

## **Sino-Nigeria investments: prospects and challenges 1971-2010**

By **Lemuel Ekedegwa Odeh** \*

*Department of History & International Studies Faculty of Arts,  
University of Ilorin, Nigeria*

### **Abstract**

Countries enter bi-lateral and multi-lateral relationships with one another based on the expectation of mutual benefit. This paper focusses on the bilateral investment relation between China and Nigeria. Despite the a long history of interactions and agreements between Nigeria and various more developed partners, development in Nigeria has not been as successful as could have been hoped. This study adopts a historic-structural, analytical and systematic approach in the Sino-Nigeria Investments. Findings reveal that Nigeria has been one of the leading partners of foreign direct investments from Chinese companies. In addition the research has also revealed that the benefits derived from the relationship sketch a lopsided picture in favour of China, at the peril of the Nigerian counterparts. To this end, the paper postulates that this Sino-Nigeria bilateral engagement should undergo some changes to achieve equal and mutual benefit to both parties.

### **Introduction**

Countries enter bilateral and multi-lateral relationships with one another because of the expected mutual benefits. Just like many African countries, Nigeria's traditional long development partners are from the West, countries such as the US,

*\*Lemuel Ekedegwa Odeh is affiliated to the Department of History and International Studies at the Faculty of Arts at the University of Ilorin, Nigeria.*

Canada, France and Britain. Despite the long interactions and relationships between Nigeria and these development partners, general development of the country has not been categorically successful. Consequently, it seems that an alternative model to the “western relationship” is required. China’s need for energy, raw materials and market expansion, as a consequence of its dramatic growth and modernisation, has brought it into greater contact with Africa (Utomi, 2011). Findings have revealed that Nigeria has been one of the leading recipients or beneficiaries of investments from Chinese companies (Ogunkola 2010). Securing these needs for its growing economy, China has become the fastest growing investor in Africa. Bilateral China-Africa relationship is evolving faster (Egbula and Zheng, 2011). Because of the potentials of Nigeria in terms of huge agricultural capacity and large deposit of gas and oil reserve as well as its large population which accounts for more than 17 per cent of Africa’s population, China has given considerable, special and preferential attention to Nigeria in China’s recent Africa policy.

Sino-Nigeria relations cover many areas including political, economic, trade, investment, diplomatic and education. However, the paper focuses on investments relations between the two countries, coupled with the challenges and prospects between 1971-2010.

### **China and Nigeria: Overview of Bi-lateral Economic Relations.**

February, 1971 marked the beginning of formal diplomatic relations between Nigeria and the People’s Republic of China (Egbula and Zheng, 2011). Reason for this can be located in the pro-western stance of Nigeria’s governments of immediate independence period, even though they officially proclaimed non- alignment policy as the country’s foreign policy. Nigeria was not included in the Chinese Premier Zhou Enlai’s visit to 10 African countries from December, 1963 to January, 1964. To support this, when Chinese delegation visited Nigeria in 1964 seeking establishment of diplomatic relations, they were quickly sent away without reaching any bilateral agreements between the two countries based on retaliation of China’s support to the Biafran succession bid (Mthembu-Salter, 2013). This

greatly signified, to a very large extent, lack of diplomatic relations between the two countries.

Just like many African countries, Nigeria before 1964 did not consider China then a likely development partner, given the latter's own economic and political situation domestically. To worsen the situation, China reportedly gave public backing to the bid by the Igbo to secede from the Federal Republic of Nigeria (Mthembu-Salter, 2013). Although, the support given to seceding Biafra by China in terms of light arms made no significant difference to the outcome of the civil war, it did sour the relations between China and Nigeria.

However, a number of factors could explain the beginning of Sino-Nigerian diplomatic relations in 1971. It was that same year that Nigeria joined other developing countries in Africa, Asia and Latin America to support Beijing's 21 years bid to win World's recognition as one government of China (Mthembu-Salter, 2013). Apparently, as a result of this support, against American opposition, People's Republic of China officially 25 November, 1971 replaced the Republic of China (Taiwan) in the United Nations and on the Organization's Security Council. Therefore, Sino-Nigerian relations at the beginning were majorly politically based. China's relationship with Africa was in direct support for various national liberation movements (Utomi, 2011). According to Larkin, (1971) Sino-African relations in the 1970s had the following key characteristics:

- the number of African countries with diplomatic ties gradually increased
- many African states welcomed joining of China in United Nations Security Council in 1971.
- China continued to support nationalist movement demanding for independence.
- China committed to prestigious project all over Africa, Tanzania-Zambia railway being the biggest aid project on the continent,

- China stressed the existence of a dichotomy between the world's super power and their weaker opponents, assisting the latter in their survival (Judith Van Looy, 2006)

It is within these characteristics of some African relations in the 1970s that Nigeria had formal establishment of diplomatic ties with China. Following the establishment of diplomatic relations, General Yakubu Gowon then Nigeria Head of State visited China in 1971, being the first Nigerian Head of State to do so (Mthembu-Salter 2013). However, it was ten month after this visit that Gowon was overthrown. Perhaps this visit would have encouraged greater diplomatic relation, but since Gowon was ousted, the visit made little impact. When Obasanjo took over in 1976 as a military Head of State, he noticed the trade imbalance between Nigeria and China, and consequently high level delegations travelled between the two countries to discuss the matter in 1978 and 1979 (Mthembu-Salter 2013). The visit was said to have resulted in China agreeing to a limited aid package for Nigeria including the sending of medical personnel and agricultural expert, though this did little to reverse the trade balance (Mthembu-Salter 2013).

Utomi (2011) one of Nigeria's Professors of Political Economy, asserts that China's greater contact with African countries including Nigeria is derived from the former's dramatic growth and modernization and attendant industrial, energy, and market expansion needs. This became apparent during the 1970s and 1980s, following Deng Xiaoping's reform policies which dramatically and radically transformed China's economy (Utomi, 2011).

Ironically, the period between 1980s and 1990s was very difficult for Nigeria, as she was also undergoing internal political turmoil and therefore the thirty years of diplomatic relations between Nigeria and China produced little economic consequence. (Mthembu-Salter 2013). Therefore, while China was busy emerging as an economic power, Nigeria was thrown into political instability during these periods. It is however significant to acknowledge that the regime of General Sanni Abacha saw improved Sino-Nigeria economic relations. This economic relation, according

to (Mthembu-salter 2013) yielded the following among others:

- Founding of Chinese Chamber of Commerce in Nigeria in 1994;
- The China Civil Engineering Construction Corporation won a US\$529 million contract to rehabilitate Nigerian railway system in 1995; and
- Former premier of China State Council, Li Ping, visited Nigeria in 1997 signing protocols to power generation, steal and oil. (Mthembu-Salter 2013)

It is however unfortunate that China Civil Engineering Construction Corporation (CCECC) never did rehabilitate Nigerian railways, nor Ping's protocols implemented (Mthembu-Salter 2013). With this therefore, it can be stated that about thirty years of diplomatic relations (1971 to 1999) was of little economic significance.

Nigeria's return to democratic rule in 1999 saw deepening of Sino-Nigerian economic relations. This increased economic relation has been linked to the change of China's orientation towards Africa since 2000 (Egbula and Zheng 2011). It will be good not to make irrelevant the desire and determination of President Olusegun Obasanjo to redeem the already dented image of Nigeria at the international arena. Nigeria's image had been damaged during the prolonged military rule in the country. Obasanjo sought to remedy as he cultivated relations with the world including China. Coincidentally it can, be said that China began its new orientation towards Africa when Obasanjo was struggling to make Nigeria acceptable by the international community.

The early years of Obasanjo civilian administration witnessed an inflow of Chinese investment and this helped to improve Sino-Nigerian economic relations so much that many Chinese firms won major contracts in the country. One of the most notable ones being a contract awarded to CCECC to build 5000 housing units for athletes participating in the All African Games in 2000 (Mthembu-Salter 2013). To further solidify Sino-Nigerian relations, both countries agreed on estab-

lishment of a Nigeria Trade Office in China and a China Investment Development and Trade Promotion in Nigeria in 2006 (Mthembu-Salter 2013).

It is on record that economic relations between the two countries became intensified during the second term of Obasanjo administration between 2003 to 2007. It was during this time that Nigeria-China Investment Forum was founded in 2006 (Mthembu-Salter 2013). It is significant to understand that Obasanjo's foreign policy towards China and other Asian countries was 'Oil for Infrastructure'. One problem about Nigeria's foreign policy is inconsistency. This is largely caused by change in government. Yar'Adua succeeded Obasanjo in 2007, there was change in foreign policy objectives towards China. Consequently, most of the Nigerian foreign policies towards China during Obasanjo administration, especially the 'Oil for infrastructure', were either suspended or discarded. During Yar'Adua administration, however, coherent foreign policy towards China was lacking. This situation prompted Utomi (2011), to query Nigeria-China foreign policy.

### **Pattern and Structure of Sino-Nigerian Investments**

The history of investment relations between Nigeria and China reveals that up till the late 1990s, both countries enjoyed bi-lateral flow of Foreign Direct Investment. It should therefore be pointed out that Sino-Nigerian investment has not always been a one way traffic, but the traffic in the opposite direction is much leaner (Egbula Margaret and Zheng Qi, 2011). Up till the late 1990s, both Nigeria and China benefited from each other in terms of investments. However, from 1999/2000 to 2004 China ceased to be one of the destinations of Nigeria FDI (Ogunkola. E. Olawale, 2010). However, recently, Nigerian companies and investors are making forays into the Chinese market, though on a small scale.

Structurally, while manufacturing, constructions and services are areas of attractions to Chinese investors in Africa generally, most of the Chinese FDI in Nigeria are majorly concentrated in oil and mineral resources. This shall be subsequently discussed in this paper.

## Nigeria's FDI in China

See table 1 below for the flow of Nigeria's FDI to some strategic countries. It can be observed from the table that Nigeria's FDI has been redirected to concentrate majorly in France, the US and Germany.

### Abstract

Region/Country	1992	1993	1994	1995	1999/2000	2001	2002	2003	2004
Belgium	0.7	0.1	-	-	-2.1				
China	0.1	1.4	0.6	0.4	-	-	-	-	-
Czech Republic					3.0				
France	0.4	1.4	0.4	0.2	104.1	247.9	19.8	-22.6	-
Germany	-	-	-	-	-	0.9	0.9	-5.6	-
Malaysia	-	1.2	-	-	-	-	-	-	-
Portugal	-	-	-	-	-	-	0.2	-	-
USA	-	-	-	-	5.0	-	3.0	21.0	-7.0

Source ( Oyeranti, 2008)

While Nigeria's FDI ceased between 1999/2000 and 2004, it has been recently reported that Nigerian companies are penetrating into Chinese market. As (Egbula and Zheng 2011) has stated, direct investments by African countries (in China) totaled nearly US\$ 10 billion by the end of 2009, and Nigeria was listed among the top five countries in Africa investing in China (Egbula and Zheng, 2011).

In 2010, First Bank of Nigeria Plc opened a representative office in Beijing to penetrate the Chinese market (Egbula and Zheng, 2011). Recently, First Bank of Nigeria Plc has been offering an array of services to its customers in China including Chinese companies seeking to enter Nigerian market (Egbula and Zheng, 2011). So far, First Bank of Nigeria Plc has been playing a leading role in this aspect since it has opened such gate in entrepreneurship.

## Chinese Foreign Direct Investments in Nigeria

According to (Egbula and Zheng,2011) Nigeria's investments incentives appear to have succeeded in attracting the attention of Chinese investors. China's Bulletin of Overseas Investments has maintained that Nigeria occupied the second position after South Africa among the rank of African countries that benefited from Chinese Foreign Direct Investment between 2003 and 2009 (Egbula and Zheng, 2011). This can be said to be a consolidation of the FDI Nigeria received from China in 2002. See table2 for China's FDI to Africa in 2002.

**Table2: China's Foreign Direct Investments in Selected African Countries (2002)**

Countries	Inward FDI Stocks (\$ millions)	Chinese FDI Stocks (\$ millions)	Proportion (%)
Cameroon	1,505	16	1.1
Ghana	1,610	19	1.2
Mali	523	58	11
**Nigeria	22,570	44	0.2
South Africa	29,611	125	0.4
Tanzania	2,335	41	1.8
Zambia	2,241	134	6.0

Source ( [Ayantunji and Oniku, 2006](#))

Up till 2009, Nigeria maintained its second place as far as Chinese FDI was concerned. Sources have pointed to increasing growth in the inflow of Foreign Direct from China to Nigeria (Olugboyega 2008). Recently, Nigeria has overtaken South Africa to top the list of beneficiaries of Chinese investments in Sub Saharan Africa. Between 2005 and 2012, the value of Chinese investments in Sub Saharan Africa totaled US\$ 97.8 billion, of which Nigeria had US\$ 15.6 billion (Atuanya, 2013). This was 15.9 per cent and has been considered the largest from the Chinese invest-

ments in sub-Saharan Africa at this period. The major factors are market size and availability of natural resources.

The fact that Chinese investments in Nigeria are mainly concentrated in mineral resources, such as oil and gas and other mineral resources, are a clear pointer to the motivation of Chinese investments in Nigeria. China's investments in raw materials could be linked to its needs for oil and other mineral resources for its growing economy. Consequently, China is investing massively in countries where it is getting these natural resources (Van Looy, 2006). These countries include Nigeria.

It is however, imperative to state that Chinese investments are not exclusively limited to raw materials, from 2002 upwards Chinese investments also covered other areas of Nigerian economy. These areas include construction, communication and manufacturing among others. Position of Ogunkola *et al* corresponds with that of (Egbula and Zheng2011) when he stated that, China has established more than sole-owned or joint venture companies in the construction, oil and gas, services, education sectors of the Nigerian economy (Olugboye,2008). Chinese investments can be classified into private owned enterprise and state owned enterprise. While Chinese private investors primarily invest in the agro-allied industries, manufacturing and communications, Chinese state owned enterprise targets natural resources and infrastructure- power and transport in particular (Egbula and Zheng, 2011). Table 3 reveals investments of major Chinese companies in Nigeria.

It should be acknowledged that not all the Chinese investments are positive to the economic development of Nigeria. Most foreign investors operating in Nigeria have institutionalized Corporate Social Responsibility (CSR) as part of a public relations program in winning goodwill, Chinese businessmen on the one hand are more eclectic and personal in their approach. According to (Utomi2008), Chinese investors do not seem to pay particular attention to CSR issues. It is therefore important to examine Chinese investments in various sectors of Nigeria's economy.

**Table3:Investments and activities of major Chinese companies in Nigeria**

Sinopec Company	Oil and Gas	Assets(USD Billion)	No of Employees	This is a breakdown of Chinese business activities in Nigeria.
Sinopec	Oil and Gas	152.80	373375	Blocks OML 64, 66, 29% Stake And Operating Rights to Block2, Nigeria-Sao Tome Joint Development Zone
CNPC	Oil and Gas	470.80	1.67 million (80,000 foreigners)	Licenses for OPL 471, 721, 732,298
SEPCO	Electric Power Construction	38.60	19.756	Papalanto Power Plant
CCECC	Construction	2.17	70,000	Rehabilitation of Papalanto-Lagos Express Way, Athletes' Village, Ikot Akpaden-Okoroette Road, Lekki Free Trade Zone
CSCEC	Construction, Real Estate	58.90	121,500	Refinery
CNOON	Offshore Oil and Gas	13.8	21,000	45% Interest in Offshore Exploitation License, OML 130
Sinoma	Cement Engineering and Construction	2.9	9000	In Collaboration with Nigerian Dangote Group for Cement Production Line EPC Project 2008
CGC	Construction	0.30	-	Kebbi Airport, Water Supply Project in Gombe, Sekke Dam
Huawei	Telecom	25.00	51,000	Network, Handsets
ZTE	Telecom	13.00	85232	CDMA, Handsets
Star Times	Telecom	0.7		

Source (Egbula and Zheng 2011)

### Chinese Investments in Oil

The growth of China's fuel consumption which doubled between 1999 and 2006, has forced China to seek for more oil blocs of its own (Egbula and Zheng 2011). See table 4 for China's fuel consumption. China has been seeking for alternative sources of oil to reduce its dependence on the Middle East.

*These and other factors can be said to have dictated Chinese investments in oil in Nigeria, because before now China and other Asian countries accessed their oil exclusively through long-term contracts and purchases on the spot market. So driven by domestic fuel consumption between 1996-2006, China had to look outside her shore for oil blocks to purchase.*

**Table4: China's Production, Consumption and Import of Crude Oil (Million tons)**

Year	Production	Consumption	Import	Export	Self-sufficient Ratio (%)
1980	106.0	87.6	0.4	13.3	111.9
1985	124.9	91.7	0.7	31.2	132.3
1990	138.3	114.9	2.8	24.9	119.0
1995	149.0	160.7	17.1	18.8	101.2
2000	162.6	230.1	70.3	10.3	73.0
2001	164.8	232.2	60.3	7.6	75.8
2002	168.9	245.7	69.4	7.2	73.1
2003	169.3	252	91.0	8.1	67.1
2004	175.5	292.7	122.7	5.5	60.0

Source (Ayantunde 2006)

It can be clearly observed from the table above that China has been in desperate need of oil. However, despite the need of oil by China to fuel its growing economy, the oil companies was in the insecurity oil producing region of Niger Delta. It therefore took persistent lobbying by Obasanjo, first civilian President in Nigeria's fourth republic, to entice Chinese investments who were also skeptical about doing business in Nigeria. In doing this Obasanjo offered the Chinese firms the Right of First Re-

fusal on oil blocs at discounted rates in downstream and infrastructure projects (Mthembu-Salter2013); (Egbula and Zheng 2011). Majorly on Obasanjo's desperation was his drive to launder Nigeria's battered image and secure investors for Nigeria that were ready to take the risk after its former trading alliance had abandoned Nigeria due largely to bad governance and high level official corruption.

Oilbloc bidding round was held in May, 2006, China's National Petroleum Commission (CNPC) was awarded four oil blocs and two oil production licenses in return for kits commitment to invest US\$ 2 billion to rehabilitate Kaduna's struggling refinery all this in order to secure their confidence in the Nigerian oil industry (Mthembu-Salter 2013). There was also another bidding round in May 2007 when 45 oil blocs were on offer, with 24 pre-assigned to 12 companies on Right of First Refusal. Both China National Offshore Corporation and CNPC were given an oil bloc in return for a US\$ 2.5 billion loan from China's Export and Import (Exim) Bank and investment in the Kaduna refinery respectively (Mthembu-Salter 20113). The US\$ 2.5 billion loan from China Exim Bank was to be used for the rehabilitation of Lagos-Kano rail way and construction of a long-dreamed hydro-electric power station in Mambila (Mthembu-Salter 2013).

Chinese companies have also been reported to have acquired other oil assets during Obasanjo administration but outside the bidding rounds all these were done by the administration who were seeking to gain the Chinese confidence at all cost. These included Sinopec taking a 29 per cent stake in bloc 2 of the Nigeria- Sao-Tome Joint Development Zone, and CNOOC's paying US\$ 2.3 billion for a 45 per cent in an oil mining license in the lucrative Akpo offshore field, both in 2006. (Mthembu-Salter 2013)

In May, 2007, Yar'Adua succeeded Obasanjo as the president of Nigeria. It is significant to note that change in government always results in change of foreign policy in Nigeria. This change of government greatly affected Sino-Nigerian investment relations as Yar'Adua's policy was based on the practical price of oil at the market benchmark. Consequently, oil for infrastructure which was Nigeria's China

policy during Obasanjo administration was cancelled or suspended. It however has to be acknowledged that this change in policy did not discourage Chinese investments in Nigeria especially in the oil sector, though suffered set back at the early change of the policy. This greatly informed China's significant re-evaluation of how best to do deal with Nigeria. China's Sinopec's buying of Canada's Addax Petroleum for US\$ 7.22 billion, Addax is one of the largest independent Oil producers in West Africa with extensive on-and offshore operations in Nigeria. This is a manifestation of this China's new strategy (Mthembu-Salter 2013). Closing on this was Chinese expressed desire to acquire a large number of oil and gas assets, estimated to contain six billion barrels of oil reserves. The Chinese offer included a proposed deal of US\$ 50 billion in what they described as 'alternative funding for infrastructural development in Nigeria', which he said was very difficult to resist.

In 2010, Nigerian National Petroleum Corporation (NNPC) signed a US\$ 28.5 billion MoU with the CSCEC for the construction of additional Greenfield refineries and a petrochemical Plant in Nigeria (Khadija, 2011). Under the term of agreement, 80 per cent of the of the projects' cost was to be funded with a term loan provided by China Export Credit Insurance Corporation (SINOSURE) and a consortium of Chinese banks led by the Industrial and Commercial Bank of China, while NNPC was to foot only 20 per cent as equity contribution. "The project was envisaged to add 750 000 bpd of extra refining capacity to Nigeria's current 445 000 bpd capacity as well as stem the flood of imported refined products into Nigeria" (Khadija, 2011).

### **Chinese Investments in Telecommunications**

The presence and impact of Chinese investments in Nigeria's Telecommunication is glaring. Recently, Nigeria can be rightly said to be one of the major telecommunication markets for Chinese investors. Major Chinese telecommunication companies in Nigeria include Zhong Xing Telecommunication Equipment Company (ZTE) a multi-national telecommunication company and Huawei; some of the

leading telecommunication giants of China. Recently, “Star Time”, another Chinese-owned TV operator has just opened in Nigeria. Let us examine the investment of these Chinese telecommunication firms in Nigeria.

ZTE, said to have been in the country since 2001, its core business as it claims are manufacturing handset and supplying system equipment’s (Mthembu-Salter,2013). Huawei also supplies to all its service providers including MTN, Zain, Visafone, Glo and Zoom (Mthembu-Salter, 2013). Both ZTE and Huawei have won major contracts from Nigeria’s main telecommunication operators (Egbula and Zheng, 2011). Despite their competitions with each other however, there have been some cases when both ZTE and Huawei have collaborated to execute some projects in Nigeria. A good example was in 2006 when both Huawei and ZTE collaborated on US\$ 300 million National Rural Telephony Programme (Mthembu-Salter, 2013).

Recently, Star Time, a Chinese Television cable network is increasingly penetrating Nigerian market. Deyi Yang, Marketing Director of the Communication firm has disclosed that Star Time has invested about US\$ 70 million in Nigeria since 2009 (Business Day 2011). In the statement of Labaran Maku, Nigeria’s Minister of Information, Nigeria hopes to switch on digital migration by January 1, 2015 (Technology Time Online). As Nigeria plans to meet the 2015 deadline set by International telecommunication union for digital TV transition, Star Times has unveiled its partnership with the Nigerian Television Authority (NTA) (Technology Time Online). Generally speaking, most Nigeria manufacturers are watching in outer dismay this reap off by the Chinese because firstly the much talked about technological transfer is not forth-coming neither is any visible company manufacturing any genuine affordable goods other than sub-standard ones available. Secondly, even the much talked about cellphone manufacturing outfit that is to employ local labour is non-existent, so basically Nigerians are short-changed at all the expense of the Chinese.

One negative aspect of Sino-Nigerian investments in communication was the NIGCOMSAT-1 Satellite. The satellite was built and launched by China Great

Wall Corporation in May, 2007 (Egbula and Zheng 2011). However, it is an embarrassment for both the Chinese company and Nigeria's government as the satellite has been reported to have disappeared in space in November, 2008

### **Chinese Investment in Power Sector**

Nigeria's power generation has been a national disaster over the years. Gregory ((Mthembu-Salter, 2013) has compared power generated by Nigeria and some other countries. According to him;

*The country has installed electricity generation.... (with average) actual output of only 1500-3000 Mega Watts... Egypt with 60 per cent of Nigeria's population generates 18 000 MW, six times more than Nigeria's, and South Africa with population of a third of Nigeria's generates 45 000 MW, 15 times more... the UK generates 76 000 MW and the US with a population of 250 million, 80 per cent higher than Nigeria's population generates 813 000, that is 271 times more than Nigeria's (Mthembu-Salter, 2013).*

Low power generation by Nigeria is not without adverse effects on the country's economy. One of the consequences is that millions of Nigerian businesses have wound up, and some foreign investors have relocated to some countries where power is constantly fair. Those that remain in Nigeria have to cope with the reality by depending largely on generators—with the consequence—reeking of diesels and the sound of the generators that every urban area throbs to (Mthembu-Salter, 2013). Given this, president Obasanjo moved to boost power generation capacity. One of the ways he sought to achieve this was his "Oil for Infrastructure" deal/policy with China as we shall see shortly.

By the end of 2006, China committed US\$ 3.5 billion towards generation of some 6000 MW of installed capacity through construction of six major hydro-powers across Africa (Olugboyega 2008). 2600 MW Mambila hydro power in Nigeria was the largest. It could be therefore stated that Nigeria benefited most from the Chinese investment to generate power across Africa. In addition to this, there are other



power projects that Chinese companies have been actively involved. Some of them are;

- 335 MW Olorunsogo gas-turbine power station in Ogun which was to cost at US\$ 220.7 million, 35 per cent of which was coming from Nigerian government as the balance from credit facility provided by Exim Bank;
- 335 MW Omotosho gas-turbine power station in Ondo State, completed by China National Machinery and Equipment Import and Export Corporation in 2007 but largely financed again by Exim Bank; and
- 138 MW Geregu gas-turbine power station in Kogi State also financed by Exim Bank (Mthembu-Salter,2013).

### **China Investments in Free trade Zones and Other Sectors**

The Free trade Zones was conceived on the fact that it could bring about rapid industrialization and transform the country into a Mega trading and export processing hobnob and bring about employment generation and other economic boom

As asserted by Salter 2013, Nigeria's first tax-exempted export processing zone was established during Babangida's rule, in Calabar in 1993, and 10 zones are currently operational (Interview with Leo Lawal, journalist, and other informants, 2009). The Lekki Free Trade Zone near Lagos is the first such zone where Chinese companies have a major stake. It is a 16500 hectare area, about 60 kilometres east of central Lagos, and was identified by the Lagos State Government (LSG) in 2005. The LSG, failed to find a Western company prepared to join it in a consortium to develop the zone. In April 2006, via a new company owned by the LSG, called Lekki Worldwide Investments (LWI), it formed a joint venture with a Chinese consortium apparently led by CCECC, called the Lekki Free Zone Development Company (LFZDC). Of the equity of this company, 60 per cent is held by the Chinese consortium, 20 per cent by LWI and 20 per cent has been left for Nigerian investors (Nigeria Export Processing Zone Authority).

The original agreement was for the Chinese consortium to provide US\$ 200 million for the LSG to provide the land, and move and compensate displaced villagers; and for Nigerian investors to stump up US\$ 67 million. The LSG had apparently been under the impression that all the Chinese consortium's fund would be delivered up front, but the contract did not specify that, and this was not how the consortium proceeded. Instead, as of April 2009, the CCECC consortium was said to have provided only US\$ 50 million in cash and kind for the project, while no funds has been forthcoming from Nigerian investors. This has obliged the LSG to step in, and US\$ 67 million has been allocated to the Lekki Free Trade Zone in the state's 2009 budget (Interview with Senior LFZDC Official, 2009).

Kojola Specialized Railway industrial free Trade Zone is a joint venture of Ogun state government and Chinese Civil Engineering Construction Company. The latter investment was estimated at about US\$ 115.8 billion (Interview with Senior Official, 2009). Ogun State government hopes the project will facilitate rapid industrialization of the state and deepen foreign direct investment inflow to the state (Ibid). Other Chinese investments in Nigeria include Ogun Guan Dong Free Trade Zone; China Town in Lagos; Ovada Vee Tee Rice Limited (Interview with Senior Official LFZDC, 2009).

A major challenge is securing power for the Lekki Free Trade Zone. LFZDC's plan is to construct a gas-turbine power plant, but neither it nor the Lagos Free Trade Zone has yet resolved the issue of where to access the gas. Running a pipeline from the Niger Delta has security implications, and LFZDC says that it is exploring alternative energy sources. In the meantime, however, it is running expensive diesel generators to power its construction programme. (Interview with Senior Official LFZDC 2009)

Despite the challenges, LFZDC has the considerable benefit of strong political support. Like his predecessor, Lagos State Governor Babatunde Fashola is strongly behind the free zone and made it a central part of his election manifesto. Less clear, perhaps, is the Chinese consortium's enthusiasm for the project, which has

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been alleged to have waned somewhat since the disagreements of late 2008 (Interview with Allen Lee, Managing Director, LFZDC, Lagos, April 2009).

Nonetheless, LFZDC appears to be well under way, and the company has signed 20 MOUs with prospective investors, of whom 20–30 per cent are Chinese (Interview with John Mastoroudes, Executive Director, Viva Methanol Lagos Free Trade Zone Enterprise, Lagos, March 2009.). The project is certainly further advanced than Nigeria's other Chinese-backed free zone, in Ogun State, which is reportedly only at the site clearance stage.

### **Prospects and Challenges of Sino-Nigeria Investments**

Nations enter into relationship with one another because of the expected mutual benefits. Therefore, Sino-Nigerian Investment Relations have a tendency to yield many opportunities for both countries. Some of the benefits of investment relations to Nigeria include; availability of fund; improvement of country's infrastructural development; transfer of technology; affordability of imports from China; and promotion of competition and innovation among others.

While it could be said that all these opportunities remain as long as Chinese investments in Nigeria continues, not all the Chinese investments are beneficial to Nigerian economy. Findings have exposed various challenges of Sino-Nigerian investment relations, especially Chinese investments in Nigeria. Some of these problems include unidirectional of Sino-Nigerian investment relations; concentration of Chinese investments in oil and mineral resources; low level of technology transfer; inferior goods from China; and discouraging of local manufacturing ingenuity/creativity. Opinions are sharply divided as to which one outweighs the other. It then becomes imperative to examine the prospects of Sino-Nigerian investments against the problems of the relations.

### **Prospects of Sino-Nigerian Investments**

As outlined above, the first benefit of Sino-Nigeria investments is availability of funds. These funds have helped in the areas of oil exploration and production, in-

frastructural and industrial as well as socio-economic development (Interview with senior Official LFZDC, 2009). Consequently, availability of fund through the Chinese investment is valuable for Nigeria as it has helped different sectors of the country's economy.

Chinese investments in Nigeria also have the prospect of contributing significantly to improve the country's infrastructure. The infrastructural development in turn has the capacity of making Nigerian manufacturing sectors more competitive. This is because inadequate infrastructure has been the major reason for underperformance of Nigeria's manufacturing sector. Therefore, the establishment of Chinese infrastructure has the prospect of building up Nigeria's manufacturing sector (Interview with senior LWI officials, 2009).

Employment generation is another opportunity of Chinese investments in Nigeria. Many Nigerians have been employed into various Chinese firms in Nigeria. According to Chinese government, 'Chinese companies operating in Nigeria employ 30,000 local workers (Interview with Allen Lee LFZDC, 2009). Given the problem of unemployment in Nigeria over the year, employment opportunity for Nigerians as a result of Chinese investments in Nigeria is a positive impact of Sino-Nigeria investment relation. This prospect remains so long as the relations between the two countries remain.

Transfer of technology is another opportunity of Sino-Nigerian investment relations. Reports have shown that transfer of technology is one of the potential ways through which technology advancement and development in developing countries can be accelerated (Egbula and Zheng, 2011). The involvement of Nigerians, such as indigenous entrepreneurs, in the affairs of Chinese firms provide a channel through which technology can be transferred to Nigerian entrepreneurs. The involvement of Chinese firms in oil and gas, agriculture and telecommunications among other sectors are sources of opportunity for Nigeria's economy to under-study Chinese technology for adaptation in the economy (Egbula and Zheng, 2011).

Affordability of Chinese imports is another positive impact of the relations between the two countries. It has been observed that Chinese imports can be 75 per cent cheaper than ‘equivalents’ from traditional sources, and up to 50 per cent cheaper than the locally produced substitutes (Olugboyega, 2008). The prospect here is that, opportunity is provided to improve the livelihood of poor, given the Nigeria’s weak purchasing power and high level of poverty.

### **Problems of Sino-Nigerian Investments**

While the Sino-Nigerian economic investments continue, the prospects discussed above remain. However, there are various challenges confronting the thriving investment relations between Nigeria and China. Some of these problems have been outlined previously. Unidirectional pattern of Sino-Nigerian investments with the imbalance in favour of China has been worrisome. While Chinese investments in Nigeria continues to grow, Nigeria’s FDIs in China has been put on hold since 1999/2000.

Chinese FDIs in Nigeria are majorly concentrated in oil and mineral resources. Gabriel Omoh (2013) has recently voiced out concern over China’s appetite for oil and other mineral resources from existing investments at any cost (Osakwe, 2012). This concern goes with the acknowledgment of concentration of Chinese investments in oil and other mineral resources by Ambassador Aminu Wali, Ambassador of Nigeria in China. In his remark on the occasion of the 40<sup>th</sup> Anniversary of the Establishment of Nigeria-China Diplomatic Relations, the Ambassador encouraged China to increase its participation in the non-oil sectors of Nigerian economy (Olugboyega, 2008). Investments in non-oil sectors like infrastructure, power generation and telecommunication among others are needed if Nigeria is to benefit from Sino-Nigerian investments.

It is also a challenge that technology transfer through Sino-Nigerian investments has not yet emerged, as technology transfer is not sincerely encouraged by the Chinese. Chinese firms have been criticized for being closed as they don’t employ local experts (Olugboyega, 2008). Even when they did, they refuse to expose them

to the nitty-gritty of the production and manufacture. Most of the materials used have been imported from China, and not produced in Nigeria. ZTE's claim to manufacturing handsets in Nigeria has been disputed. Findings have shown that rather than manufacture handsets, ZTE only performs minor task of assembling phones (Osakwe, 2012). Not promoting technology advancement of Nigeria is capable of making Nigeria remain a perpetual 'consumer state'.

Another problem is the inferior quality of Chinese goods flooding Nigerian market. Most of the Chinese imports to Nigeria are substandard. While acknowledging imports of substandard goods in the country, Chinese government has maintained that 'Nigerian importers often pressure Chinese suppliers to produce lower quality products in order to make them affordable for Nigerians (Egbula and Zheng, 2011). Recently, many Nigerians have complained about poor and inferior service delivery by Star Times, Chinese-owned Pay-Tv Operator.

Inflow of Chinese investments in Nigeria the inability of the domestic industries to cope with cheap Chinese imports. This has greatly discouraged diversification away from crude agricultural and mineral products towards manufacturing and services (Ayantunde and Ayodele 2006). The Chinese have been able to penetrate the local markets with their relatively cheap products and also allowed by comprising Nigerian government officials to bring both inferior goods and get also involved in retail trade.

Another problem of Sino-Nigerian Investments was the consequence of oil exploration and production by Chinese. Oil exploration which has resulted in the pollution and environmental degradation among others. In reaction to this, the local people have resorted to taking arms against multi-national companies and the state (Slather 2013). One of the ways they always react is by kidnapping expatriates, including Chinese. This remains a great challenge to Sino-Nigeria investment relations unless if Chinese firms are conscious of their social responsibilities.

### **Summary and Conclusion**

This paper has examined investment relations between Nigeria and China. The

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investments have not always been unidirectional, though not a balanced bilateral one. Since 2000, China's Foreign Direct investments in Nigeria have been increasing. Recently, Nigeria has overtaken other leading destinations of Chinese investments in Sub Sahara Africa including South Africa. A number of reasons can explain the increase in China's investments in Nigeria. The major reasons are the availability of oil and other mineral resources in large commercial quantity and the large market size of the country, given its population.

It has to be stated that China's Foreign Investments in Nigeria have been majorly concentrated on oil and mineral resources. President Obasanjo was able to use his "Oil for infrastructure" policy to attract Chinese investments in infrastructure. After the administration of Obasanjo, the succeeding president Yar'Adua quickly suspended and discarded most of the policies of former president Obasanjo towards China including "Oil for Infrastructure".

While China was initially driven by its vast demand for energy resources, its involvement since has expanded beyond oil. Chinese companies are now actively involved in other sectors of Nigeria's economy including manufacturing and communications. Both countries stand to gain from this investment relation. Some of the benefits of investment relations to Nigeria include; availability of fund; improvement of country's infrastructural development; transfer of technology; affordability of imports from China; and promotion of competition and innovation among others. The prospects for these remain as far as the Sino-Nigeria investment relation continues. However, a few stumbling blocks may impede these prospects. Some of the challenges include unidirectional of Sino-Nigerian investment relations; concentration of Chinese investments in oil and mineral resources; low level of technology transfer; inferior goods from China; and discouraging of local manufacturing ingenuity/creativity. Therefore, for Nigeria to maximally benefit from these investment relations, there is need for the government to 'put in place policies and institutions to maximize the complementary effects and minimize the competing effects' (Utomi 2011).

## Recommendations

Having understudied the China and Nigeria economic and diplomatic ties, certain recommendations become imperative. Nigeria's first priority should be in developing the capacity to better manage its own policies toward China's engagement. Nigeria needs to realize that China's engagement gives it a unique opportunity to significantly expand its development and articulate a comprehensive strategy that addresses its long term needs (Pat Utomi, 2011).

Again, Nigeria should focus on how China's engagement in Africa fits into the border pictures of international engagement. In fact, Nigeria has the opportunity to diversify its development by balancing western aid with that of China but needs to better understand how each type of aid can be beneficial, and to what sectors, in order to implement a successful strategy.

Not only that, Nigeria should learn from the successes and failures of other states' relations with China and their policies towards development. While also learning from their own experiences. Nigeria should undertake a down-to-earth review to investigate what 'policies' have been beneficial for Nigeria's long term development and what areas need improvement. Nigeria should also move closely to examine the United States' relationship with China and replicate successful policies.

Furthermore, Nigeria should be pragmatic as they strive to "build institutions" past attempts to build institutions in Nigeria and other corrupt societies have shown that just uprooting and transplanting institutions does not work. The process is evolutionary in nature and dependent on political will and strong leadership to make the necessary changes. Most importantly, there are needs to be transparent, oversight, largely monitored by a large middle class. Since a large middle class is dependent on sustained economic growth, it will take time to build credible institutions, but small steps can be taken.

Moreover, greater emphasis should be placed on building human capital and overcoming language and cultural barriers to facilitate the transfer of business

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knowledge and technology to wider array of the Nigeria population. Exchanges between Chinese and Nigeria business need to develop the capacity to become leading entrepreneurs independent of the Chinese. World class business schools and public administration institutes focusing on building competences, leadership skills, and values need to be more greatly supported in Nigeria as the case in South Africa (Pat Utomi, 2011). Lastly, advances in entrepreneurial skills need to be accompanied by similar advances in building a culture of leadership that is not only concerned about enriching themselves but about enriching their country as well.

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