Elephants, Ants and Superpowers: Nigeria’s Relations with China

Gregory Mthembu-Salter
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ABSTRACT

Analysis of China’s relations with Africa has often been generalised, yet these relations vary considerably across the continent, suggesting the need for greater attention to the specificities of each case. This paper considers economic and political relations between China and Nigeria. The paper first sketches the post-independence history of their bilateral relations, charting a progression from indifference and even hostility in the early years, to intense engagement in the early 2000s, but a distinct cooling-off at the present moment. There follows analysis of the two countries’ trade relations, revealing a large, persistent trade imbalance in China’s favour, and the extent to which Nigeria’s exports are dominated by oil. The rest of the paper is taken up with sectoral studies, starting with the critical oil and gas sector, and followed by power generation, rail transport, construction, communications, manufacturing and retail, free zones, and finance.

The paper argues that despite the assertions of members of the Nigerian government, the ‘oil for infrastructure’ model adopted by former President Olusegun Obasanjo in his dealings with China, in which Nigeria gave China energy companies oil blocs in return for infrastructural projects built by Chinese companies and financed by Chinese banks, is dead. The model has been replaced by one in which Chinese energy companies gain access to the country’s oil resources by buying stakes in established companies. The paper contends that the termination of the ‘oil for infrastructure’ approach by the current Nigerian government demonstrates an incompatibility between this model and the Nigerian electoral cycle, which is designed to alternate rule every ten years between northern Muslim and southern Christian elites. The paper nonetheless anticipates that Chinese multinational companies that would have benefitted from these infrastructure projects will continue to grow their Nigerian market share due to their competitive advantages in price, risk appetite and access to credit.

Chinese MNCs have shown a preference for dealing with the Nigerian public rather than its private sector. The paper concludes that the Nigerian government would derive more benefit from its relations with China firstly by improving its negotiating capacity and, secondly, through a re-evaluation of its negotiation positions, drawing on the experience of China in its dealings with the West, particularly concerning technology transfer and concessional credit.

ABOUT THE AUTHOR

Gregory Mthembu-Salter is a researcher, author and journalist on Africa’s political economy and has served on the United Nations Panel of Experts on the Democratic Republic of Congo. He has made a particular study of unrecorded cross-border trade in Africa, and has also researched a range of other subjects, including small arms proliferation on the continent, natural resource governance, non-tariff barriers, the impact of mediation on Africa’s civil wars and sanctions implementation in Burundi.
INTRODUCTION

‘Nigeria and China: A tale of two giants.’
Alaba Ogunsanwo, 2007¹

‘Third World countries [will] surely unite with and stand behind China like numerous “ants” keeping the “elephant” from harm’s way.’
Chinafrica, 1990²

The relationship between two countries as paradoxical and complex as Nigeria and China was never going to be straightforward. But is this relationship at heart a tale of two giants, as Alaba Ogunsanwo, the distinguished Nigerian academic and former diplomat, would have it, or, rather, employing the phrase of the Chinese periodical Chinafrica, a more parochial story of a global ‘elephant’ and just one of many Third World ‘ants’? The two tales converge concerning China’s status, which both views correctly characterise as weighty, but diverge on Nigeria’s. Which is correct?

On one level, Nigeria has a good claim to African superpower status. There are estimated to be 138 million Nigerians, out of an African total of around 781 million, meaning that 17.7% of the continent’s population is Nigerian.³ Africa’s next most populous country, Egypt, has just 84 million people, 60% of the Nigerian total. Nigeria’s annual gross domestic product (GDP) in 2008 was estimated at $216 billion, the fourth highest in Africa after South Africa, Egypt and Algeria.⁴ Nigeria’s exports were worth an estimated $65.5 billion in 2007,⁵ again far higher then for most countries on the continent. Roughly 95% of Nigerian export earnings come from oil,⁶ and the country produces 1.8–2.3 million barrels per day (b/d), depending on the level of insecurity in the Niger Delta,⁷ similar to Iraq’s current production levels. Nigeria’s nearest African competitor in oil exports, Angola, produced an average of 1.9 million b/d in 2008.⁸ Nigerian oil reserves are estimated at 32–36 billion barrels, and in addition the country is among the most richly endowed on the planet in terms of natural gas, with an estimated 100–188 million cubic feet of reserves.⁹

Then there is Nigeria’s historically prominent role in continental politics, through the United Nations (UN), the Economic Community of West African States, the African Union, and the latter’s supposed economic blueprint, the New Economic Partnership for Africa’s Development. Over the years, Nigeria has, in true superpower style, often deployed troops elsewhere in West Africa to restore order, most notably in Liberia, and is also competing with South Africa to win a possible permanent seat on a reformed and expanded UN Security Council.

Yet there is also a strong case to be made for Nigeria’s ‘ant’ status. The country’s GDP per capita was just $792 in 2009, putting the country in the bottom half of the ratings of the countries of Africa, the world’s poorest continent, well below the continent’s other oil producers, and also lower than economic minnows such as Zambia and Côte d’Ivoire.¹⁰ Life expectancy is just 47 years,¹¹ and the under-five mortality rate in 2005 was an appalling 194 per 1 000 live births. Despite billions of dollars in oil revenues over the years, less than half the population has access to drinking water or sanitation, and the country’s Human Development Index ranking in 2008 was a dismal 154th in the world.¹²

The mismatch between the country’s earnings and its human development status points to Nigeria’s long-standing governance problems. Nigeria had its first coup d’état in 1966,
six years after independence, and subsequently endured a succession of military dictators until the restoration of democracy in 1999, when Olusegun Obasanjo won the elections and became president. The year 2007 saw the first ever transfer of power between two civilians in Nigeria’s post-independence history, when Umaru Musa Yar’Adua, who also belongs to Obasanjo’s People’s Democratic Party, succeeded him to the presidency. Yet the elections that put Yar’Adua into State House were widely perceived as fraudulent, with neither the European Union nor United States (US) observers endorsing the results as legitimate.13

Corruption remains a massive problem, particularly in Nigeria’s oil industry. In early 2009 the Anglo-Dutch oil company Shell estimated that 100 000 barrels of oil were being stolen or smuggled every day from Nigeria, which it estimated lost the country $1.6 billion a year.14 Outrageously, the oil is stolen from under the nose of the Nigerian navy, and one Nigerian newspaper in mid-2009 quoted a security operative working in the Niger Delta as saying:

We have arrested some of those vessels in the past, only to be told to release them immediately by some big shots in the military. In fact, now they do not even wait for us to arrest any vessel. We are warned in advance to expect those vessels and not to interfere with them.

The newspaper article further quoted an alleged militia leader from Port Harcourt in the Niger Delta as saying: ‘Government aids these people to remove crude oil for sale. It might surprise you to know that even civilian big wigs get … allocations for sale.’15

As have so many other studies of Nigeria, the newspaper clearly refers to the systemic nature of corruption in the country, which is by now so entrenched that many serious commentators, including serving government officials, have openly questioned whether Nigeria still has a public sphere worthy of the appellation ‘state’.16

In examining the complex relationship that Nigeria, this extraordinary, unique African ‘superpower ant’ enjoys with China, this paper starts with a study of the two countries’ bilateral relations, and considers whether either government has developed a coherent policy towards the other. There follows analysis of the evolution of China–Nigeria trade; and then sector studies on oil and gas, power, rail transport, construction, communications, manufacturing and retail, free trade zones, and finance. The paper concludes with consideration of whether the Nigerian private and public sectors are leveraging all that they can from their relationship with China, and some suggestions as to how they might gain more.

**BILATERAL RELATIONS, 1960–98**

The governments of newly independent Nigeria adopted a broadly pro-Western stance, and while it did not actively support Taiwan, it also did not seek relations with China. Chinese Premier Zhou En-Lai’s 10-country trip to Africa in 1963 did not include Nigeria,17 and a Chinese delegation that visited Nigeria in 1964 seeking the establishment of diplomatic ties was sent away empty-handed.18 Unlike other African countries that did draw close to China, Nigeria never received gifts of imposingly built sports stadiums or government ministry buildings from the Chinese government during this era.19
After two years of studied silence on the matter, in September 1968 the Chinese government publicly backed the bid by Nigeria's Ibo-dominated Biafra region to secede from the federation. A statement by Chinese Foreign Minister Chen Yi at the time linked this support to the Soviet Union's backing of the Nigerian government on the issue, though another factor appears to have been the support given to Biafra's cause by China's key ally in Africa at the time, Tanzania. China covertly supplied the Biafran administration with small quantities of light arms, souring China's relations with the Nigerian government, but making no discernible difference to the outcome of the war, which ended with Biafra's collapse in January 1970.

Formal diplomatic ties were established only in 1971, when Nigeria was in the fifth year of rule by its second military dictator, General Yakubu Gowon, and China, 22 years after first applying, finally obtained admission to the UN. Gowon visited China in September 1974, the first Nigerian head of state to do so, but to little consequence, since he was ousted from power ten months later by Brigadier (late General) Murtala Ramat Muhammed. Muhammed was assassinated in 1976, and Olusegun Obasanjo, then the armed forces chief of staff, took over as head of state. Obasanjo became worried at the growing trade imbalance between the two countries as Chinese manufacturing and export capacity increased and high-level delegations travelled between the two countries in both directions to discuss the matter in 1978 and 1979. The visits resulted in China agreeing to a limited aid package for Nigeria, including the sending of medical personnel and agricultural experts to assist in the development of new model farms but this did nothing to reverse the trade imbalance.

The 1980s and 1990s were a difficult time for Nigeria. Obasanjo left power in 1979, and Shehu Shagari won the ensuing election and became president, lasting until 1983, when he was deposed by Major-General Muhammadu Buhari. Buhari ruled for two years until he too was toppled, this time by Major-General Ibrahim Babangida. Babangida held power until 1993, when, following a disputed election, defence minister Sani Abacha seized power. Abacha proved to be the most brutal and inept of the country's military rulers, presiding over both intensifying economic collapse and ever-worsening state thuggery, and there was an unmistakeable sense of relief when it was learned in June 1998 that he had died, apparently of a heart attack, while in the company of two prostitutes.

Abacha initiated contact with the Chinese government early in his rule. The Nigerian–Chinese Chamber of Commerce was founded in 1994, the China Civil Engineering Construction Corporation (CCECC) won a $529 million contract to rehabilitate the Nigerian railway system in 1995 (with Abacha's children allegedly in on the deal), and the former premier of China's State Council, Li Ping, visited Nigeria in 1997, signing protocols relating to power generation, steel and oil. The reasons why Abacha 'looked east' appeared to be similar to those of Zimbabwean President Robert Mugabe a decade later: the need to seek alternative sources of aid and investment following the imposition of sanctions on Zimbabwe by the United Nations and the European Union.
of sanctions by Western nations, plus, perhaps, the shared experience with China of sustained international criticism of their respective countries' human rights record.29

**BILATERAL RELATIONS, 1999 TO PRESENT**

CCECC never did rehabilitate Nigeria’s railways, Ping’s protocols were barely implemented, and it was not until Obasanjo’s return to power in Nigeria in 1999 — this time as a civilian, elected president — and the start of China’s new orientation to Africa in 2000 that relations between the two countries began measurably to deepen. The first ministerial conference of the Forum on China–Africa Co-operation was held in Beijing in October 2000. Obasanjo did not attend, but senior Nigerian representatives did, and in the same year CCECC was awarded a tender to build 5,000 housing units for athletes participating in the eighth annual All-Africa Games in Abuja, which were duly built.30 In 2001 the two countries signed agreements on the establishment of a Nigeria Trade Office in China and a China Investment Development and Trade Promotion Centre in Nigeria.31

Nigeria–China relations intensified further during Obasanjo’s second term in office, from 2003 to 2007. President Hu Jintao and Prime Minister Wen Jiabao of China both visited Nigeria during this period, and Obasanjo went to Beijing twice.32 The intergovernmental Nigeria–China Investment Forum was founded in 200633 and, as will be examined more closely in the oil and gas sector study, Obasanjo used his position as his own minister for petroleum to secure several major oil blocs to Chinese companies. The bloc awards entailed significant infrastructure-building commitments from Chinese companies across a range of sectors, adding to their already growing number of Nigerian projects.

By this stage, the signs were that both Nigeria and China had developed relatively coherent policies towards each other, both seemingly, firmly founded on economic interests. On the Chinese side, the evidence suggests the main aims of government policy towards Nigeria were:

- to increase China’s presence in its oil sector;
- to increase Chinese multinational companies’ (MNCs) Nigerian market share; and
- to expand the Nigerian market for Chinese manufactured goods.

The Chinese government pursued the policy with vigour and some success. China sources under a third of its oil from sub-Saharan Africa (SSA) and only 3% of the oil China purchases from this region comes from Nigeria,34 but out of $10.5 billion of Chinese investment commitments in the SSA oil sector in the period 2001–07, $4.8 billion in investments, nearly half, were made in Nigeria.35 Chinese MNCs won significant new contracts in Nigeria during this period, particularly in construction, telecommunications, power and transport, while the volume of Chinese manufactured goods exported to Nigeria rose dramatically. By the end of 2008, according to Chinese sources, total Chinese investment in Nigeria stood at $6 billion.36

Meanwhile, the key element of Obasanjo’s policy towards China may best be summarised as ‘oil for infrastructure’. Simply put, Obasanjo required that Chinese and other Asian preferred bidders for oil blocs include in their bids a commitment to provide
Nigeria with major infrastructural projects.\textsuperscript{37} This appeared to be motivated by the growing frustration and disillusionment of the Nigerian government with the seemingly paltry results of fifty years of post-independence co-operation with the West, together with its irritation with the cumbersome conditionalities of Western aid,\textsuperscript{38} and partly because Obasanjo was personally so impressed with the infrastructure he saw on visits to China.\textsuperscript{39}

Another aspect of the policy was to try to improve the quality of Chinese manufactured goods entering the Nigerian market which was widely held within the country to be inferior. The issue came up time and time again during bilateral meetings between the two governments.\textsuperscript{40} An additional, lesser, element of the policy was the procurement of Chinese military equipment to complement existing sources of hardware for the Nigerian military. There was much talk, though barely an official pronouncement, about buying Chinese ships to assist the Nigerian navy in the Niger Delta, and in May 2006 the Nigerian government officially announced the purchase of a dozen FT–7NI combat aircraft from China at a cost of $251 million.\textsuperscript{41}

From 2006 onwards Obasanjo worked increasingly hard to secure a change in the Constitution that would allow him a third term in office. His efforts failed, though, and, instead Yar’Adua was elected president in 2007.\textsuperscript{42} Yar’Adua’s administration swiftly launched reviews of all the ‘oil for infrastructure’ agreements signed between the Nigerian government and Asian oil companies, which have mostly resulted either in the suspension or cancellation of these contracts. In the view of one well-placed, very senior source in the Nigerian civil service who has witnessed the process at close hand, it has almost been as if it was the opposition, rather than the ruling party, that won the 2007 election. According to this source, while in the end some of the contracts may be revived, this will only happen if they are restructured to take account of the changed political realities since Yar’Adua became president. For while Obasanjo is a Yoruba from Nigeria’s Christian south, Yar’Adua is a Fulani Hausa and a Muslim from the north, and Yar’Adua’s northern supporters, it seems, will not let Obasanjo’s deals proceed unless they are included in them.\textsuperscript{43}

While it remains to be seen whether China’s Obasanjo-era deals can be restructured, what does seem clear is that the concept of ‘oil for infrastructure’ is dead.\textsuperscript{44} Meanwhile, official Nigerian complaints about the quality of Chinese imports persist, and it was reported in early January 2009 that while Nigeria had paid 85% of the money for Chinese military aircraft, none of the planes had been delivered, leaving the whole deal ‘in limbo’.\textsuperscript{45}

According to Pat Utomi, an academic who was also a presidential candidate in the last election: ‘To pose the question, “what is the government’s China policy?” presupposes that the government has a China policy. But it does not. In fact, it is unsure what the Nigerian government wants to do about it.’\textsuperscript{46}

Utomi’s view was echoed by a senior opposition member of the foreign affairs committee of Nigeria’s House of Representatives, who commented:

\begin{quote}
I don’t think [that] there is a China policy. The government is very inward looking and there is a serious foreign policy vacuum. The foreign minister … lacks the skills for the job …. We lack a functioning foreign policy think-tank, and the foreign ministry is a kind of a joke. It is like we only have the ministry because other countries do.\textsuperscript{47}
\end{quote}
A senior official in the ministry of foreign affairs disputed this bleak analysis and insisted there had been no deterioration in Nigeria’s relations with China under Yar’Adua’s presidency. The official cited the visit to Beijing by Yar’Adua in March 2008 as evidence of this, but conceded that ‘oil for infrastructure’ was ‘part of the problem’ and that the Nigerian government, like many of its African peers, ‘has not properly worked out how to deal with China’.

Even if no coherent China policy has replaced Obasanjo’s discarded one, the new government does at least seem to have an alternative oil policy, ‘oil for cash’, since in future, it seems, oil blocs will be awarded to the highest bidders. According to one seasoned Western diplomat:

When it comes to ‘oil for infrastructure’, I think the Angolans understood the point that you either get the infrastructure or the money. The Nigerians thought you got both and now the Chinese are totally confused. But it turns out that, forced to choose, in the end the Nigerians want the cash.

There are good developmental arguments against ‘oil for infrastructure’. Infrastructure requires planning first, and you don’t want projects imposed on you. In some ways it is better just to get cash injections into the budget. But I don’t think that is what it was in this instance. It was just about the money. Remember, the political elite works on a short-term, four-year basis, dictated by the electoral cycle. I don’t think the Chinese fully understood this. But they do now.

It proved impossible during the fieldwork for this study to secure interviews with senior officials of the Chinese embassy in Nigeria, and Chinese journalists working in the country described the ambassador as ‘highly sensitive’ to the media, in part because of all the problems that now beset the ‘oil for infrastructure’ deals. One well-informed Nigerian civil servant said that the ambassador is ‘lukewarm’ about Yar’Adua because the president allegedly did not contact him before travelling to Beijing and did not brief him upon his return. The source said he believed that the Chinese authorities were feeling increasingly marginalised, and indeed that they had ‘been burned’ by the change in government. He added, however, that the Chinese government remained determined to stay engaged in Nigeria, if only because of the size of that country’s market and its natural resources.

Strong evidence of China’s determination came soon after, in late June 2009, when the China Petroleum and Chemical Corporation (Sinopec) announced that it would be buying Canada’s Addax Petroleum for $7.2 billion. Addax is one of the largest independent oil producers in West Africa, with extensive on- and offshore operations in Nigeria. Chinese MNC officials have described their recent ‘oil for infrastructure’ setbacks as ‘highly political’ and said that there was little option but to wait and see what would happen with these agreements. Some Chinese companies are said to have concluded that it is safer to work with state governments rather than the federal authorities, as they believe that the political machinations are more predictable and the bureaucracy easier to work with.

The suspension by the Yar’Adua administration of the massive ‘oil for infrastructure’ agreements of the Obasanjo era was a setback for the Chinese government’s Nigeria policy, requiring significant re-evaluation by China of how best to do business with
Africa’s ‘superpower ant’. Sinopec's takeover of Addax suggests that this re-evaluation is taking place, with the Chinese state now pursuing a much lower risk strategy of acquiring Nigerian oil assets through the purchase of established Western companies.

**BILATERAL TRADE**

Bilateral trade between Nigeria and China has come a long way. Back in 1969 its total value was recorded at just GBP 2.3 million,\(^{33}\) climbing to GBP 5 million in 1970 and GBP 10.3 million in 1971.\(^ {36}\) Right from these early stages, the terms of trade were heavily in China’s favour, with GBP 4 million of the trade recorded in 1970 derived from Chinese textile exports to Nigeria.\(^ {37}\)

By 1994 recorded bilateral trade had risen to $90 million. Although a significant increase on the trade levels of two decades earlier, this was still a very low figure. Yet bilateral trade more than doubled to $210 million in 1995, and had climbed to $830 million by 2000.\(^ {38}\) Some of this increase was due to rising Nigerian exports to China. Nigerian exports to China were worth $60 million in 1995, but $293 million in 2000, a nearly five-fold increase. Yet the terms of trade still favoured China, whose exports represented 73% of the bilateral trade total in 1995 and 68% of the total in 2000.

As we saw in the previous section, relations between Nigeria and China intensified after 2000 and there has been a corresponding dramatic rise in bilateral trade levels since then. Bilateral trade in 2008 was worth $7.3 billion, nearly nine times its level in 2000. But still the trade imbalance has persisted and, indeed, worsened. Chinese exports represented 93% of the bilateral trade total in 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Nigeria’s exports to China</th>
<th>China’s exports to Nigeria</th>
<th>Bilateral trade value</th>
<th>China’s exports/total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>227.4</td>
<td>9172</td>
<td>1 144.6</td>
<td>80.1</td>
</tr>
<tr>
<td>2002</td>
<td>121.3</td>
<td>1 0471</td>
<td>1 168.4</td>
<td>89.6</td>
</tr>
<tr>
<td>2003</td>
<td>71.7</td>
<td>1 7875</td>
<td>1 859.2</td>
<td>96.1</td>
</tr>
<tr>
<td>2004</td>
<td>462.6</td>
<td>1 719.3</td>
<td>2 181.9</td>
<td>78.8</td>
</tr>
<tr>
<td>2005</td>
<td>527.1</td>
<td>2 305.3</td>
<td>2 832.4</td>
<td>81.4</td>
</tr>
<tr>
<td>2006</td>
<td>2778</td>
<td>2 855.7</td>
<td>3 133.5</td>
<td>91.1</td>
</tr>
<tr>
<td>2007</td>
<td>537.5</td>
<td>3 800.2</td>
<td>4 337.7</td>
<td>87.6</td>
</tr>
<tr>
<td>2008</td>
<td>509.9</td>
<td>6 758.1</td>
<td>7 268.0</td>
<td>93.0</td>
</tr>
</tbody>
</table>


Around 90% of Nigerian exports to China are oil products, which is in line with oil products’ share of Nigeria’s total export value.\(^ {39}\) China, by contrast, has exported an
ever-growing range of goods to Nigeria. In 2008 the single biggest recorded imported items by value were ‘electrical apparatus for line telephony’, closely followed by motorcycles and less closely by electric generators, for which there is high demand in Nigeria because of its poor electricity supply.\textsuperscript{60} By 2005, 7.1% of the country’s total recorded imports by value came from China.\textsuperscript{61}

Nigerian trade unions have been reported as blaming Chinese imports for the loss of 350 000 Nigerian manufacturing jobs, chiefly in the textiles sector, and Nigeria, Ethiopia and South Africa are identified in the literature as being the three countries in SSA where employment and domestic production have been most negatively impacted by Chinese imports.\textsuperscript{62}

In addition to recorded trade, there appears to be a great deal of unrecorded trade between China and Nigeria, particularly of Chinese imports. According to Sir Elvis Emecheta of the Nigerian–Chinese Chamber of Commerce:

> Because of tax issues, companies prefer to keep quiet. It is hard to get the real figures, because most business is through the black market. They avoid the banks. Also, Nigerian companies are importing stuff from China that attracts high tariffs, so they are always under-invoicing. Plus we have a liberal forex regime, so money flows in and out easily.

> All this means [that] the official trade figures will not be real. The real figures could be three or four times what is recorded. I am not exaggerating. Look, everyone who is going to China is buying $100 000 or $200 000 worth of goods, and people are going every week. They pay cash there and change the invoices. It is easy.\textsuperscript{63}

Much of the unrecorded trade between China and Nigeria appears to travel via neighbouring states, which all have long and largely unpoliced borders with Nigeria. Benin is the most often-cited country through which smuggled Chinese goods are reported to pass. Benin’s capital and major port, Cotonou, is just a few kilometres from the Nigerian border, easing the task of smuggling imported Chinese goods from there into Nigeria. Unrecorded cross-border trade of Chinese goods between Benin and Nigeria appears to be a major enterprise, employing thousands on both sides of the border.\textsuperscript{64} The unrecorded trade also presents lucrative rent opportunities for corrupt officials on both sides of the border, which is one reason why smuggling has continued despite repeated official declarations of intent to bring it to a halt.\textsuperscript{65}

**OIL AND GAS**

Until courted by Obasanjo’s government to acquire their own Nigerian oil assets, China and other Asian countries accessed their oil exclusively through long-term contracts and purchases on the spot market. Sinopec has had annual contracts with the Nigeria National Petroleum Corporation to supply 100 000 b/d, while PetroChina has had annual contracts worth 30 000 b/d.\textsuperscript{66}

Yet driven by rapidly growing domestic fuel consumption — China’s doubled between 1996 and 2006 — China has been forced to hunt for more oil blocs of its own. Even so, it apparently took persistent lobbying from Obasanjo to tempt Chinese oil companies into
Nigeria — so great were their concerns about insecurity in the Niger Delta and Western companies’ dominance in the country’s oil sector. Obasanjo offered Chinese companies the right of first refusal (RFR) on oil blocs at discounted rates or with signature bonus waivers, in return for their commitment to invest in downstream and infrastructure projects.67

The first bidding round played under these rules was in 2005, in which 77 blocs were on offer. Many Western companies stayed away out of opposition to RFR and because of the requirement that bidders acquire local partners, who in many cases were little more than political cronies. In the end, only 44 of the blocs were awarded, and of these, nearly half were withdrawn because the winners defaulted on payments.68 Chinese companies also stayed away from the 2005 auction, apparently because they mistakenly believed that they had already secured the oil blocs on offer during their earlier negotiations with the Nigerian government.69

Because of these and other confusions, the Nigerian government held another oil bloc bidding round in May 2006, in which it said that only those companies who were prepared to make significant downstream or infrastructural investments in the country were allowed to take part. This time, there was none of the confusion that characterised the 2005 round; Chinese, Indian and Taiwanese companies all received RFR on pre-assigned blocs and all duly bid for and won them. The China National Petroleum Corporation (CNPC) scooped up four blocs, two oil production licences70 (OPLs 471 and 298) in the Niger Delta, and two (OPLs 732 and 721) in the Chad basin. In return, CNPC promised to invest $2 billion in Kaduna’s struggling refinery.71

Also in May 2006 the Nigerian Senate rejected a number of proposed constitutional amendments, including one that would have allowed Obasanjo a third presidential term. This was despite Obasanjo’s supporters having spent vast sums to persuade National Assembly members to back the change. It was widely alleged at the time, but never proven, that the Asian oil companies that did so well in the 2006 bidding round had all contributed generously to this cause.72

Two weeks before Yar’Adua took office in May 2007 the departing administration held another bidding round, apparently intended to ensure a final dispensation of patronage to Obasanjo’s supporters. Forty-five blocs were on offer, with 24 pre-assigned to 12 companies on RFR terms. The China National Offshore Oil Corporation (CNOOC) was one of the 12, given RFR on four blocs in return for a $2.5 billion loan from China’s Export-Import (Exim) Bank for the rehabilitation of the Lagos–Kano railway and the construction of a long-dreamed-of hydro-electric power station at Mambilla. The CNPC was another, given RFR on one bloc in return for its investment in the Kaduna refinery. Yet in the event, both CNOOC and CNPC declined to bid during the round, as did all the other Asian national oil companies, apparently reckoning the political risk to be too high.73

Chinese companies also acquired other Nigerian oil assets during Obasanjo’s tenure outside the three bidding rounds. In 2006 Sinopec took a 29% stake in bloc 2 of the Nigeria–São Tomé Joint Development Zone, and in the same year CNOOC paid $2.3 billion for a 45% stake in an oil mining licence (OML 130) in the lucrative Akpo offshore field, financed by a loan from Exim Bank. Also in 2006 CNOOC paid $60 million for a 35% working interest in OPL 229, and announced its intention to invest $1.5 billion there, financed by China’s export credit agency Sinosure.74
### Table 2: Nigeria–China oil projects, 2004–07

<table>
<thead>
<tr>
<th>Project</th>
<th>Year</th>
<th>Sub-sector</th>
<th>Financiers or sponsors</th>
<th>Project cost ($ millions)</th>
<th>Chinese financing commitment ($ millions)</th>
</tr>
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<tbody>
<tr>
<td>Exploration contract for blocs 64 and 66 in the Chad basin</td>
<td>2004</td>
<td>Exploration</td>
<td>Sinopec</td>
<td>2 270</td>
<td>Unconfirmed</td>
</tr>
<tr>
<td>29% stake and operating rights to bloc 2, Nigeria–São Tomé Joint</td>
<td>2006</td>
<td>Exploration</td>
<td>Sinopec</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Development Zone</td>
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<tr>
<td>45% interest in offshore exploitation licence, OML 130</td>
<td>2006</td>
<td>Exploration</td>
<td>CNOOC</td>
<td>2 268</td>
<td>2 692</td>
</tr>
<tr>
<td>35% working interest in OPL 229</td>
<td>2006</td>
<td>Exploration</td>
<td>CNOOC</td>
<td>–</td>
<td>60</td>
</tr>
<tr>
<td>51% stake in Kaduna refinery and rehabilitation</td>
<td>2006</td>
<td>Refinery</td>
<td>CNPC</td>
<td>–</td>
<td>2 000</td>
</tr>
<tr>
<td>Licences for OPL 471, 721, 732, 298</td>
<td>2006</td>
<td>Exploration</td>
<td>CNPC</td>
<td>16</td>
<td>Unconfirmed</td>
</tr>
<tr>
<td>Provide seismic exploration service</td>
<td>2006</td>
<td>Exploration</td>
<td>Sinopec</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td>Exploration of solid minerals in Zamfara and oil in Sokoto basin</td>
<td>2007</td>
<td>Exploration</td>
<td>Zhonghao Overseas</td>
<td>300</td>
<td>300</td>
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<tr>
<td>Construction Engineering Company</td>
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</table>

Sources: Foster V et al., op. cit., pp. 79–80; Wong L, op. cit.

Soon after taking office, Yar’Adua called for an investigation into the 2007 bidding round. The resulting government report was strongly critical of Obasanjo’s ‘oil for infrastructure’ policy and called for the 2005 and 2006 bidding rounds to be investigated too.75 The proposed Chinese rehabilitation of the Lagos–Kano railway and the construction of the Mambilla power station have since been placed on hold, and the fate of the Kaduna refinery, on which no repair work has yet been undertaken, is also uncertain.76

In addition, an ad hoc committee of the House of Representatives examining the oil deals of the Obasanjo years has recommended that OPL 298 be taken away from CNPC, though it seems content for the company to retain OPLs 471, 721 and 732. The chair of the committee, Igo Agama, has been highly critical of the way in which oil deals were done during Obasanjo’s tenure:
This is a real mess, and a lot of the blame can be placed with Obasanjo, because of the structural deficiencies in his government. He was the minister of petroleum, so he was the ratifying minister. Actions were taken by others and presented to him and he didn't check carefully enough and just ratified them. The DPR [Department of Petroleum Resources] would slip in requests and once the overall package was signed off by Obasanjo, they would turn around and argue that everything had been approved …. All of this has discredited the idea of ‘oil for infrastructure’.77

One of the few Chinese oil deals of the Obasanjo era that still seems safe is CNOOC's costly purchase of a 45% stake in OML 130. Xing Weiqi, the head of CNOOC's Nigerian operation, said in March 2009 that production there had just started and could reach up to 15 000 b/d, and that he was confident that the project would be a success.78 One of the reasons for Weiqi's confidence, perhaps, is that among CNOOC's partners on OML 130 is South Atlantic Petroleum (Sapetro), which is owned by a former Nigerian defence minister, TY Danjuma, a close friend and once a senior officer of Yar’Adua’s.79

Dwarfing the CNOOC deal, and indeed any overseas takeover in Chinese corporate history, on 24 June 2009 it was announced that Sinopec would purchase Canada's Addax Petroleum for $7.2 billion. Addax has one onshore and two offshore oil operations in production in Nigeria, two in Gabon, and exploration rights across the Gulf of Guinea, as well as in Iraq.80 Sinopec was badly affected by the suspension of the ‘oil for infrastructure’ agreements, and the proposed agreement will dramatically boost its exposure to the Nigerian oil sector.

P O W E R

Nigeria's power generation is a national disaster. The country has installed electricity generation capacity of 6 000 megawatts (MW), with a functioning capacity of 4 500 MW, but averages actual output of only 1 500–3 000 MW. Often it is much lower.81 Egypt, with 60% of Nigeria's population, generates 18 000 MW, six times more than Nigeria, and South Africa, with a population 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% higher than Nigeria’s, generates 813 000 MW, 271 times more than in Nigeria.82 Nigeria is truly a global power generation ‘ant’.

Because electricity generation from the national grid is so low, millions of Nigerian businesses and individuals depend on diesel generators for power, and every urban area throbs to the sound of them, reeking of diesel as a consequence. The cost, waste and pollution of this process are immense and to rectify this, the Obasanjo government set itself the target of boosting national generation capacity to 20 000 MW. The government spent billions of dollars to this end under the auspices of the National Integrated Power Project (NIPP), yet the NIPP failed to deliver any new national generation capacity during Obasanjo's tenure and was suspended for this reason by the Yar’Adua administration in 2007. In early 2009 the government restarted NIPP, despite withering criticism of the project by the Power Committee of the House of Representatives.83 The government’s target is to raise capacity to 6 000 MW by the end of 2009, which it says can mainly be achieved through improved maintenance.84
Obasanjo secured the agreement of the Chinese government to build a massive 2 600 MW hydro-electric power station at Mambilla, in Taraba State, during the 2006 China–Africa summit and linked the project to CNOOC acquiring oil blocs in the 2007 bidding round. Yet before a loan facility from China had been fully put in place, and only weeks before Yar’Adua became president, Obasanjo unilaterally awarded a $1.5 billion contract for Mambilla to China Gezhouba Group Corporation. In October 2007 the Yar’Adua government suspended the project until, it said, acceptable financing could be arranged.85 Money was allocated in the national budget for Mambilla in 2008, but never disbursed, and an allocation was also made in the 2009 budget.86 Nigerian Vice-President Goodluck Jonathan promised a delegation of the China Council for the Promotion of International Trade in March 2009 that the government was soon going to look at Mambilla ‘critically and see what could be done’, but could offer nothing specific.87

In addition to Mambilla, Su Zhong and Sinohydro of China were contracted by Obasanjo’s government to build a 950 MW hydro-electric power station in Zungeru, in Niger State, financed by the Exim Bank, but this too appears to have been caught up in the Yar’Adua government’s on-going review of Obasanjo-era deals, and its status is uncertain.

Other new power projects in which Chinese companies have a significant stake appear to have survived the review process and are proceeding. One is the 335 MW Olorunsogo (also known as Papalanto) gas-turbine power station in Ogun State, where the Electric Power Construction Corporation began construction in late 2005. Olorunsogo has been costed at $220.7 million, 35% of which is coming from the Nigerian government and the balance from a credit facility provided by Exim Bank.88 Another is the 335 MW Omotosho gas-turbine power station in Ondo State, completed by the China National Machinery and Equipment Import and Export Corporation in 2007, and again largely financed by the Exim Bank. Also financed by the Exim Bank, although in fact built by Germany’s Siemens, is the 138 MW Geregu gas-turbine power station in Kogi State.89 Finally, it was announced in February 2008 that the China National Electric and Equipment Corporation would build and run for a time a 115 MW coal-powered plant at Enugu, in Enugu State.

RAIL TRANSPORT

During Obasanjo’s second term, Nigerian Railways chairperson Mohammed Waziri lobbied the government for $35 billion to rehabilitate and expand the country’s barely functioning railway system. Accordingly, and using the ‘oil for infrastructure’ model, the government secured commitments from China, South Korea and India to provide elements of the railway programme in return for oil blocks, with Chinese companies given the task of constructing a new, 1 315-kilometre, double-track, standard-gauge line between Lagos and Kano. Chinese President Hu Jintao signed a memorandum of understanding (MOU) to this effect during a visit in April 2006, and in October 2006 CCECC, which had won a never-implemented rehabilitation contract for the railway during Abacha’s regime, was awarded the contract without a tendering process. CCECC’s initial quote was $15.4 billion, but this was rejected by the Nigerian government, and the price was eventually reduced to $8.3 billion, still double what the World Bank estimated the job should have cost. Then in November 2006 the Nigerian government signed a loan facility agreement with China’s
Exim Bank for $2.5 billion (referred to in Oil and Gas, above), of which $1.3 billion was to be used for the Lagos–Kano railway. The loan was directly linked to the allocation of oil blocs to Chinese companies. However, Obasanjo’s government never signed the MOU required to confirm the terms of the loan agreement, and one has not been signed by the Yar’Adua government either, meaning that the facility cannot be accessed. CCECC received $250 million from the Nigerian government as a down payment in January 2007, but the Yar’Adua government subsequently suspended the whole project.

In late March 2009 a member of the House of Representatives Committee on Land Transport confirmed that the Lagos–Kano rail project remained under review, but said it would still go ahead, and that negotiations between the government and Chinese companies would be about how to break it down into manageable phases. In May 2009 Ibrahim Isa Bio, Nigeria’s minister of transport, struck a less positive note, accusing China of defaulting on its commitment to provide Exim Bank’s $2.5 billion loan for the project. Bio said Exim Bank was only prepared to lend $500 million, although one well-informed source had indicated earlier that it was instead the Nigerian government that had decided against $2 billion of the loan and was now only prepared to borrow $500 million. The Nigerian press reported in May 2009 that CCECC has completed all the preliminary work for the railway project, but quoted Bio as saying it was wrong for just one company to have the job of design, construction and supervision. Bio also talked up the prospect of other, Western companies coming in to work on Nigeria’s railways, suggesting that if the CCECC deal is to survive at all, it will require substantial renegotiation. CCECC has refused to comment on the matter, but has apparently diverted much of the equipment it was going to use on the railways to other projects in Nigeria and elsewhere in the region.

**CONSTRUCTION**

The cancellation or suspension of ‘oil for infrastructure’ projects by the Yar’Adua government has not been good news for the Chinese construction companies due to benefit from them, yet these companies are continuing to expand their presence in the country.

The largest Chinese construction company in Nigeria, and, it is claimed, the second largest of any origin, is CCECC. The company’s headquarters are a large compound on the road from Abuja to the city’s airport. One of CCECC’s first Nigerian projects was a $4.8 million, 71 kilometre rehabilitation of the Papalanto–Lagos expressway in 2000–01, which was followed by a much more substantial contract, a $50.5 million, 5 000 unit athletes’ village for the eighth annual All-Africa Games in Abuja, which was completed in August 2003. CCECC rehabilitated the Ikot Akpaden–Okoroette road in 2003–04 for $5.7 million, built a new $16.7 million corporate headquarters for the Nigerian Communications Commission in Abuja in 2003–05, and is the main construction company at the Lekki Free Trade Zone near Lagos. While CCECC continues to win new Nigerian contracts, none can match the proposed, but now suspended, Lagos–Kano railway project, and it was perhaps due to the company’s concerns about this that it declined to be interviewed for this research.

Another prominent Chinese construction company active in Nigeria is the China Geo-Engineering Corporation (CGC), which has been present in the country since the
1980s, when it started off digging boreholes. It has been involved in numerous projects, including Kebbi Airport, a major water supply project in Gombe, the road from Kano to Maduguri and many other smaller routes, and the construction of the Sabke Dam. CGC has branched out from construction and is also involved in oil exportation for its major shareholder, Sinopec. CGC has no formal corporate social responsibility programme, but does apparently drill boreholes free of charge in impoverished communities at the behest of the government, and has started a model farm in Kebi State. CGC has more than 200 Chinese staff in Nigeria, which is the company's biggest African operation. Like CCECC, CGC's main selling point in Nigeria is price, but the company has aspirations to raise its quality and service provision levels so that it can compete on level terms with Nigeria's most powerful construction company, Germany's Julius Berger.

In addition to CCECC and CGC are a host of smaller Chinese companies, including Hungwei, North China Construction and Zon How, all competing vigorously for federal and state government tenders. So far, these companies appear to have less developed service and quality standards than CCECC and CGC, but their prices are generally so competitive that they too continue regularly to scoop new, usually government, contracts. As one Chinese construction company official put it:

We only work with the government. It's not exactly policy, it's just that there are no really good opportunities to work with the private sector. Despite all the problems since the new administration came in, the government is still more reliable than the private sector.

**COMMUNICATIONS**

Chinese telecommunications companies have moved determinedly into the Nigerian market, as they have elsewhere in Africa, but have not attempted to run their own networks. The Zhong Xing Telecommunication Equipment Company (ZTE) has been in the country since 2001, and claims that its core businesses in Nigeria are manufacturing handsets and supplying system equipment. The company has estimated that it has sold 40 million handsets in Nigeria, but says that most do not carry ZTE's logo, but rather the logo of the network service provider. ZTE also supplies system equipment to two local network providers, Starcom and Multilinks. ZTE's claim to manufacture handsets in Nigeria has been disputed by some journalists, who have alleged that when ZTE officially opened its Abuja factory, approximately 2000 Nigerian students were employed to wear white coats and pretend to be employees. The journalists have claimed that ZTE's factory does not manufacture handsets, but instead performs minor assembly tasks on phones that are actually made in China.

Huawei, another Chinese telecommunications company, is also active in Nigeria, and has expanded its presence there far more aggressively than has ZTE. It has six offices in the country compared to ZTE's two, and supplies system equipment to all its network service providers, including market leader MTN, and Zain, Glo, Visafone and Zoom. Huawei has a training centre in Abuja with over 4000 'graduates', and it claims a growing corporate social responsibility programme. On the company's own estimate, it was the 'number 1' supplier in the domestic telecoms market in 2007. The truth of these claims, however, is hard to assess, since even Huawei's brand marketing manager is forbidden to
talk publicly about the company and is apparently permitted only to hand out Huawei promotional literature. The release of any other information requires authorisation from Huawei's headquarters in China. \(^{107}\)

Huawei and ZTE are, by all accounts, highly competitive with each other in Nigeria. According to one Chinese Embassy source, the two companies 'compete very hard for the same bids, which is very useful to the end client as it reduces the cost of the project'. \(^{108}\) Despite this, Huawei and ZTE began collaboration in 2006 on the $300 million National Rural Telephony Programme. This federal government programme involves connecting hundreds of rural communities to a telephone network, with the first $200 million of the funding provided by a concessionary loan from China. \(^{109}\) Phase I of the project finished in 2008, but an anticipated second phase has been put on hold by the Yar'Adua government, and it is unclear whether it will go ahead. \(^{110}\)

Another aspect of Nigeria–China collaboration in communications that has run into difficulties is the NIGCOMSAT-1R satellite. The satellite was built and launched by the China Great Wall Corporation in May 2007, but, in an embarrassing development for the company and the Nigerian government, it disappeared into space in November 2008, apparently because of a solar power equipment failure. The satellite, which had never functioned properly, cost $251 million, of which $51 million was provided by the federal government and the balance by a federally guaranteed loan from China. China Great Wall Corporation has reportedly promised to build and launch another satellite at no extra cost by 2011. \(^{111}\)

**MANUFACTURING AND RETAIL**

Manufacturing contributes an estimated 4% of Nigerian GDP, \(^{112}\) which is low compared to the 16% recorded in Africa's other main contender for the title of regional superpower, South Africa, \(^{113}\) but comparable with the recorded 3.8% that manufacturing adds to Chinese GDP. \(^{114}\) Yet while China's manufacturing output is worth trillions of dollars and in 2009 is expected by some analysts to occupy the top spot in global manufacturing for the first time in nearly 170 years, supplanting that of the US, \(^{115}\) Nigerian manufacturing output was worth an estimated NGN 619.2 billion in 2007, \(^{116}\) equivalent to around $4.6 billion. \(^{117}\)

Hong Kong and Taiwanese Chinese began manufacturing in Nigeria in the late 1960s and early 1970s. Some started vehicle spare parts manufacture, but were hampered by the country's challenging business environment and the lack of a resident overseas Chinese community. This greatly limited the development of the industry and eventually led many factories to close down, which stood in contrast to the experience of Chinese auto part manufacturers in other parts of the region, particularly in Mauritius, whose businesses flourished. \(^{118}\) Other Hong Kong and Taiwanese Chinese who came to Nigeria during this period started in textiles, particularly in Kaduna, taking advantage of the then-plentiful northern Nigerian cotton crop and the city's well-functioning urban infrastructure and electricity supply. \(^{119}\) Today, however, Nigerian cotton yields are the third lowest in the world, with only Mozambique's and Uganda's worse, and national output has declined substantially. \(^{120}\) Kaduna's infrastructure is much decayed too, as is the national transport network; credit is reportedly barely available for manufacturers; \(^{121}\) and national electricity
output is, as we have seen, hugely inadequate. In short, almost all Nigeria's previous comparative advantage in textiles has gone. At the same time, in recent years, domestic textile manufacturers have been blasted by intensifying international competition, particularly from China. Many Nigerian textile factories, including Chinese-owned ones, have been forced to close and there have been substantial job losses. Textiles have lost their position of Nigeria's main manufacturing industry, to be replaced by tanneries.122

There are and have for years been strong allegations in Nigeria that Chinese textile manufacturers and those importing Chinese textiles into Nigeria often employ unfair and/or illegal business practices, particularly counterfeiting and smuggling. The issue has been brought up time and time again in bilateral meetings between the Chinese and Nigerian governments, in parliamentary debates, formal statements from manufacturing and trading associations, in the press, and has also, led to the forced closure of major Chinese retail outlets. Nigerian complaints about counterfeiting and smuggling have usually elicited the same response from the Chinese authorities, i.e. that it is Nigerian consumer demand for ultra-low-priced goods, plus the country's weak regulatory environment, that is to blame. Both these points are valid, and it is also the case that an increasing proportion of the exports of Chinese manufactured goods to Nigeria is done by Nigerians, including many of the tens of thousands who now live in China. Yet with counterfeiting, the issue of a weak regulatory environment is just as much a concern in China as in Nigeria, since while Nigeria's import controls are clearly not what they should be, neither too is China's implementation of international patent law.

The predominant discourse in Nigeria about the smuggling of Chinese goods, and particularly textiles, appears to be couched in law-and-order terms. Yet it would be more helpful to understand this smuggling as an economic inevitability, generated by the low cost of Chinese textiles, Nigeria's high tariffs for imported textiles, its long and highly porous borders, its weak regulatory capacity, and its strong domestic demand which local supply is unable to satisfy due to its critical production constraints.

Perhaps the most successful of the Hong Kong Chinese manufacturing companies in Nigeria is Lee Enterprises. It has a huge factory in Jurgana, near Kano, whose walls extend for nearly two kilometres, but whose gates, around which are parked thousands of bicycles, are not easily opened to outsiders.123 The factory — or more accurately, agglomeration of factories — employs a large Nigerian and Chinese workforce, with Chinese workers living on the premises. The factories, which have their own dedicated power supply, manufacture plastics, steel and ceramic tiles,124 and are also said to export hides for 'Italian' leather shoes.125 Lee Enterprises also owns a number of apartments in Lagos, some of which are leased to oil companies, and the upmarket Golden Gate Chinese restaurant in Victoria Island, which has a very popular casino downstairs.126 The company is said to be a multi-billion dollar enterprise, but if it is, it is one that keeps silent about it. One well-informed Nigerian government official commented: 'You will find that successful companies here, like Lee, are very quiet. This is because once you are known people, and especially government officials, will come after you for money.'127

Another long-established Hong Kong Chinese manufacturing company is Wepco, which specialises in roofing sheets and furniture, growing the wood it uses for furniture on its own Nigerian plantations.128 While these companies may be the best-known Chinese manufacturers in Nigeria, there are hundreds of other smaller ones established in a multitude of sectors, according to the Nigerian Association of Chambers
of Commerce, Industry, Mines and Agriculture (NACCIMA), which has described the Chinese contribution to the Nigerian manufacturing sector as ‘immense’.129 According to the Manufacturers Association of Nigeria (MAN), most of the new international manufacturing entrants into Nigeria over the past 15 years have been Chinese, with a particular concentration in food and beverages, plastics, pharmaceuticals, steel, and cement.130

In August 2008 it was announced that a new NGN 42 billion ($0.3 billion) cement factory with an anticipated capacity of 1.5 million tonnes per year was to be built in Sokoto, as a joint venture between China’s Zhonghao Overseas Construction Engineering Company and a Nigerian company called Loratt Capital. Zhonghao owns 55% of the joint venture’s equity, and the factory is being 90% funded by Exim Bank. The company has said that all the technology for the factory will be Chinese, as will the construction and technical management, until Nigerians can be trained to take it over.131

In an even bigger deal, in early 2008 China’s Sinoma International, a subsidiary of Hong Kong-listed China National Materials Company, signed a $3.3 billion agreement with Nigeria’s powerful Dangote Group to build nine cement plants in Nigeria, the Democratic Republic of the Congo and Tanzania. But in December 2008 Sinoma and Dangote suspended five of the projects, worth around $2.5 billion, leaving four contracts worth $689.54 million. The reasons appeared to be deteriorating global economic conditions and, it has been reported, Chinese concerns at a deterioration in the security environment in Nigeria.132

A recurrent concern in Nigeria about Chinese-owned manufacturing companies has been their allegedly poor working conditions and salary levels. According to MAN in Lagos:

> There have been complaints about Chinese attitudes to labour. They take all the managerial positions for themselves. They have discouraged labour unions, but in some cases they have been forced to accept them. But then they try to fight it. This is not just limited to Chinese. Also the Lebanese and Indians pay very low wages. They are slave drivers …. But also the British in their day thought we Nigerians couldn’t do the job. But finally that began to change. So now we are seeing the same process all over again.133

The allegations have been routinely rejected by Chinese companies, which have insisted that their working conditions are no different to those of other Nigerian manufacturers. Many have also stressed that salaries for Chinese workers, both in Nigeria and China, are also low, particularly if compared to wages paid in Western-owned companies.134

In addition to the increasing presence of Chinese companies in the Nigerian manufacturing sector, there has been a growth in the number of Chinese wholesale and retail outlets nationwide, most apparently stocking exclusively Chinese produce. There are now Chinese retailers and wholesalers in all Nigeria’s major cities, and increasingly in smaller towns too, most of which seem to stock a similar selection of Chinese manufactured, inexpensive, often poor quality goods.135 Blame has been traded back and forth between the Nigerian and Chinese authorities for years regarding the issue of quality, with the former alleging China is dumping low quality products on the Nigerian market, and the latter arguing that the choice of Chinese products is dictated by Nigerian importers, who are catering for an impoverished mass consumer market.136
Commenting on the issue, one prominent Lebanese retailer in Kano observed:

I used to sell Chinese goods in my shop, but I stopped because they are so low quality. It is bad for my image. I haven’t actually seen any good quality Chinese material coming into Nigeria. The irony is that a lot of what I sell in this store actually comes from China, but it is high quality material, which we source, not from China, but from Europe. China sells higher quality material to Europe because of the standards they impose, whereas here in Nigeria, we are just a dumping ground for any kind of crap.137

One of the most significant of the more recent Chinese retail ventures in Nigeria is the Chinatown in Lagos, the country's commercial capital. This was established in 2001, initially in the city's increasingly upmarket Ikoyi area, and remained there until required to move to the far less salubrious quarter of Ojota, following complaints by Ikoyi residents. Chinatown consists of about 120 shops selling a range of Chinese manufactured goods, though mainly clothes, shoes, fashion accessories and toiletries, and a handful of Chinese medical practitioners, enclosed by high, bright red walls.138 Lagos residents have reported that up until 2007 Chinatown was extremely popular and thronged with people. However, during 2007 and 2008 there were a series of raids on Chinatown shops by the police and customs authorities, resulting in large quantities of merchandise being confiscated on suspicion of smuggling and/or counterfeiting. The raids had a decidedly negative impact on Chinatown, and trade there today, while still respectably busy, is reported to be a fraction of what it used to be.139

FREE TRADE ZONES

Nigeria's first tax-exempted export processing zone was established during Babangida's rule, in Calabar in 1993, and 10 zones are currently operational.140 The Lekki Free Trade Zone near Lagos is the first such zone where Chinese companies have a major stake. It is a 16 500 hectare area, about 60 kilometers east of central Lagos, and was identified by the Lagos State Government (LSG) in 2005. The LSG, however, 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% is held by the Chinese consortium, 20% by LWI and 20% has been left for Nigerian investors.141

The original agreement was for the Chinese consortium to provide $200 million for the LSG to provide the land, and move and compensate displaced villagers; and for Nigerian investors to stump up $67 million. The LSG had apparently been under the impression that all the Chinese consortium's money 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 $50 million in cash and kind for the project, while no money has been forthcoming from Nigerian investors. This has obliged the LSG to step in, and $67 million has been allocated to the Lekki Free Trade Zone in the state's 2009 budget.142
Because it is a state, rather than a federal initiative, LFZDC has not been hit by the reviews that have stymied other big-ticket Chinese investments in Nigeria since Yar’Adua became president. Nonetheless, the venture hit major problems in late 2008, apparently due to conflicts within the Chinese consortium. CCECC had assumed it would handle the bulk of Lekki Free Trade Zone’s construction needs, but instead another consortium member, Nanjing, appropriated more and more of the task of completing the first 1,000 hectare phase of the Lekki development. The LSG lodged a formal complaint, halting work on the project and demanding that CCECC return. The Chinese government then reportedly stepped into the fray, unilaterally restructuring the Chinese consortium in CCECC’s favour and bringing in a new investment partner, the China–Africa Development Fund. This satisfied the LSG and construction work resumed, this time carried out by CCECC, in early 2009.

The work since then has been slow going, as the land is boggy and has required extensive filling. In April 2009 Phase I was scheduled for completion in 2014. Total investment for the phase was scheduled to run to $700–800 million, with the idea being to spend the initial $267 million getting to the point where LFZDC has a bankable project for which it can seek financing. Meanwhile, in addition to LFZDC, LWI has said that it is looking to form new joint ventures to develop other parts of the site. LWI already has a joint venture with a company called Viva Methanol confusingly called the Lagos Free Trade Zone, which is to build a deep-sea port at the Lekki Free Trade Zone and create a petrochemicals hub around it. According to Viva Methanol, there is a possibility that a Chinese company will be given the tender to construct the port.

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.

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 been alleged to have waned somewhat since the disagreements of late 2008.

Nonetheless, LFZDC appears to be well under way, and the company has signed 20 MOUs with prospective investors, of whom 20–30% are Chinese. 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. In Ogun State, the Nigerian authorities have an 18% stake, and a consortium led by China’s Guangdong has the rest, as well as 100% control of management, on a 100-year concession.

As with LFZDC, the generosity of the terms offered by the Ogun authorities seems to suggest a certain lack of confidence. One Lekki insider has commented that the LSG had been far too benevolent in offering a 16,500 hectare site for just a $200 million investment, without even the stipulation that the investors’ money be injected up front. He added, however, that the LSG had known nothing about export processing zones when it had started negotiations; no other international investors had been willing to touch the project; the Chinese consortium seemed to have a refreshing approach to Nigeria’s risk
profile; while, for its part, the LSG had been hungry for Chinese expertise. Looking back, he commented:

I have learned that there is no rocket science in this; now we have seen how it all works. We know now how to run a free trade zone, and we could do it on our own without the Chinese. But even now, the funding aspect is critical. Where are we to find $1 billion? Perhaps Nigerian banks could have financed it, though it would have been hard in the recession. So, overall, China is still a blessing.  

FINANCE

The quotation that concludes the previous sector study makes reference to one of the most important competitive advantages enjoyed by Chinese companies competing for major Nigerian contracts, namely their access to apparently inexhaustible credit facilities from China’s state-owned banks. According to the country’s official figures, China has foreign reserves of $1.9 trillion, while some US researchers think that the real figure is closer to $2.3 trillion. Much of this money is used to buy US Treasury bills, but billions of dollars are made available for loans by Chinese state-owned banks to secure new contracts for Chinese MNCs. In 2008 the World Bank released a useful and informative survey of China’s growing role as a financier of infrastructure in SSA, which reported that more than 35 countries are engaging with China on infrastructure finance deals, primarily through the Exim Bank, with the biggest recipients being Nigeria, Angola, Sudan and Ethiopia. These four countries were found to receive 70% of China’s total infrastructure finance. The two main sectors China’s money has been directed towards are power and transport, followed by telecommunications. According to the study, China’s financing of infrastructure projects in Nigeria began modestly in 2004, but soared dramatically in 2006. The study noted, however (as has been examined in this paper), that nearly all the 2006 projects, worth roughly a third of China’s $15 billion African infrastructure finance total, are currently under review and face possible cancellation.

Still, as this paper has also shown, many of the projects financed by Chinese state-owned banks, and particularly the Exim Bank, have either already been completed in Nigeria or are still under way.

In addition, in April 2008 it was reported that China’s export credit agency Sinosure had agreed to guarantee up to $50 billion worth of Chinese investment in Nigeria. The offer was made during Yar’Adua’s first state visit to China. Nigerian Finance Minister Shamsuddeen Usman was quoted as saying: ‘The possibilities are endless. Which other country has made that kind of money available?’ Sinosure has offered over $113 billion in credit insurance for Chinese exports and investments since 2001, and if the Nigerian deal went through, it would be Sinosure’s largest to date. But will it go through? According to one Nigeria-based Western journalist: ‘It is easy to make promises like that, but which Chinese company is proposing to invest that kind of money? None of them.’

By mid-2009 it appeared that no new credit insurance had been issued by Sinosure for Chinese companies operating in Nigeria, and rumours were beginning to circulate that the
$50 billion credit line would instead be made available for any new African, as opposed to specifically Nigerian, investments by Chinese companies.156

Similar uncertainty surrounds a proposed $2.5 billion loan offered by the Chinese government to Nigeria in April 2008 to finance infrastructure projects, in return for the acquisition of new energy exploration rights. The terms of the loan have never been disclosed and no oil blocs have been mentioned by the Nigerian authorities. The authorities have indicated that the proposed loan terms fall within conditionality limits defined by the International Monetary Fund and that the money could be used for transport, power or telecommunications projects.157 Commenting, a Chinese official said that there had been a lot of misinformation about the loan, and that Exim Bank had only signed an MOU and not a binding contract.158 There has, however, never been any indication or report since stating that the loan agreement has been signed, suggesting that it probably has not.159 The lesson appears to be that while there is clearly significant Chinese appetite to finance Nigerian infrastructure and significant Nigerian demand for this finance, the mere signing of prestigious-looking MOUs by Chinese and Nigerian government officials in no way guarantees that the proposed loans will actually materialise.

**CONCLUSION**

The first and so far only state visit of Yar’Adua’s presidency has been to China, a fact used by the Nigerian foreign affairs minister, Ojo Maduekwe, to argue that ‘with regards to China, our policy has not changed since the last administration. [Yar’Adua’s visit] speaks volumes about the vitality and strength of Nigerian–Chinese relations.’ Maduekwe added: ‘We don’t feel it diminishes our traditional relationships if we are open to possibilities and relationships with all countries, always keeping in mind our core strategic interests.’160

Odein Ajumogobia, Nigeria’s minister of state for petroleum, has also played down the rupture in the relationship between China and Nigeria since Yar’Adua’s administration came to power. According to Ajumogobia:

> There’s a fundamental mutuality. We’ve got to develop our infrastructure for sustainable development, and the Chinese have a huge appetite for energy…. I think there’s a synergy there where we can basically offer them energy security, and they can assist us with their huge technology and capacity, and achieve our aspirations in terms of infrastructural development. The notion of ‘oil for infrastructure’ is still alive.161

Yet Maduekwe’s assertion that nothing has changed in the China–Nigeria political relationship and Ajumogobia’s that ‘oil for infrastructure’ is ‘alive’ contradicts the evidence presented in this study, which shows that in sector after sector, and particularly in the critically important oil and gas industry, most of the big deals agreed between the Obasanjo government and China have been suspended or cancelled. The Chinese government’s bid during Obasanjo’s second term of office to secure Nigerian oil assets has largely failed, with Chinese companies only retaining blocs for which they have paid in full.

If Nigeria were just any old developing world ‘ant’, the Chinese government could, conceivably, have just turned its back on it and concentrated on its relations with others. But the country has ‘superpower’ features that make it impossible to ignore: its enormous
oil reserves, to which China still wants access; a substantial appetite for new infrastructure; and a large population with growing consumer demands. So the Chinese government has changed tack, agreeing to go along with the new Nigerian government’s preferred ‘oil for cash’ approach. Sinopec, which agreed in June 2009 to pay $7.2 billion for Canada’s Addax, thereby gaining control of substantial Nigerian oil reserves, has the Chinese government as its majority shareholder.

China’s difficult experience with Nigeria’s oil sector stands in stark contrast to its far more congenial treatment at the hands of other African oil producers like Angola, Sudan and Gabon, where de facto one-party states ensure a large measure of continuity and predictability in their governments’ approach, unruffled by an electoral cycle. The Chinese government has discovered that unlike in these countries, in contemporary Nigeria the electoral cycle trumps any business deal, and that when state power is transferred via an election from one elite to another, and specifically from a southern, Christian elite to a northern, Muslim one, the spoils of state come up for renegotiation. By political convention, and if all runs according to plan with no coups to derail it, the northern Muslim elite will retain political control in Nigeria for a second term, scheduled to begin in 2011, and surrender it to a southern Christian one for an eight-year span in 2015.

It is this cycle that makes ‘oil for infrastructure’ deals of the kind that China has managed in other African countries unworkable in Nigeria. The country’s politics dictates instead, as Sinopec has accepted, that Chinese companies purchase oil assets not with offers of debt-funded infrastructure, but with cash. Chinese companies purchasing oil assets may also be wise to factor in the possibility that they may in future have to pay something extra for them, in some way or other, when the next elite assumes control of the Nigerian state and begins a new round of rent collection. It may be appropriate, therefore, to structure the successive phases of major joint ventures to coincide with this electoral cycle, so that the completion of any one phase is not disrupted by the post-election changing of the political guard.

Although the souring of Obasanjo’s ‘oil for infrastructure’ deals has significantly dented the African order books of Chinese MNCs, they are not dependent on such deals to deepen their Nigerian market penetration. Particularly in construction, power and telecommunications, Chinese MNCs have a powerful comparative advantage in Nigeria, particularly concerning price, risk appetite and, as we have seen, their access to huge credit lines. Many MNCs are, in addition, improving their quality and service all the time, thus eroding the main remaining comparative advantage enjoyed by their Western competitors. It seems inevitable, therefore, that Chinese MNCs will continue to grow their Nigerian market share. It seems highly likely too that Nigeria will continue to grow as a market for Chinese manufactured goods.

What then can the Nigerian state and private sector do to leverage greater benefit from their relationship with China? Certainly, the relationship between China’s increasingly competitive MNCs and the abundant availability of credit from Chinese state-owned banks appears to offer substantial opportunities, particularly in the public sector, where it has already delivered important results. These include the Olorunsogo and Omotosho power stations, many roads, a limited expansion of rural telephony infrastructure and growing signs of delivery too at the Lekki Free Trade Zone.
Nigerian officials who have worked closely on the Lekki project and have hands-on experience of engaging with Chinese MNCs expressed some interesting views. According to one manager:

The best advice I can give is that before you sign an agreement with them [Chinese MNCs], check the i’s are dotted and the t’s crossed. And ensure all the nitty gritty is discussed. If you don’t, things may start to go wrong. Check [that] the technical documentation is absolutely correct. This can take time but, I can assure you, it is worth it.

If you do all this thoroughly and properly, then give it a go. Take the plunge with them. Why not? The Chinese have the capacity and things can work well. But the recipient African government must be ready to absorb what the Chinese are bringing in. So build your capacity before you sign the deals.162

Many others interviewed for this study stressed the importance of building Nigerian capacity in negotiating with the Chinese government and MNCs. Part of the appeal for the Obasanjo administration, it seems, of doing business with China was that it appeared to be simple and quick, in comparison with the convoluted conditionalities involved in planning projects with Western partners. Yet, according to opposition politician and academic Pat Utomi, this encouraged Nigerian negotiators to under-prepare in their dealings with China: ‘Too often, before important meetings with the Chinese, our people would meet just two days before to discuss. Two days! It should be two or three months.’163

One official in the Nigerian Investment Promotion Commission added that there was a need for greater understanding in Nigeria of the specificities of negotiating in China. According to him:

If you know the structure of their negotiating teams, you will see that it is not so individual. It is hierarchical. So the official there cannot close the deal. The final decision will be taken by someone else. You will find that the process of getting the Chinese to come to an agreement is tedious. It’s a labyrinth, but, in the end, they come.

Nigerians should know that Chinese have a different attitude to contracts. It is hard to know at what point the contract becomes binding. It is different to the Western attitude. To the Chinese, contracts can be changed even when they are signed. Nigerians don’t understand this too well.164

In addition to improving their negotiating skills, Nigerian officials would, perhaps, do well to learn from some of the negotiating positions that the Chinese government has itself adopted towards Western companies looking to grow their presence in China. One of the key demands made of investors into China has been technology transfer, with a serious focus on building the capacity of the host country one day to produce what it was currently having to source from elsewhere. As Western companies have been forced to do in China, Chinese MNCs should be obliged to build the capacity of Nigerian sub-contractors and to work towards the manufacture of a growing proportion of their materials in Nigeria. These are developments unlikely to happen to any great degree of their own accord, but Chinese MNCs would be quite capable of delivering them if they were required to do so.
Nigerian negotiators could also take a tougher line with Chinese banks concerning loan concessionalities. Returns on Chinese capital from US securities have declined substantially since 2008, and there seems to be no good reason why the margin between these returns and those on their loans for African infrastructure should be so high.

The roller-coaster treatment accorded to Chinese MNCs in Nigeria in recent years, from the high of successive multi-billion dollar deals during the Obasanjo years, apparently promising China new oil reserves and new markets, to the low of reviews, cancellations, and accusations of corruption and breaches of contract, and, with the latest Sinopec deal, the prospect of new future highs, has provided the Chinese government and MNCs with invaluable experience of how Nigeria’s economic and political system really works. As one Western diplomat put it:

Obasanjo made a lot of promises. But even if the current administration hadn’t opted to review all these deals, I still think the Chinese would have come unstuck. They wanted deals that would work and thought [that] they could get things done, but didn’t get the complexities of it all. Here, the signature on the contract is only 10% of the issue. You need a Nigerian partner. The Chinese insisted on doing it all alone. But Nigeria is too complex for that.165

Such is the entrenched dysfunction of the Nigerian state, born of its fate as the arena within which northern and southern political elites compete and take turns to feast, there is a certain pointlessness to well-meaning suggestions for reform contained in papers such as this. Yet it remains the case that if Nigerian public and private sector players doing business with the Chinese elephant could improve their negotiating skills and be more ambitious about their negotiating positions, making better use of Nigeria’s ‘superpower’ qualities to minimise the drawbacks of its antlike ones, the future of Nigeria–China relations could be brighter and more beneficial for Nigeria than their past.

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