011). China's investment in special economic zones in Africa. In Thomas Farole and Gokhan Akinci, eds, *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* Washington, DC: The World Bank, 2011. 85.

³⁰ Stakeholder Interview (name redacted). 9 - 21 January 2016.

Investment Company's board of directors includes three individuals, with an on-site management team of sixteen³¹.

The Zhongfu Business Model

The Zhongfu International Investment Company financial model is driven by two sources of revenue:

- a management fee calculated as a percentage of the value of products “exported”³² out of the zone (a nominal portion of which is shared back with NEPZA), and
- land rental agreements with tenant investors³³.

The structure of this business model includes a natural incentive for zone management to create a supportive business environment, since an increase in tenant productivity directly leads to growth in export-related management fees. In addition, zone management note that continued investment and growth have led to a 6-fold increase in per meter land lease fees over the last three years; an economic windfall only realized at the signing of new tenants, since rents are set in dollars at the time of leasing and remain constant for the life of the lease, usually around 10 years.

Zone management faces several major expense categories, including

- capital investments in infrastructure,
- an annual zone operations licensing fee,
- “Incentive fees” / “Allowances”, and
- administrative and management personnel expenses.

Zhongfu also described an informal budgeting rule of thumb used in the broader Nigerian market called the “Rule of 3:3:3:1.” This rule indicates a common practice in Nigeria of increasing expected costs tenfold in order to account for unanticipated increases in costs of raw materials (3x), labor/contractors (3x), “consultant fees” (3x) and a contingency for the unexpected (1x).³⁴

The Returns to Private Management

In aggregate, the OGFTZ private ownership and management model appears highly effective for advancing growth in the following ways:

- a strong and positive shift in the perception of the zone among local stakeholders,
- more autonomous decision making,
- more direct accountability to shared expectations,
- more creative and innovative management practices, and

³¹ Stakeholder Interview (name redacted). 19 April 2016.

³² The vast majority of products produced at the OGFTZ are destined for the Nigerian market, as opposed to international export. Nevertheless, common parlance on the zone is to refer to exiting goods being “exported to the Nigerian market.”

³³ Stakeholder Interview (name redacted). 9 - 21 January 2016.

³⁴ While the management team holds a zero tolerance policy for smuggling, they do recognize the presence of “high consultant fees” within the market in order to move projects forward.

- enhanced recruiting practices.

“Fast Mover Advantage” and Tight Feedback Loops

The ownership and management team represents an intimate group of investors with pre-existing professional relationships and a clear understanding of shared values and goals for the project. This leadership structure enables a tight feedback loop for greater management autonomy and a strategic nimbleness informed by local presence in both Chinese and Nigerian markets. A streamlined leadership team with aligned values has accelerated responsive growth in an unpredictable market over the last three years, creating a “fast mover advantage.”

Zhongfu management’s shared goals and values include:

- a commitment to “doing the right thing” (a phrase the team heard in multiple interviews),
- a longer-term investment horizon,
- absolute resistance to smuggling operations that are common among other special economic zones,
- a moderate growth trajectory, and
- an acceptance of delayed returns on the investment.

The team heard this last shared value articulated in many meetings as an aversion to “quick money,”³⁵ essentially indicating a desire to prioritize investment in a more long-term, sustainable and holistic business model (one that could include investment in environmental mitigation, for example) at the expense of higher immediate returns.

The ownership and management team has codified their approach to “doing the right thing” by way of a Code of Conduct that all investors are required to sign, and for which they are accountable for compliance. Investors pledge to “take some responsibilities to be a good citizen,”³⁶ including an anti-smuggling policy, and a duty to “protect and maintain the cleaning [sic.] environment and public sanitation, standard, effluent discharges, control noise, take good care of employee’s health and lives, safety control in production, provide professional and skills training to our local employees, and obey all the traffic regulations...”³⁷

While it remains difficult to quantify and/or isolate the direct impact of a private management model on the outcomes of the zone’s performance, it is clear in aggregate that a number of qualitative advantages emerge from this model.

2. Management Philosophy

³⁵ Stakeholder Interview (name redacted). 14 January 2016.

³⁶ Zhongfu International Investment Company. Undertaking as FZE in Ogun Guangdong FTZ (Code of Conduct). 2016.

³⁷ Ibid.

The management philosophy of the OGFTZ is unusual for many reasons, but the crux of it is two men – John Xue, Chief Operating Officer (COO), and Jason Han, Managing Director (MD). It is their story that personally shapes the growth and success of the zone and its intriguing management style. The current MD's first encounter with the OGFTZ began as an investor. He spent years working on SEZs in China and as a manager for a Chinese bottling company. The MD and his long time friend with an American MBA, the current COO, then took over the OGFTZ at the end of 2012 and ushered in a new wave of privately run zone management. Instead of focusing on short-term windfall profits, they would take a long-term view of the zone's sustainability in the region. With no prior zone management experience, the COO and MD's unique combination of Western training and Chinese experience, and their unexpected introduction into this business shaped their unusual and exciting approach to zone management.

The COO and MD's east-meets-west and one-stop-shop philosophy do, however, tap into a key element of successful overseas direct investment identified and promoted by the Chinese government – “going global in groups.”³⁸ To fulfill its “One Belt, One Road” initiative, the Chinese government created national incentives for firms to invest overseas. Part of this included the establishment of SEZs in Africa and other parts of the world, which would reduce anxieties of Chinese firms about investing abroad, while providing economies of scale.³⁹ By going global in groups, Chinese investors could rely on networks to reduce risk and smooth the transition for workers and managers living overseas for the first time.

With enough Chinese investors flocking to Nigeria, an internal market for Chinese food products, consumer products, and language translation quickly developed. Stores selling all the same goods Chinese citizens can buy back home started popping up all over Lagos. Chinese restaurants, hotels, and schools soon followed. This trend could make it increasingly comfortable and easy for SEZs in the area to attract more Chinese investors who may be wary of testing their products in a new market.

The management team is able to take advantage of this by providing “the comforts of home” to all their potential investors. Similarly, in order to attract newcomers to the zone in Ogun state, the management team opened a local store within the zone that sells Chinese products. Before long a Chinese community developed in the zone in which potential and actual investors don't even need to speak English or integrate into the local communities in order to make a living and survive. They can have an authentic Chinese experience while living in Nigeria.

i. East-Meets-West

The COO and MD's management philosophy is an east-meets-west approach to attracting investors, spurring economic development, engaging in local politics, and merging cultural differences. This is founded on their knowledge of business practices, cultural differences, and

³⁸ Bräutigam, D., & Tang, X. (2014). “Going Global in Groups”: Structural Transformation and China's Special Economic Zones Overseas. *World Development*, 63, 78-91.

³⁹ Bräutigam, D., & Xiaoyang, T. (2012). Economic statecraft in China's new overseas special economic zones: soft power, business or resource security? *International Affairs*, 88(4), 799-816.

the critical languages of both corners of the world. Following their own experiences working for big Fortune 500 corporations in both the USA and China (and COO's tenure as an MBA student in Arizona), they dreamed up a new way to do business that focused on "doing the right thing" and "being a good person."⁴⁰ While this kind of philosophical business model may be foreign to westerners, the Chinese investors on the zone identify with it and internalize it.

As it stands, the COO and MD's ability to bridge the gap between east and west allows them to attract investors from China while working constructively with Nigerian authorities. Not only can the management team create a "little China" in the zone that makes their investors comfortable, but they can also converse with Nigerian officials and other ex-pats in English and accommodate their tastes and preferences. This bridge between cultures is exemplified in the management office's kitchen where the Chinese chef has two Nigerian assistants and a refrigerator full of American products like peanut butter and instant coffee for potential foreign investors.

According to Nigerian officials on the zone, the current COO and MD are better than the previous managers because they came with an agenda and were focused, inclusive, think the sky is the limit, and work to bring people together from all sides.⁴¹

ii. One-Stop-Shop

Trust is central to the COO and MD's management style. By trusting that everyone will "do the right thing" and "be a good person", it allows both the investors and the management team the time and space to do what they do best. The investors run their companies and generate profits while the management team takes care of community relations, infrastructure planning, governing, problem solving, and developing administrative capacity. This includes interaction with official agencies, environmental issues, and the relationship with the community in particular. Investors rely on the management's existing, strong relationship with the government and community, creating a one-stop-shop for investors that streamlines and simplifies the challenges of overseas investment and trade.⁴²

For investors, this policy makes doing business in the zone easier. All the government offices required for facilitating trade are located directly next to each other in the same building on the zone. This reduces the amount of time investors have to spend traveling to and from the city to liaise with government officials and process paperwork. Furthermore, investors see the COO and MD's continuous efforts to engage with local entities as an extension of themselves; in this way they do not feel obliged to interact with or understand the local culture and people.

Interestingly, potential investors seem to be aware that interaction with and impact on the local community is an important part of doing business because they do it back in China and in their

⁴⁰ These expressions were used by the COO and MD in many of our conversations as a reference to the motto for the zone's management philosophy.

⁴¹Stakeholder Interview (name redacted).12 January 2016.

⁴²Stakeholder Interview (name redacted).18 January 2016.

other international locations. However, they view themselves as operating as part of the OGFTZ not in isolation from it, and therefore, make no separate attempts at community engagement. This difference in expectations between the community and the investors when it comes to community interaction could lead to negative consequences in the future.

iii. Innovation

The combination of their east-meets-west approach and one-stop-shop management generates room for innovative solutions to problems that otherwise would have stymied development. Investing in developing countries is difficult for a variety of reasons (see the literature review on Challenges), but instead of being bogged down by bureaucratic procedure, complex relationships, and dynamics that change on a dime, the COO and MD seek creative solutions to seemingly intractable obstacles. Many problems that plague other zones and investors in Nigeria are bypassed on this zone thanks to their innovative management style.

Anti-Smuggling Practices

Nigerian news media suggest that the first managers of the zone were unable to control smuggling; partially leading to their exit. At the time of the zone's transition to Zhongfu management, an initial 80% non-smuggling performance target was suggested. Nevertheless, Zhongfu self-imposed a clear and steadfast zero-tolerance policy for smuggling, an unusual approach that is frequently recognized and admired by stakeholders. In fact, Zhongfu created a slogan under which control of zone management assumed, "Smuggling is our number one enemy."⁴³ Throughout stakeholder interviews there was familiarity and resonance with this slogan. Moreover, Zhongfu's zero-tolerance policy is driven by a strategic approach to managing political risk. By developing a period of continuity with the current local, regional and national administration, Zhongfu hopes to develop a momentum, or "track record" for success through transparent business practices from which potential changes in local, regional or national political administrations will find it difficult to deviate.

Because the appeal of quick profits is such a big draw to foreign companies, the COO and MD had to invent new ways to deter smuggling on the zone and uphold their zero tolerance policy. First, the zone executive management team made a deal with customs officials and inspectors that if they caught someone smuggling, they would get to keep half of the proceeds. As a result, the zone executive management team was able to successfully identify all the tenants involved in smuggling and terminate their leases. In addition, OGFTZ management proactively collaborated with customs officials to design new customs procedures that disincentivize smuggling, streamline and daylight transactions at the zone's entry gate by making them more transparent, and boost customs revenue. According to a customs official, this resulted in a 1000% increase in annual customs collections.⁴⁴ Such practices are believed to be unique among SEZs in Nigeria.

Duty Payment Flexibility

⁴³ This slogan appears on the anti-corruption sign outside of the zone's main entrance.

⁴⁴Stakeholder Interview (name redacted). 12 January 2016.

At the same time, the in-house customs department generated their own plan to help the tenants increase profits in a legal way. They offered them a grace period of 3-6 months in which they would not have to pay any duties. With this, the tenants could leverage early profits to kick-start their investment. Then, after the 3-month period they would begin to pay back duties owed. This is a unique policy at the OGFTZ that other zones cannot implement because they are government run or run by other private companies that don't have a flexible style. For this reason, Nigerian officials on the zone appreciate the liberal environment that the zone management has created for investors and workers to innovate and promote productivity increases.⁴⁵

Business Incubation

The management has also started construction on a small warehouse facility that will become an “incubator space” for small enterprises who may consider scaling up operations as a potential full-tenant in the zone.

Enhanced Operations

The OGFTZ allows trucks into the zone 24 hours a day, 7 days a week. Most other zones have distribution timeframes, usually during normal business hours, in which trucks enter and exit the zone to drop off inputs and pick up exports. Zhongfu noticed the growing lines of trucks crowding the streets and the long wait times, and decided to keep the zone open 24/7. This allows truck drivers to avoid the infamous Lagos traffic by driving at night as well.

Optimizing “Ease of Doing Business”

Nigeria is famous for its lengthy bureaucratic procedures, which can often deter investors who don't speak the language and aren't familiar with the process. To cut back on the hoops tenants have to jump through to export, all parties on the zone accepted an innovative strategy. According to Nigerian regulation, all four parties – manufacturer, zone management, NEPZA, customs – are required to sign the export recording slips. This can be difficult to coordinate due to time and logistic constraints, so the zone management instituted an informal policy in which the signature of two on the recording slip is sufficient in the immediate term (among them has to be either NEPZA or customs). The fourth party can sign the recording slips later. This speeds up the exporting process and prevents it from being blocked from one party.

Human and Intellectual Capital

The management team has pursued proactive recruiting of new staff at universities in both the east and west, specifically valuing talent with experience in both Chinese and western cultures, practices and languages. The zone's openness and facilitation of visitors to investigate, explore and question the ongoing development of the zone has provided key insight for its ongoing growth. As such, Zhongfu has created a practice of leveraging intellectual capital from around the world to enhance the zone's ongoing operations through a culture of open and transparent collaboration. This often includes hiring and consulting local Nigerians with professional and/or academic experience in China.

⁴⁵Stakeholder Interview (name redacted). 12 January 2016.

3. Leveraging and Building Relationships

Zhongfu plays a critical role in identifying, building and maintaining relationships with stakeholders at three levels – between stakeholders within the zone, between the zone and its local community stakeholders, and between the zone and prospective external investors. Based on stakeholder feedback, Zhongfu management has been successful in strategic relationship building at all three levels, though some questions remain about the sustainability and diversity of these relationships.

i. On The Zone

While growing quickly, Chinese-based manufacturers currently dominate the OGFTZ. Of the 27 currently operating companies, 25 are Chinese enterprises⁴⁶. The Zhongfu International Investment company has explicitly stated a China-focused investor recruitment strategy with minimal initial engagement or advertising beyond China, though they expressed a desire to broaden the diversity of their investor base⁴⁷.

According to potential Chinese investors, personal relationships are important in Chinese culture because community is highly valued. Trust is particularly important for investing abroad, and thus OGFTZ management rely heavily on contacts and relationships in China.⁴⁸ By capitalizing on these relationships – whether direct/primary relationships or secondary relationships – Zhongfu has been able to attract a variety of key investors from a range of industries in China. The nature of these preexisting relationships serve to reduce risk in potential zone investment decisions in two ways: first, by providing an environment of existing trust within which new partners can enter foreign markets; and second, by ensuring that investors and management share similar expectations for the types of standards and performance outcomes of the business climate. Collective decisions about investing in the long-term future of the zone (potentially at an expense to immediate profit) are easier to achieve among like-minded colleagues with a history of collaboration and trust. This is a key advantage that the Zhongfu relationship-based model brings to the OGFTZ.

Additionally, Zhongfu's investor recruitment strategy prioritizes second-tier manufacturers in China, suggesting a first-mover advantage in the Nigerian market with lower competition and greater opportunities for growth. Moreover, the shared expectations on infrastructure and shared administrative services provided by the zone management create a lower-risk investment climate marked by efficiency, rather than the lavish perks and facilities of other zones in the region that attempt to woo a more diverse group of international investors. The critical mass of Chinese culture, customs and language provide additional comfort for investors (for example, the density of Chinese workers supports a provider of Chinese medicine in the zone). Such aspects are

⁴⁶ John Xue, Chief Operating Officer, Zhongfu International Investment Company. Electronic correspondence. 1 April 2016.

⁴⁷ Stakeholder Interview (name redacted). 9 - 21 January 2016.

⁴⁸ Stakeholder Interview (name redacted). 14 January 2016.

crucial for investors who cite attracting and retaining high quality management talent from China as a key challenge.

However, this strategy is limiting in the long-term. First, a more diverse investor pool may help reduce the starkness of cultural difference perceived by local populations between the zone (which locals refer to as “China”) and the surrounding community. Likewise, a more robustly multi-cultural investor base would also improve investor relations within the zone, since the non-Chinese companies expressed feelings of marginalization and a need for a greater sense of community in order to attract and retain expat talent. Moreover, a more diverse investor mix may also provide greater economic diversification and resilience in the face of volatile world markets. As a result, the OGFTZ management team will need to provide incentives, infrastructure, and attractive investment opportunities for a wider range of investors outside their own personal networks in order to foster sustainable growth.

ii. Off-The-Zone

Zhongfu’s ability to build meaningful partnerships off the zone has generated tangible success as well. In particular, the management team has strong working relationships with Ogun state officials, traditional tribal leaders, and some local community stakeholders, such as the Ogun Institute of Technology. According to many stakeholders, Zhongfu has been more successful at building off-zone relationships than the former Chinese SOE management. “The new management team has rejuvenated the zone. They are making it better now, ” described one stakeholder.⁴⁹

Given Ogun state’s shared ownership in the zone and their importance to its infrastructure and policy environment, Zhongfu has retained a Nigerian SEZ consultant to maintain ongoing dialogue with Ogun state officials. The increasingly collaborative nature of this relationship was evident when a prospective investor group was well received by the Secretary of the State Governor of Ogun State and a number of his officials in infrastructure and economic development. Government officials openly acknowledged challenges and successes experienced during the zone’s development, and commitment to a prosperous future for the zone was confirmed. Nevertheless, while governmental relationships demonstrate increasing success, broadening off-site relationships remains a challenge for Zhongfu and for the broader investment community (see Challenges, Section 4 - Community Interaction).

4. Economic Impact

Before the zone was established, the small town of Igbesa was predominantly farmland. There was a bustling weekly market and informal vendors selling goods out of their houses along the side of the main road, but there was no modern business activity. As the OGFTZ grew and prospered, the area around it boomed as well. The economic impact of the zone takes the form of

⁴⁹ Stakeholder Interview (name redacted). 15 January 2016.

employment generation, increased business activity, skills transfer, and rising land values. While the zone's ability to generate economic growth for the region and the country is a success in and of itself, it also serves as a springboard to build positive relationships with Nigerians and attract further foreign investment. Upon seeing the effects of the zone on the surrounding area, the Nigerian people and government have grown to appreciate and welcome the zone's presence in Ogun state and foreign investors are now increasingly coming to the once small town of Igbesa.

i. Employment

The OGTZ currently employs 4,500 Nigerian workers and 220 Chinese workers in its 27 factories. A majority of these workers are from Ogun state and came to Igbesa in search of a job. Another large minority come from northern states of Nigeria where poverty is widespread and unemployment rates are high. As news of the zone's growth travels through word of mouth across Nigeria, friends and family come to the zone and line up outside the entrance in search of a job inside. For many individuals working in the zone, their salary will support the livelihoods of their entire families and even friends back home.⁵⁰

The OGFTZ is a sought after place to work as it is consistent and reliable, while there are few employment alternatives in the region. For this reason, local Nigerians report that the people of Igbesa like the zone because it provides jobs.⁵¹ Moreover, it is easy for them to get a job in the zone because they don't ask for certificates⁵² like most other companies in Nigeria. Instead they just need proof of Nigerian citizenship (typically through the national ID card) and a guarantor.⁵³ According to one Chinese manager, jobs at their company are very attractive because workers earn more than elsewhere. Zone management encourages tenants to pay their workers a minimum wage of 18,000 naira (approximately \$90) per month in accordance with Nigerian law. However, there is no monitoring or enforcement of this informal policy to date as individual tenant business decisions operate independent of zone management authority.

The lines outside the zone of people awaiting employment are further testimony to the attractiveness of working in the zone. Since the demand for jobs exceeds its supply, people wait outside the zone for weeks to months at a time.⁵⁴ Most of the workers in line are looking for temporary labor jobs so they can save enough money to go back to school or support their families. A majority of those in line live in the town of Igbesa or are from the Ogun state. These long lines of people waiting months at a time threatens security, waste management, water management, housing, food, and other basic services provided in the small town of Igbesa that is not prepared to handle the massive influx of people the zone has attracted.

⁵⁰Stakeholder Interview (name redacted). 11 January 2016.

⁵¹Stakeholder Interview (name redacted). 10 January 2016.

⁵² In Nigerian workplace culture it is common to acquire certificates for training, education, special awards, etc. that are then used to verify previous employment and qualifications when applying for work in the future.

⁵³Stakeholder Interview (name redacted). 10 January 2016.

⁵⁴Stakeholder Interview (name redacted). 18 January 2016.

The draw of people all over Nigeria to the OGFTZ also opens the possibility for creating tensions within the community between workers from out of town and local Ogun state residents. The source of potential conflict is not only economic, but also touches on underlying ethnic divisions between the Yoruba of the southwest, the Hausa of the north, and the Igbo of the southeast.

Many have reported that the zone has many Hausa workers from the north that flock to the zone in search of work due to the disproportionately higher levels of poverty and unemployment in northern Nigeria. This caused conflicts to erupt between Yoruba and Hausa workers who resented each other for “stealing” jobs. In response, one Chinese manager made a specific policy to hire 50 percent of his workers from the north and 50 percent from the local population to create balance.⁵⁵ At the same time, Igbo managers on the zone reported that they don’t like to hire Yoruba because they never come back after holidays; they just want to work enough to make a little then spend the money.⁵⁶ Instead, they bring friends from their hometowns. However, according to one local chief, the fact that people from outside the Ogun state and Yoruba tribe are working in the zone is a good thing because “we are one Nigeria.”

Balance between Nigerian and Chinese workers is also an important consideration for investors. Bringing people from China to the zone to work as technicians and managers is quite expensive, but necessary in the short-term to launch the investment. However, most tenants reported that in the future they would like to hire more Nigerians to fill these roles in order to cut costs.⁵⁷ As a result, local Nigerians with higher levels of education resent the Chinese for only hiring low-skilled labor. This is often interpreted as an extension of slavery despite the wage and positive work conditions in the zone.⁵⁸ (See the section on Challenges.)

ii. Skills Transfer

A majority of the jobs in the zone are low-skilled labor. As a result, many of the workers have no education above primary school and little to no prior job experience. By working on the zone, workers learn new trades, develop professional decorum, and earn a work history that will help them gain further employment in the future -- at least, in theory. In reality, the depth of skills transfer varies greatly across investors. Still in its nascent stage, the skills transfer at the zone today remains low-level, but higher-level training and support for higher-skilled Nigerian labor is embedded in the future planning of many investors (see the section on Challenges). According to Nigerian officials, skills eventually get passed down to Nigerians as they work in the zone. They have seen technology transfer in the form of Nigerians operating the machines, in particular.⁵⁹

⁵⁵Stakeholder Interview (name redacted). 11 January 2016.

⁵⁶Stakeholder Interview (name redacted). 15 January 2016.

⁵⁷Stakeholder Interview (name redacted). 17 January 2016. Stakeholder Interview (name redacted). Interview. 11 January 2016.

⁵⁸Stakeholder Interview (name redacted). 10 January 2016.

⁵⁹Stakeholder Interview (name redacted). 12 January 2016.

In several cases local Nigerians have been promoted or hired into managerial and supervisory positions. One investor reported that he hired a Nigerian manager with a university degree upon the recommendation of a friend.⁶⁰ She is responsible for paying and managing the personnel in order to avoid perceived discrimination or injustice between Chinese “masters” and Nigerian workers.⁶¹

Other investors have successfully promoted Nigerian workers with high school diplomas to be General Managers and floor supervisors.⁶² One in particular reported that he promoted a local Nigerian worker to be in charge of marketing.⁶³ This was a great advantage for him because he speaks all three main dialects in addition to English and a few words in Chinese.⁶⁴ His knowledge of local customs, culture, language, and commerce has produced a big difference in the company’s profits and customer base.⁶⁵

iii. Business Activity

The local population has capitalized upon the large influx of people to Igbesa who are either employed in the zone or in search of employment. For example, workers from out of town need places to live nearby, which spawned the development of a local hostel in Igbesa.

New workers also need food, clothes, and basic essentials. This immediate rise in demand led to a rise in business activity in Igbesa. As the zone continues to grow, opportunities for entrepreneurial Nigerians will continue to expand as well. According to Nigerian officials working on the zone, Igbesa has changed a lot with new products, more businesses opening and rents going up.⁶⁶ Overall, they see that the zone has had a good impact because Igbesa used to be a ghost town but is now a commercial town.⁶⁷

Local tribal chiefs report that because of the zone there are more people in Igbesa and industry has been attracted to the area even outside the zone.⁶⁸ They report an increase in the economic value of the people (i.e. wage), increase in demand for houses, higher purchasing power, and a greater and faster sale of goods.⁶⁹ According to one leader, all of this adds value to the community, and there has been a great increase in development in the form of houses and companies in particular.⁷⁰

⁶⁰Stakeholder Interview (name redacted). 18 January 2016.

⁶¹Stakeholder Interview (name redacted). 18 January 2016.

⁶²Stakeholder Interview (name redacted). 11 January 2016.

⁶³Stakeholder Interview (name redacted). 15 January 2016.

⁶⁴Stakeholder Interview (name redacted). 15 January 2016.

⁶⁵Stakeholder Interview (name redacted). 15 January 2016.

⁶⁶Stakeholder Interview (name redacted). 12 January 2016.

⁶⁷Stakeholder Interview (name redacted). 12 January 2016.

⁶⁸Stakeholder Interviews (names redacted). 12 January 2016 and 15 January 2016.

⁶⁹Stakeholder Interviews (names redacted). 12 January 2016 and 15 January 2016.

⁷⁰Stakeholder Interview (name redacted). 12 January 2016.

Secondarily, the rise in demand for housing has led to a more than 400% increase in land value over the last three years. This greatly helps landowners who can now extract higher rents, but could simultaneously hurt locals who can no longer afford to pay for the house they lived in for years. Fortunately, evidence of this phenomenon is slim, but could become more prevalent as the zone continues to grow and prosper.

iv. Investor Profits

One investor explained that he made the decision to start manufacturing in Nigeria because the import business was unpredictable and varied too much both in terms of price and quantity.⁷¹ In China, if sales are terrible one year they will boom the next and he can't manufacture in that kind of climate. By opening another distribution center in Nigeria he was able to stabilize production. However, the prices and quantities of orders varied too much as well. He was able to combat this by moving operations on site in Nigeria where he could work and speak directly with the distributors. Now that they manufacture in Nigeria, they can have a business plan (take orders and fill them) both in Nigeria and in China. Recently, as business is getting worse in China, it is getting better in Nigeria. Before when he was just exporting to Nigeria it would take three months for the goods to arrive, so there was always a risk that the price would change upon arrival and they'd lose profit. Now it just takes 1-2 hours and there's no risk.⁷²

Moreover, companies in China that are looking to expand to Nigeria have a greater incentive to operate within the zone due to all the perks. Part of the deal with the zone management is that there can be no competitors in the zone. The company has an advantage in the zone because of the lower customs duties, lower payments to clear the containers, no security issues, and no government disruption.⁷³

Challenges

1. Labor Market Issues

i. Demand for Unskilled labor

Nigeria is considered attractive for international investors, in part, due to its large, low cost pool of mostly unskilled labor,⁷⁴ which applies directly to the employment situation at the OGFTZ as well. In fact the labor pool has grown larger than the Igbesa local community with Nigerians

⁷¹Stakeholder Interview (name redacted). 18 January 2016.

⁷²Stakeholder Interview (name redacted). 18 January 2016.

⁷³Stakeholder Interview (name redacted). 15 January 2016.

⁷⁴ World Bank (2011) "Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned." World Bank, Washington DC.

migrating to the area in search of work. However, there was a significant mismatch between the needs of the labor demand and desires of the labor supply. Companies noted that a large majority of the jobs do not require skilled labor and are not very demanding.⁷⁵ Most of the companies had short training periods of about a week for new employees, with no prior knowledge or skills required.⁷⁶ One investor argued that they had no desire to hire skilled workers because the workers do not stay on the job long enough.⁷⁷

Furthermore, the issue of not requiring employee certificates during the hiring process, which could highlight the skills of a possible employee, was both a positive and negative for those seeking employment. By not requiring certificates, it is easier for low-skilled job-seekers to obtain employment.⁷⁸ However, there is no way to distinguish skilled labor and how they could most efficiently be utilized on the zone. On the other hand, it is difficult for the investors to assess the legitimacy of the knowledge and skills that a certificate endorses, especially when there is a language barrier. However, on the other hand, a local chief saw this as a discriminatory hiring practice arguing that all of the skilled positions are reserved for foreigners.⁷⁹

Despite the companies' general hiring practices in the zone, a small portion of local staff have managed to progress to middle-management positions. This usually has been the case when an employee has been with a company for a long period of time or in one case a company sought out a university educated manager from Lagos.⁸⁰ There is a desire on the part of investors for dependable and skilled Nigerian workers for some positions.⁸¹ This is due to a large wage differential between a Nigerian and a foreign worker in the same position, and it mitigates the issue of foreigners only staying in Nigeria for a couple of years and then going home. One large company mentioned that additional training for local workers would be helpful because workers lack the necessary critical thinking skills necessary to independently work with some more complicated machinery.⁸² This need could be met through collaboration with the local Ogun Institute of Technology (OGIT) or partnerships with institutions in Lagos. However, none of the companies have taken the time to collaborate with OGIT, which is eager to create a partnership between its students and the zone.⁸³ Additionally, the one-stop-shop zone management program falls short of creating linkages between investors and institutions that could provide high skilled labor. While the local Igbesa resources might fall below OGFTZ labor standards, the zone has not yet created connections with more advanced educational institutions in Lagos.

ii. Reliability

⁷⁵ Stakeholder Interview (name redacted). 11 January 2016.

⁷⁶ Stakeholder Interview (name redacted). 11 January 2016.

⁷⁷ Stakeholder Interview (name redacted). 15 January 2016.

⁷⁸ Stakeholder Interview (name redacted). 10 January 2016.

⁷⁹ Stakeholder Interview (name redacted). 15 January 2016.

⁸⁰ Stakeholder Interview (name redacted). 18 January 2016.

⁸¹ Stakeholder Interview (name redacted). 15 January 2016.

⁸² Stakeholder Interview (name redacted). 11 January 2016.

⁸³ Stakeholder Interview (name redacted). 15 January 2016.

Several investors in the zone, especially manufacturing plants employing a larger number of Nigerian employees, reported high staff turnover and dependability issues. High levels of staff absenteeism occur annually after the holidays, and one company noted that they consistently lose staff after each monthly pay period.⁸⁴ One company has to go as far as employing two people for each position each day due to the likelihood that one employee will not attend.⁸⁵

The management teams from many companies also face reliability issues that stem from mistrust of some employees. Several zone companies experienced theft issues from employees, as well as intentional and unintentional damage to plant equipment.⁸⁶ Theft can easily occur on the zone in part due to a lack of a secure border, as well as security personnel that can fully monitor the zone border. While the zone is fenced, stolen equipment and materials have been easily tossed over the perimeter and retrieved after working hours.

One local chief reaffirmed the need for relationship building between foreign management and local employees, stating that the companies did not always appreciate or were not very hospitable to their workers, but a sense of belonging should be created so that locals can feel like they belong to the zone.⁸⁷ This was exemplified by two smaller companies in the zone that have maintained the same employees for years. One of the managers from these companies reported that he keeps his staff happy and can prevent a high turnover because his company keeps their workers all year-round and pays them a salary even if they have no orders, while other companies in the zone fire and hire staff as orders come in and offer no work dependability.⁸⁸ Nonetheless, the other companies are able to do this because the demand for jobs from locals exceeds their need for workers. In addition, a large manufacturing company explained that it is not difficult to attract workers because they pay well.⁸⁹

Further, employee compensation did not prove to be a factor affecting employee turnover and dependability. The zone management encourages a minimum wage of NGN 18,000 in the zone with additional benefits determined by the individual companies. However, the zone exhibited examples of both investors with high and low turnover rates who provided their Nigerian and Chinese employees with comprehensive benefits, funds for health, housing and transportation, in addition to their salaries. Despite turnover and dependability issues associated with local staff, two larger companies noted that they would like to reduce the number of foreign workers because for the salary of every one Chinese worker, you can employ five Nigerian workers.⁹⁰

⁸⁴ Stakeholder Interview (name redacted). 15 January 2016

⁸⁵ Stakeholder Interview (name redacted). January 15, 2016

⁸⁶ Stakeholder Interview (name redacted). 15 January 2016; Stakeholder Interview (name redacted). 11 January 2016.

⁸⁷ Stakeholder Interview (name redacted). 12 January 2016

⁸⁸ Stakeholder Interview (name redacted). 17 January 2016

⁸⁹ Stakeholder Interview (name redacted). 11 January 2016

⁹⁰ Stakeholder Interview (name redacted). 15 January 2016

2. Cultural Differences and Language Barriers

i. Workplace Etiquette

In the OGFTZ, cultural differences are omnipresent, particularly in the relationship between Chinese superiors and Nigerian employees where cultural differences easily lead to tensions. Culture further was important in limiting interaction between the Chinese working in the zone and the local community outside the zone.

Labor market tensions are further exacerbated by the starkness of cultural differences and language barriers. The clear definition of employer and employee roles along national, and thus cultural lines, creates potential for conflict. Multiple workers even framed their relationship with superiors as one of master and slave. Disagreements over work-related issues therefore easily intensify over cultural misunderstandings and miscommunication. One example consisted of a Nigerian worker being pushed out of the way by his Chinese superior. The manager was attempting to ensure the safety of the worker from imminent harm by a machine, in what he perceived to be a standard practice. The worker, however, perceived the interaction as an assault. The company was able to resolve the conflict by reviewing video footage of the incident and, thus, able to prevent an escalation.

From the Chinese perspective, cultural differences can make interaction unpleasant and lead to greater reluctance in forming relationships. One Chinese manager reported that workers often beg him for additional money and that they are not shy of touching him, which he assessed as very different from Chinese norms. This makes him uncomfortable and he has to demonstrate anger for the workers to stop begging. In order to avoid such issues, he prefers to stay at a distance from the workers.⁹¹

On the other hand, interviews with Nigerian workers and a local chief clarified that Nigerian workers often feel unappreciated by their employers. One worker reported she felt discriminated against by the Chinese as a Nigerian. In her opinion, the Chinese investors did not treat her with sufficient respect. Workers expressed perceiving the clear chain of authority from Chinese superiors to Nigerian laborers as “enslavement.”⁹² One Chinese manager expressed explicitly that cultural differences combined with clearly defined command chains in a superior-employee relationship are a reason for workers’ reluctance to cooperate.⁹³

i. Religion

Attitudes to religion are also an important driver of cultural tension. One Chinese investor reported frustration that workers were not grateful to him for receiving benefits but thanked God.

⁹¹ Stakeholder Interview (name redacted). 16 January 2016.

⁹² Stakeholder Interview (name redacted). 10 January 2016.

⁹³ Stakeholder Interview (name redacted). 11 January 2016.

He claimed that workers' strong belief compromised their work ethics as they did not see themselves able to control their fate.⁹⁴ Further, the misalignment of work schedules and religious practices was identified as a source of tension. A Nigerian manager pointed out that having Christians work on Sundays is disrespectful to their custom of going to church. Without specifying if this mismatch resulted from lack of knowledge or lack of willingness to accommodate, he suggested to take advantage of the diversity in workers' religions. Christian workers should not work on Sundays and Muslim workers should not be called to work on Fridays.⁹⁵

i. Language Barriers

Tension in cross-cultural interaction is further aggravated by language barriers. Many Chinese employees speak little or no English when they first come to Nigeria. One Chinese manager reported that communication between Chinese supervisors and Nigerian laborers works through body language or shouting in the different languages.⁹⁶ This adds to the feeling of foreignness, and being misunderstood. It can increase anger, and prevents misunderstandings from being resolved easily.

Willingness to improve language skills seems to be limited on the side of Chinese investors and employees. One manager reported that his company had offered English classes to their Chinese employees. However, interest to attend these classes on one's personal time was limited. The manager reasoned that this was because the Chinese employees were engineers who did not see language skills benefiting their career beyond their temporary engagement in Nigeria. Due to limited interest, language classes were phased out. Instead, the company opted to hand out English language booklets to Chinese staff.⁹⁷

The Ogun Institute of Technology, which is located right next to the OGFTZ, does not currently offer Chinese classes to its students. Representatives of the Institute, however, expressed that students would be eager to learn Chinese, particularly if it was taught by a Chinese faculty member.⁹⁸ It is worth noting that the school's Nigerian Rector completed her PhD in China and speaks some Mandarin.

i. Overcoming Cultural Barriers

Ways to overcome cultural differences are closely related to longer time horizons, opportunities to interact, openness to the other culture, and personal trust. Multiple Chinese managers explained that time was crucial in improving relationships. They had observed their workers' willingness to cooperate increased the longer they had worked together and gotten to know each

⁹⁴ Stakeholder Interview (name redacted). 16 January 2016.

⁹⁵ Stakeholder Interview (name redacted). 18 January 2016.

⁹⁶ Stakeholder Interview (name redacted). 11 January 2016.

⁹⁷ Stakeholder Interview (name redacted). 15 January 2016.

⁹⁸ Stakeholder Interview (name redacted). 15 January 2016.

other.⁹⁹ The experience of a company with low turnover confirmed this as the relationship between Chinese and Nigerian employees was particularly good.¹⁰⁰ Further, trust is highly appreciated. The Nigerian manager of one firm reported that Nigerian workers valued the management's willingness to make advance payments in special cases.¹⁰¹

Openness to the culture of foreign colleagues was observed to be a sound basis for a functioning work relationship. One Nigerian manager reported that his superiors were interested in learning from him about Nigerian culture and had accompanied him to his home village to meet his family. The Chinese managers further adhered to local customs by giving the employee money when his baby was born and helped him and his wife buy a house outside the zone where he had previously lived. This grounds a trusting relationship, which has positive spillover effects to business efforts: the Nigerian manager explained Nigerian business culture to his Chinese superiors, which helped develop more targeted marketing strategies.¹⁰²

A company's size was observed as an important factor in enabling closer relationships with employees. Both companies that reported having a trusting and longstanding relationship with their workers, employed no more than 35 people. In larger companies, high turnover rates are the norm. One company's manager indicated that the average worker tenure is one year and that no more than 5% of workers stay for longer than two years.¹⁰³

3. Community Interaction

i. On behalf of the Chinese

Chinese investors expressed little to no interest in engaging with local communities. This can be attributed to both cultural differences and language barriers. Chinese managers report having no incentive to leave the zone because it is like China. They have everything they need right, provided in their native language. Investors rarely leave the confines of the zone's walls, except to visit Lagos on occasion. One investor stated that it can be a headache to leave the zone, and that he would rather have his driver do his errands instead.¹⁰⁴ Another investor did not like to go out in Igbesa citing that the town has little to offer in the way of commerce, entertainment, or social interaction.¹⁰⁵ One investor did, however, report interacting with the local community in the form of holiday gift giving. This not only builds relationships with the local chiefs but is a way to circumvent unofficial tolls his truck drivers have to pay (see section E. Infrastructure).¹⁰⁶

⁹⁹Stakeholder Interview (name redacted). 11 January 2016.

¹⁰⁰Stakeholder Interview (name redacted). 18 January 2016.

¹⁰¹Stakeholder Interview (name redacted). 16 January 2016.

¹⁰²Stakeholder Interview (name redacted). 18 January 2016.

¹⁰³ Stakeholder Interview (name redacted). 11 January 2016.

¹⁰⁴Stakeholder Interview (name redacted). 16 January 2016.

¹⁰⁵Stakeholder Interview (name redacted). 15 January 2016.

¹⁰⁶Stakeholder Interview (name redacted). 11 January 2016.

Therefore, the interaction between the OGFTZ and the neighboring Igbesa community is limited to the zone's management team and holiday gift giving on behalf of some investors. While the two most senior members of the OGFTZ management team were noted to have strong positive relationships with the community, Chinese investors and employees are happy to leave the community relations to the zone management team. The local community, on the other hand, expressed a desire for more interaction.

ii. On behalf of the Nigerians

Representatives of the Igbesa community expressed desire for more interaction and closer cooperation with the OGFTZ. Local chiefs stated they did not know any of the Chinese living in the zone except for the COO. They would like to see Chinese workers come out of the zone and contribute to the society by donating time and money to local efforts. They suggested the zone should contribute to society by building a police station in Igbesa. One local chief further suggested the zone should utilize the local microfinance bank, which he heads, for its banking needs.¹⁰⁷ The Rector of the Ogun Institute of Technology stated that increased cooperation with the zone would be mutually beneficial. Suggestions for a stronger partnership included donations for the school's equipment and information sessions for students from the Institute on career opportunities in the zone.¹⁰⁸

The lack of interaction prevents the citizens of Igbesa from fully understanding what happens on the zone. As entrance to the zone is restricted to those with zone-issued credentials and information flows between the zone management and local elites, the zone is perceived as elitist. This aura of mystery around the zone's operations fuel gossip, conspiracy theories, and general misunderstandings of the investors, the Chinese, and the intentions of the OGFTZ management team.

4. Chinese - Chinese Interaction

Within the zone, interaction between foreign investors and foreign staff is also limited due to a lack of recreational infrastructure. With the exception of one shop, there is no public recreation space in the zone. Since foreign staff on the zone spend very little time outside of the zone, there is a demand for meeting venues inside of the zone in order to foster more community connections. As of right now, most foreign staff stay on their individual company grounds. Tenants with smaller foreign staffs, under five people, expressed a desire for recreation and entertainment options in the zone, such as shopping facilities, karaoke, or bars.¹⁰⁹ The research

¹⁰⁷Stakeholder Interview (name redacted). 15 January 2016.

¹⁰⁸Stakeholder Interview (name redacted). 15 January 2016.

¹⁰⁹Stakeholder Interview (name redacted). 16 January 2016; Stakeholder Interview (name redacted). 17 January 2016.

team noted that this was a priority in the design of other zones, specifically the Lagos Singaporean zone.

5. Infrastructure

In line with the findings of the literature, infrastructure is a major challenge for the operations and profitability of the OGFTZ. However, distinctions have to be made between infrastructure within and outside the zone as well as between different types of infrastructure.

i. Road Infrastructure

All interviewed stakeholders expressed consensus on the appropriateness of road infrastructure within the OGFTZ. Investors acknowledged significant recent achievements and that the roads inside the zone meet the needs of their businesses. One investor mentioned, however, that street lights inside the zones would be desirable. This would increase tenants' free movement after dark as it would allow them to go for walks more comfortably inside the zone.¹¹⁰

Road infrastructure outside the zone, however, represents a major challenge that is recognized by all interviewed stakeholders. Investors repeatedly identified the poor quality of the road leading to the zone as a factor that slows down business. Unpaved and poorly maintained roads prohibit rapid transportation of inputs and produced goods, which increases costs. Even though the zone is located only just over 30 km away from Lagos, the transport can take anywhere between three and six hours, depending on the intensity of traffic. One investor reported his expenditures for transportation in Nigeria to be three times higher than in China.¹¹¹ The manager of a tile company reported that due to the fragile nature of the product, an adjustment of packaging had been necessary to reduce damage.¹¹² Community members voiced their disapproval of heavy traffic resulting from industrial cargo being transported on a road that was not built for industrial purposes.¹¹³ According to the zone management, the state government had agreed to pave the road leading up to the zone prior to the local elections in 2015. Initial efforts had been made to clear the area around the road. However, the process was discontinued once the election process was completed. Since then, no further progress has been made and the road remains unpaved.

Government representatives from customs and NEPZA who are present in the zone agree that the road infrastructure represents a challenge.¹¹⁴ One NEPZA official mentioned that even though

¹¹⁰Stakeholder Interview (name redacted). 17 January 2016.

¹¹¹Stakeholder Interview (name redacted). 16 January 2016.

¹¹²Stakeholder Interview (name redacted). 11 January 2016.

¹¹³Stakeholder Interview (name redacted). 15 January 2016.

¹¹⁴Stakeholder Interview (name redacted). 12 January 2016; Stakeholder Interview (name redacted). 11 January 2016.

the supporting external road infrastructure for OGFTZ is of lower quality than that of nearby zones, the issue was one of sequencing and was optimistic about future road construction.¹¹⁵

Another challenge mentioned regarding the road infrastructure outside the zone is the interception of trucks on the road leading up to the zone. Two investors reported that their trucks were frequently stopped by groups of young men and were not allowed to continue until paying a toll.¹¹⁶ The two companies had established different approaches to this issue: one manager reported reimbursing the truck driver for the tolls upon arrival at the zone, whereas the other company provided their drivers with a flat amount for transportation related expenditures that covered the tolls. One of the investors suggested that the local chiefs have authority over the groups of “toll collectors.” He reported that after visiting the local chief and offering gifts, trucks would be able to drive without interceptions for about a week. When asked about the road tolls, the local chiefs denied knowledge of any such practice.¹¹⁷

ii. Electricity and Natural Gas

Nigeria is known for its highly erratic power supply and the subsequent impact on economic activity. Ogun state is no exception in this regard. However, the OGFTZ was fortunate in that gas pipelines had been extended into Igbesa. This is a key advantage over other zones that have to source their energy through alternative ways. The OGFTZ management invited a Chinese company into the zone to set up a natural gas power plant, which uses the pipeline to source gas from Shell. Currently, the power plant has a 3 MW capacity and operates 24 hours a day, 7 days a week.¹¹⁸ The continuous operation of the power plant is a significant selling point of the OGFTZ and constitutes a major advantage over other zones in Nigeria, as it allows investors to produce around the clock.

Investors’ satisfaction with the power supply inside the zone is highly dependent on the type of operation. Companies using mainly manual labor were satisfied with the quality and price of electricity. Investors with a high machinery-to-labor ratio, however, name disruptions in the availability of electricity as an impeding factor.¹¹⁹ In fact, one investor had experienced damage to equipment due to electricity cuts and had to suspend production for multiple weeks for repairs. Occasional disruptions occur because the gas supplied to the power plant is inconsistent in volume and varies in pressure, forcing the power plant to shut down. Investors therefore rely on diesel generators as a backup solution.

Plans to increase the size of the OGFTZ will depend largely on the expansion of power capacities. The power plant is currently operating at maximum capacity. Therefore, the expansion of electricity is an essential prerequisite for sustained growth, in particular of capital

¹¹⁵Stakeholder Interview (name redacted). 11 January 2016.

¹¹⁶Stakeholder Interview (name redacted). 11 January 2016; Stakeholder Interview (name redacted). 15 January 2016.

¹¹⁷Stakeholder Interview (name redacted). 15 January 2016.

¹¹⁸Stakeholder Interview (name redacted). 10 January 2016.

¹¹⁹Stakeholder Interview (name redacted). 11 January 2016.

intensive investors. During the research team's visit, Zhongfu management indicated that Shell is unable to provide an increase in the supply of gas. In response, Zhongfu has begun deliberations with a second natural provider in an attempt to supply additional gas through the existing Shell-constructed infrastructure.¹²⁰

6. Nigerian Economic Market

With the exception of a few companies in the OGFTZ, a large portion of the investors import a significant amount of their raw materials into the zone from outside of Nigeria, largely from China, and then export their finished product from the zone into Nigeria. Investors noted that this is partly due to the low quality and unavailability of raw materials in Nigeria.¹²¹ Unfortunately, the current Nigerian economic situation has posed challenges for companies with a high level of dependence on imported raw materials. Owing to the recent policies of President Buhari's administration and the declining value of the naira due to low oil prices, investors in the OGFTZ are facing a difficult and deteriorating Nigerian investment climate. Even though President Buhari has rejected an official devaluation of the naira, its value in the market has been decreasing. In turn, the price of imported raw materials is more expensive for companies in the zone. As a supplement to the situation, in January 2016, the Central Bank of Nigeria blocked foreign exchange of dollars in order to maintain its reserves, which limits OGFTZ investors from both purchasing enough imported raw materials and transferring their profits outside of Nigeria. One company believes that they are not able to do anything about the problem right now and that their only option is to wait to see how the government will settle the issue.¹²² Another investor stated that this situation, if it persists, will result in either shutting down or severely limiting operations or altering their business model towards exports outside of Nigeria.¹²³

In addition, several companies in the zone are facing growing competition outside of the zone. They are protected within the zone due to agreements with OGFTZ management, but outside of the zone several competitors are entering the market. New market entrants are largely international companies from India, Lebanon, and China. While some companies face a market that can absorb as much as they produce, one company mentioned that they will have to adjust their business plan and improve product quality in order to stay competitive.¹²⁴ As the Nigerian market becomes both more competitive and restricted by the government, zone management could face issues attracting investors.

¹²⁰ Stakeholder Interview (name redacted). 9 - 21 January 2016.

¹²¹ Stakeholder Interview (name redacted). 16 January 2016.

¹²² Stakeholder Interview (name redacted). 17 January 2016.

¹²³ Stakeholder Interview (name redacted). 15 January 2016.

¹²⁴ Stakeholder Interview (name redacted). January 11, 2016.

Recommendations

1. Introduction

The research team identified several obstacles to sustainable growth, including: infrastructure, local educational connections, community engagement in Igbesa, community development in the zone, labor market mismatches, cross cultural understanding, management succession, and urban planning. Instead of tackling these obstacles independently, the research team recommends a holistic focus on the larger issue of creating a zone community. This approach will capitalize on Zhongfu's successes and address challenges concordantly.

Creating a zone community refers to the development of relationships between tenants, works, management, and the local community, in order to generate a sense of belonging to a society of those living and working on and around the zone. This process will encourage investors to work together for the common goal of zone prosperity, thereby focusing more on integrating and understanding the successes and challenges of life in Nigeria. This will create better and longer-lasting relationships with the Igbesa community, zone workers, and local universities, enabling the zone to be a positive force for capacity building, skills transfer, and economic growth.

In order to create a zone community, the research team has identified several key initiatives: clarifying the role of management, onboarding programs for new investors, frequent investor forums, proactive urban planning, and interactive public relations.

2. Recommendations

i. Defining the Management Role

The autonomy and innovation bred by the private management model are evidenced by the multiplicity of roles Zhongfu has assumed. The research team's analysis surfaced at least five different capacities in which Zhongfu operates:

- Operator: planning, implementing and maintaining the infrastructure, management personnel, and finance of the zone
- Developer: leading the business and investor relations operations of the zone
- Governor: establishing, socializing, implementing and enforcing the regulations, policies and practices of the zone
- Mediator: managing and mediating conflict in investor-investor, investor-stakeholder, and stakeholder-stakeholder relationships
- Community Builder: generating positive experiences within the zone and between the zone and the surrounding community

Zhongfu's sensitivity to these multiple needs is both innovative and highly important for the success for the zone, but also presents a significant challenge to the sustainability of the current management model. Feedback from stakeholders has demonstrated that the management team has been able to address and deliver value in each of these roles; however, the demands of juggling and balancing so many roles places significant strain on a small management team. Moreover, stakeholders within and beyond the zone have expressed concern that the zone's point of contact must grow broader than just the COO. Stakeholders are eager to build equally positive relationships with individual investors and additional members of the management team. As the zone continues to grow and evolve, finding clarity and shared agreement on the scope of Zhongfu responsibility will be crucial to the sustainability of the management effort. Key areas of focus include:

- Developing a sense of community *within the zone* to facilitate the attraction and retention of skilled expat talent (a common challenge among interviewed investors). A sense of social and physical isolation as well as the absence of recreational activities available to zone residents was often cited as a key driver in the low retention of foreign-based managerial staff.
- Extend the innovative, incentive-based strategies that curtailed smuggling in order to bring greater visibility, awareness and accountability to the code of conduct.
- Develop a more robust presence outside the zone (either by extending current support for Igbesa community activities, or by creating additional assets/events within the town). Alternatively, or in parallel, Zhongfu management should facilitate shared understanding among investors regarding the ways Zhongfu is responsible for engaging with the community on their behalf, versus opportunities for direct investor-community engagement.

ii. Long Term Management Planning

Much of the success of the zone today revolves around the management philosophy of the COO and the MD. However, the current cultural dynamics on the zone do not match the effective east meets west character of the zone's executive management team. In order to ensure sustainable growth, as the zone grows past the management capabilities of the COO and MD, it will become more important that their positive cross-cultural management outlook is reflected in the actions of foreign and domestic zone staff. In order for the COO and MD's personal approach to zone management to be sustainable in the long run, they will need to develop a succession plan. This will enable them to pass on their vision, style, lessons-learned, and best practices. A good succession plan will focus on finding and recruiting the individuals with exposure to eastern and western culture and language, flexibility, adaptability, cultural sensitivity, positivity, and creativity. Successors should be brought on to the management team early enough to shadow and learn from the COO and MD while they are still operating the zone. This not only allows them to observe skills that cannot be taught directly, but it also facilitates the building of relationships with zone partners. In Nigeria, trust and relationships are essential elements to doing business. Effective leadership successors will be seen as an extension of the current COO and MD rather than a replacement. This will help continue the positive relationships the zone has built with the government and will enable the zone to continue growing sustainably in the long term.

Secondarily, as the zone continues to acquire more land and attract more investors, the zone management team will need to grow as well. This transition should be accompanied by delegating authority and hiring high-skilled managers with the capacity to specialize, rather than entry-level generalists. Assigning management individuals to specific roles allows them to gain expertise and smooth operations. It will also help build close working relationships with partners both on and off the zone that are central to their role within the management process. Moreover, delegating authority within a hierarchical structure will prevent the COO and MD from being stretched too thin. As the zone grows, it may be helpful to pursue a more area-specific management style in which points of contact are assigned to geographical regions of the zone.

iii. Onboarding Sessions

As a service to existing and new investors, it is recommended that zone management offer a briefing session for newly arriving expat employees. This program would reduce the burden on the company to orient new expat employees to the realities and challenges of the zone, Nigeria, Ogun State and the surrounding Igbesa community. In addition, the onboarding session would create a forum for Zhongfu to share the zone management's philosophy as well as best practices with newly arriving management-level employees. From a social perspective, the onboarding session would provide an opportunity for new expat employees to meet other expat employees outside of their company, fostering a social network in the zone for future collaboration and sharing of best practices.

The onboarding sessions should cover the management team's philosophy, background information on Nigeria in general and Igbesa in particular, as well as share best practices regarding everyday interaction with Nigerian workers. The session should emphasize the importance of personal relationships in Nigerian culture and the cultural sensitivities in building these relationships. Expat employees should be made aware that interacting with Nigerian employees in a respectful and appreciative manner will not only contribute to a pleasant work environment but will benefit their company through higher retention rates of the employees. In this context, the importance of English language skills to communicate with Nigerian employees could be pointed out. Expat employees could be made aware of opportunities to engage in language classes (see below). In addition, these onboarding sessions could present and discuss possible cultural barriers that often arise when Nigerian workers and Chinese managers engage in a workplace setting. These include work ethic, use of salaries, family structures, formalities, and the role of religion. One successful practice the research team observed was hiring Nigerians for upper-middle management to oversee workers or to engage with marketing strategies. Sharing this information with newly arriving employees and investors would not only contribute to closer interaction with Nigerians but also directly benefit the company in terms of more effective operations and higher profits.

The onboarding session could be delivered by a team of one Nigerian and one Chinese member of the management team. This would allow new expat employees to learn about the issues addressed from both perspectives. Zhongfu should schedule these sessions regularly, based on the growth of the zone, employment expansion, and company's turnover rates.

iv. Investor Forums

The facilitation of frequent investor forums addresses several potential roadblocks to sustainable growth simultaneously. Primarily, it allows investors to meet and share problems and solutions directly with one another. This helps generate best practices that can be shared in order to avoid repeating costly mistakes. This is particularly important for new tenant-investors on the zone, especially if they are new to Nigeria and are first-time foreign investors. These regular forums can be hosted and conducted by the zone management in the beginning until they can be taken over organically by the tenant-investors themselves, perhaps through a self-governed tenants' association model. In this way, it serves as a mechanism by which zone management (and investors themselves) can better monitor and evaluate the extent to which investors uphold the code of conduct, act responsibly, and are “doing the right thing and being good people.”

Moreover, investor forums are a way to continue the momentum created by the onboarding program (see above) by encouraging investors to strive for business practices that benefit the whole community. When foreign investors see the personal benefits of contributing to the whole community, not just their own bottom line, they will be motivated to build better connections with Nigerians and other tenants. This will improve the workplace environment, worker relations, and community relations as a whole. Forums also provide an environment in which community issues can be discussed and addressed. By meeting frequently and getting to know one another they will feel a sense of belonging rather than isolation, encouraging tenants to live in the zone for longer periods of time before returning home.

v. Infrastructure & Urban Planning

The OGFTZ is growing rapidly. In the past three years, the zone has experienced the construction of tens of factory and warehouse sites, as well as management buildings, roads, a power plant, and related infrastructure. Construction is a daily reality within the already complex logistics of the zone. Moreover, new investors have indicated their intention to engage the zone at levels that represent a four-fold increase in current investment levels.

It remains unclear how the physical layout of the zone will be modified to achieve the scale and density of economic activity proposed. To address this growing challenge, a prominent Chinese urban planner has been retained by Zhongfu to revise the zone's existing spatial development plan (inherited from the original zone's winning proposal) with an eye toward the scale and pace of anticipated growth.

In support of the research team's overarching recommendation of fostering community within and beyond the zone, the team proposed developing an urban plan of the zone in relation to the metaphor of an “onion.” Conceptually, the metaphor suggests softening the perception of the zone as a “walled compound” and instead, creating multiple layers of engagement and security. Core zone functions remain central and secure, while the zone's edges may allow opportunities for broader community engagement (see “community engagement” below).

Among a number of important issues, the research team encourages this planning revision process to consider the following recommendations:

Diversify entry points for vastly increased truck and pedestrian traffic.

The research team recommends developing a multi-entry strategy. Processing entry and exit of trucks in different locations may prevent the congestion observed at the zone's existing single gate. Moreover, the entry/exit of a 4,000 person (and growing) daily pedestrian workforce could be separated from truck entry and exit for enhanced safety and convenience.

Increase utility planning to reflect the environmental realities of industrial production within the local Nigerian context.

Existing power infrastructure is strained, and current generation assets are concentrated in a single location on the zone (a potential vulnerability). Redundancy planning would suggest locating future power generation assets in a secondary location to increase security. Moreover, the research team recommends the exploration of off-grid systems (solar PV or solar thermal troughs, for example), which could be implemented to reduce the strain on the grid for non-essential/non-manufacturing needs.

Water is currently accessed by pumping from boreholes throughout the zone. The capacity and quality of the natural aquifer remains unclear to the research team, and more study of the sustainability of the zone's water source is recommended. Moreover, sanitation and waste water is currently channeled through unprotected concrete sewers that border the zone's main roads. These sewers currently discharge into undeveloped portions of adjacent land (including the nearby channel/wetlands). No on-site treatment was observed. Zhongfu has indicated their belief that the land is capable of handling the level of effluent at the current state of development. Although requested, an environmental impact assessment (EIA) was not available. It remains unclear if one has been performed.

The research team strongly recommends Zhongfu begin working with both existing and new investors to establish a baseline practice for environmental responsibility. At a minimum, an EIA should be performed for each new tenant, and investment activities should include development of parallel environmental remediation strategies. This will be particularly important if the zone continues its growth trajectory.

Develop a solid waste collection and removal strategy.

Currently the zone does not coordinate solid waste collection and removal. While most vendors have identified one-off solutions, other vendors address waste products in ways that do not enhance the environmental sustainability of the local context. Zhongfu's facilitation of routine pickup (even if financed by investors) may be the minimum service improvement required. In addition, as the environmental impacts of the zone's growth come into sharper focus, coordinated waste removal strategies may produce opportunities for alternative use and recycling for the local community -- an opportunity to be explored.

Consider a long-term vision beyond the zone.

The OGFTZ is part of the broader community of Igbesa. The research team recommends the planning process consider the broader impact of the zone on the spatial development of the surrounding town; not the least of which is the pressing need for community amenities and the rising demand for workforce housing. The research team encourages OGFTZ to monitor and facilitate Igbesa's ongoing development, particularly as it pertains to the availability of worker housing. Since the supply and quality of worker housing has a direct impact on the size and quality of the available workforce, aligning growth of the zone with the development of Igbesa would not only support a more empowered and readily available workforce for their investors, but also enhance goodwill with surrounding stakeholders. Likewise, OGFTZ will need to consider a strategy for increasing expat housing options as investment continues to grow. A strategy that maintains security but integrates expats into the fabric of Igbesa could be an opportunity to build stronger relationships with the local community.

Cultural and community venues provide an additional opportunity to enhance the social, economic and physical sustainability of the zone. Whether they are provided within the secured boundaries in order to facilitate greater relationships among zone participants, or they are located at the peripheries of the zone to enable stronger engagement of the local community, amenities such as retail centers, formalized market stalls, recreational spaces for children and families (pools, parks), entertainment venues (movie theaters, karaoke), or civic resources (health clinics) could foster critical points of cross-cultural connection, language learning, and community pride.

vi. Public Relations

As the role and size of the OGFTZ grows, it will be vital to develop a public relations strategy that defuses the current local misconceptions about the zone. While on a national level there are benefits to keeping a low profile in order to avoid negative attention, this strategy has contributed to the opposite effect in the local Igbesa community. As it stands, zone management has little influence over the public image of the zone. Nigerians rarely interact with foreign zone staff outside of the workplace and Nigerians who are not employed on the zone construct their impressions based on hearsay of other people's experiences.

It is recommended that the zone create a public relations strategy that focuses initially on the local community. Ideally, this should be managed by an individual or a small team from Igbesa that has a strong understanding of the zone and the community, but who can also peacefully shape relations instead of antagonize them. As a starting point, zone management could engage with the students studying communication at OGIT. Two initial concrete steps are recommended in order to develop a positive image of the zone in the community:

- OGFTZ Open House: On a monthly basis (and with advanced registration to manage the size of groups), a tour of the zone should be given by a team of one foreign and one Nigerian zone management employee. It should include a presentation of the zone's role, an overall zone tour, and a visit to one of the investors.
- Community Forums: On a regular basis, the zone should host community forums, which would allow Nigerians to ask questions and voice concerns.

vii. Language Classes

In light of the importance of language in building relationships and creating a pleasant and effective work environment, zone management could offer English language classes. In addition to teaching communication skills, the language classes are an opportunity for employees to socialize and meet people outside of their company.

The onboarding session mentioned above could include an initial introduction to the English language classes, teaching the most basic vocabulary and phrases for everyday interaction and safety. Subsequent classes could be offered at beginner and advanced levels. Aside from teaching valuable language skills, the classes would provide an opportunity for Chinese employees to socialize. As language classes could be combined with movie nights, they represent an opportunity to increase the number of social activities offered in the zone.

An additional idea is to offer Chinese language training in order to give Nigerians an opportunity to acquire skills that qualify them for higher level jobs in the zone. Zhongfu could partner with the nearby Ogun State Institute of Technology (OGIT) to advertise the classes. For the Nigerians with Chinese language skills on the zone and/or enrolled in the OGIT, the familiarity with both Chinese culture and language proves to be a valuable resource. Facilitating additional learning experiences for particularly ambitious Nigerians either within the zone, or by leveraging short-term residency learning programs offered by the Chinese government in China, could expand this potential.

3. Conclusion

Zhongfu's start as a zone management company was anything but traditional. As such, their success within its first three years as zone managers inspired remarkable growth through solutions that responded to short-term challenges. Ad-hoc innovation played an important role in redefining the zone's identity and catalyzing early-year growth amid significant risk of the zone's closure. As the zone continues to grow, however, the research team notes the advantages of a more proactive and methodical approach to zone development. The team encourages Zhongfu to continue its initial efforts toward developing a long-term view of zone management, as evidenced by their engagement of urban planning professionals to re-design the zone's master plan, as well as anticipatory negotiations for increasing power and road infrastructure. Moreover, stakeholder interviews have borne out the importance of extending this long-term planning into the human capital and cross-cultural elements of zone management.

The success of the OGFTZ raises broader questions about the role of private ownership and management as an emerging model for Chinese investments in Africa. Is there a difference between private ownership and private management on the performance of special economic zones? Could there be a hybrid public-private model between private managers and Chinese SOE ownership? Further study might examine how such a model could be developed for future Sino-African investment projects, particularly in light of Zhongfu's aspirations to scale their successes at OGFTZ to additional special economic zones throughout the continent.

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Appendix A: Stakeholder Descriptions

Research Team

Second year students from the Johns Hopkins School of Advanced International Studies in the International Development (IDEV) Program -- Andrew Caruso, Danielle Nesmith, Teresa Peterburs, and Egle Vilkelyte -- travelled to Nigeria from January 8-21, 2016 to conduct field research on the Ogun-Guangdong Free Trade Zone.

Ogun-Guangdong Free Trade Zone (OGFTZ)

The OGFTZ first opened in 2009 as a public-private partnership between the Ogun state government in Nigeria (18% shareholder) and the Guangdong provincial government in China (82% shareholder). By the end of 2012 the Chinese government shareholders exited the project and were replaced with the Zhongfu International Investment Company, who now operates the zone. The Nigerian government reserved 10,000 hectares for the OGTFZ; currently the zone is operating on an initial plot of 250 hectares, while the government will allocate the rest of the area based on performance. The OGFTZ is located in a small town called Igbesa in Ogun state, which is 30 km and a 3 hour drive from the nearest big city, Lagos.

OGFTZ Management Team

As of April 2016, the Zhongfu International Investment Company's board of directors includes three individuals, with an on-site management team of sixteen. The Managing Director is Jason Han and the Chief Operating Officer is John Xue.

OGFTZ Investors

As of March 2016, there are 27 private companies operating on the OGFTZ. 14 additional companies have committed investments, five of which are under construction. The OGFTZ management is also constructing an incubator space for small enterprises. OGFTZ management refers to the companies as tenants. There are an estimated 4,500 Nigerian employees and 220 Chinese employees on the zone, and companies range in size from 9 to 2000 employees.

Nigerian Export Processing Zones Authority (NEPZA)

A Federal Government Agency under the supervision of the Federal Ministry of Industry, Trade and Investment. NEPZA Is responsible for promoting and facilitating local and international investments into licensed Free Zones in Nigeria. A NEPZA office is located on the OGFTZ with three representatives responsible for regulating and monitoring the on the ground zone activities.

Nigerian Customs Service

A local Nigerian Customs Service office is located on the OGFTZ with four representatives. The OGFTZ Customs office works closely with NEPZA to examine containers coming in and out of the zone and charge the appropriate duties.

State Government Officials

Minister of Health

Minister of Urban and Physical Planning

Ogun state government special coordinator to the OGFTZ

Igbesa Local Government Chiefs

In Nigeria, there are 774 different local government groups, largely divided into the House, and Yoruba ethnic groups. The research team interviewed three local government chiefs from the Yoruba ethnic group.

Ogun Institute of Technology (OGIT)

The OGIT was established in 2005 by the Ogun state government. It offers diploma level programs (equivalent to an associate's degrees in the US). All the programs are science-based and have their own lab. There are 5 schools: engineering (electrical and mechanical), business (administration/management, marketing, accounting, banking/finance), environmental science (architecture, estate management), information and commercial science (general studies, mass communication), and applied science (computers, statistics). Student can obtain a two-year diploma, and after completing a year long on-the-job training program can return for their last year and receive a higher diploma. Most students attend on a full-time basis. The research team met with the Rector of OGIT and a full compliment of academic deans, as well as conducted a large meeting with current students.