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CHINA`S INCREASING INTEREST IN AFRICA: CASE STUDY OF NIGERIA

O CRESCENTE INTERESSE DA CHINA NA ÁFRICA: UM ESTUDO DE CASO DA NIGÉRIA

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Resumo

O artigo foca no crescente interesse da China na África: estudo de caso da Nigéria. Basicamente, o artigo concentra-se no Investimento Estrangeiro Direto da China na Nigéria, particularmente na esfera da agricultura, telecomunicações, infraestrutura e zonas de livre comércio. A pesquisa do estudo de caso levanta algumas questões de pesquisa. Ambos os lados se beneficiariam com a cooperação econômica ou apenas a China teria a vantagem? Quais são as principais oportunidades e desafios do impacto social e econômico dos investimentos chineses na Nigéria? A análise é realizada com base em estudo de caso. O estudo é baseado em diferentes tipos de dados provenientes de materiais documentados sobre as relações China-Nigéria, dados estatísticos oficiais, artigos, jornais, relatórios e entrevistas com acadêmicos neste campo. Além dessas fontes, foram consideradas informações de fontes secundárias, como monografias e artigos acadêmicos.

Palavras-chave: Investimento estrangeiro. China. África. Petróleo. Infraestrutura.

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Abstract

The article focuses on China's Increasing Interest in Africa: Case Study of Nigeria. Basically, the article is concentrated on the China's Foreign Direct Investment in Nigeria particularly in the sphere of agriculture, telecommunications, infrastructure and free trade zones. The case study research raises a few research questions. Would both sides benefit from the economic cooperation or would only China maybe have the upper hand? What are the main opportunities and challenges of social and economic impact of Chinese investments in Nigeria? The analysis is conducted on the basis of case study. The study is based on different kinds of data sourced from documented materials on China-Nigeria relations, official statistical data, articles, newspapers, reports and interviews with scholars in this field. Besides these sources, information from secondary sources like monographs and academic articles was taken into consideration.

Keywords: Foreign investment. China. Africa. Petroleum. Infrastructure.

China's Increasing Interest In Africa: Case Study Of Nigeria

China's deepening integration into the global economy and emergence as an economic power has seen its influence expand in Africa, reshaping political and economic relationships on the continent. China has a long history of political links in Africa, but the relatively recent growth of China's economic and security links in the region pose both challenges and opportunities that will require complex and sensitive diplomatic efforts to ensure that the interests of China, the United States, the European Union and African nations are all protected, and that a regional and global environment that promotes stability and economic growth is fostered (Thompson, 2005: 20-29).

The purpose of the particular case study is to examine the nature of Chinese investments in Nigeria and to understand how this influences economic, political and social development in the country. The study also seeks to provide the recommendations on improvement of policies to impact on social and economic development in Nigeria.

In order to conduct the case study, different kinds of data were sourced from documented materials on China-Nigeria relations, statistical graphics, articles, newspapers and various reports. Interviews were also conducted with scholars in this field, workers and representatives.

China's emerging involvement in Africa

The Chinese emerging involvement in the African continent raises a lot of question of whether or not collaboration is beneficial for African countries and their long-term goals. There is an equal bilateral relationship as between China and Africa that developing in such fast way, or impacts more people that one between China and Nigeria. China being the Asian giant going global meets the African giant who aims to become one of the world's top 20 economies.

By and large, China has the same reasons to engage in Africa as do other major foreign actors. Beijing needs African oil to diversify its energy imports in order to safeguard the sound development of its economy, and requires other natural resources to sustain manufacturing capabilities. Chinese companies, similar to their European and American counterparts, also see promising opportunities in catering to African markets. But their respective strategies naturally differ on many accounts.

Similar to any other international actors China's engagement in Africa is mainly motivated by its demand for natural resources and new markets. Beijing's activities on the continent have transformed from being purely politically and ideologically motivated into being highly affected by its economic development goals. But their respective strategies naturally differ on many accounts.

While the EU's strategy in Africa is also driven by ambitions to improve governance, tackle climate change and foster open and competitive energy markets, China is reluctant to become involved in politics and issues that it regards as sensitive. This non-interference principle deprives China of the right to deny any form of economic cooperation with potentially undemocratic governments (Hellström, 2009: 3-4).

The more China extends itself around the globe, the heavier the burden will be. While the country has deep pockets, there are economic and financial challenges at home, and if things go belly up domestically it could put strains on President Xi Jinping's ambitions. As the Chinese general Sun Tzu wrote in "The Art of War" two and a half millennia ago, "first count the cost" (Champion Leung, 2018).

As China is making symbolically clear through its high level visits and forums, it values its economic and diplomatic relations with different African countries. Trade is growing rapidly, and its composition is important – Africa now supplies 28% of China's imported oil and gas (Eisenman, Kurlantzick, 2006: 219-224).

China's economy has grown by double digits in recent years, boosted by social and economic reforms, foreign investment and a gradual opening of its banking sector. This development has forced Beijing to go abroad in search for oil, minerals and other resources. In order to secure and sustain this growth, and provide for the rising living standards and increased consumption demanded by its population, modern China needs global markets, suppliers and investment outlets, including in Africa. China is also seeking diplomatic allies, not just for its long-standing rivalry within the Republic of China, but as it engages with the processes of greater international political and economic integration. Having said this, given the widespread tendency to refer to 'the Chinese' in relation to Africa, it is worth pointing out that Chinese actors are of course diverse with at times competing and contradictory interests (Haugen, 2006).

China's investments in Africa, and trade with the continent, are growing at a breakneck pace. Between 1990 and 2006, its foreign direct investment stock grew from less than \$50 million to \$2.6 billion, according to official data (Besada, Hany, 2008: 2). Overall trade between China and African countries grew five-fold between 2000 and 2006, and passed \$100 billion in 2008. This reflects a ten-fold increase in bilateral trade in less than a decade (Wen, 2007). Sino-African trade is dominated by Chinese demand for natural resources. Four commodities – oil, iron, wood and diamonds – account for 80 percent of Africa's exports to China (Pillay, Nehru, Davies, Martyn, 2008).

Africa provides China with about one-third of its oil imports and Angola has become its largest supplier of crude oil. Arguably, due to the rapid increase of Chinese investment and trade interests in Africa, Beijing is now more dependent than ever before on stability on the continent and good relations with African governments. China continues to be an important donor to African countries, and its development aid to the continent has grown ostensibly (Hellström, 2009: 9).

Chinese companies present in Africa range from oil and mineral exploration firms to makers of textiles and household commodities. Beijing stepped up its efforts both to expand its oil imports and to diversify its oil suppliers. Moreover, China has increased its oil imports from Africa and has augmented the number of its African suppliers. In 2004, the country was reported to have oil stakes in as many as 11 African states (*Africa Energy*, 2004: 12-19). In January 2006, China's top offshore oil producer, CNOOC, agreed to pay \$2.3 billion for a 45% stake in a Nigerian oil and gas field, its largest-ever overseas acquisition (*Wall Street Journal*, 2006).

China's leading telecommunications companies have significant interests on the continent: Huawei Technologies is active in 16 African countries and ZTE Corporation has sales offices in more than 30 capitals on the continent. Almost three-quarters of China's accumulated outward foreign direct investment (FDI) in Africa is concentrated in ten

countries, with five resource-rich nations at the top: Sudan, Zambia, Algeria, Nigeria and South Africa (*Ministry of Commerce of China, 2006*).

Chinese investments in Nigeria

Nigeria is considered to be a country with the economy for potential growth, moreover, the natural resources and population makes it an attractive place for foreign investors. During the last decade, the country continues to witness the unexpected emergence of Chinese companies, many of them are largely in the manufacturing and construction sectors.

Nigeria is a democratic country with a Presidential system of Government under Federal arrangements of three tiers of Government: Federal, State and Local Government Areas. In 1960 Nigeria gained independence from Great Britain but despite numerous anti-poverty plans carried out in the country, the development aspirations have not been achieved, as more than 54% of the population living on \$1 per day.

The self-enrichment of Nigeria began after the discovery of oil in the late 1950s that came together with neglecting of other striving sectors of the economy like manufacturing and agriculture. According to the article of Emeka Esogbue about oil in Nigeria, “The discovery of oil in Nigeria came with corruption, corruption with mismanagement, mismanagement with marginalization and marginalization with agitations” (*Library of Congress, 2008*). This is the true perspective as 80% of the total revenue from oil goes to the government officials, 16% just to cover the cost of operation. However, from the 80% that is for the government, only 1% goes to the people as the result of corruption. Corruption has resulted in the large-scale mismanagement of public funds, which has led to the collapse of the infrastructural and social service base.

In addition, it is important to stress out that Chinese traders put an eye on Nigeria dating back from the 1960s, but the signing of the Joint Communiqué on the establishment of Diplomatic Relations happened just in 1971 (*Embassy of China in Nigeria, 2004*). Chinese relations with Nigeria have been smooth and steady, as both countries have supported and cooperated with each other on numerous cases on the international arena.

The next three decades, diplomatic relations between Asia and Africa haven't produced significant economic results. At the same time when China was transforming into an economic power, the 80s and 90s for Nigeria were marked by series of military coups. The economic relations began to develop steadily after the return of democratic rule in Nigeria. The election of Olusegun Obasanjo's in the late 90s went together with the start of changing Chinese policy direction toward Africa in 2000.

In 2001, the two countries signed numerous agreements on the establishment of a Nigeria Trade office in China and a China Investment Development and Trade Promotion Center in Nigeria. According to McKinsey, in the 90s, half of all African trade was with Western Europe, and Asia accounted for only a seventh. By 2008, Asia has doubled, while Western Europe had shrunk to equal. In 2009, China overtook the US as Africa's biggest trading partner, China-Africa trade surpassed \$220 billion of dollars in 2014, up from about \$10 billion at the turn of the century (Leke, Lund, Roxburgh, Wamelen, 2010). And in 2014 China was Nigeria's biggest national trading partner, accounting for 12% of Nigeria's total trade, second only to the European Union and ahead of India, Brazil and United States.

In 2006, the two governments signed a memorandum of understanding on the establishment of a strategic partnership. Furthermore, China's keen interest in securing a steady supply of fuel for its rapidly expanding economy is petrol sector which is the center of investment strategy. Nigerian officials also made some predictions that petroleum, power, telecommunications and manufacturing would be the main sectors for investments.

China pointed out quite a clear strategy towards Nigeria. The Ministry of Commerce of China identified that the main aims of the government's policy towards Nigeria are increasing the presence of Chinese multinational corporations, expanding the Nigerian

market for Chinese manufactured goods, strengthening the presence of China in Nigeria's gas and oil sectors, and leveraging its investments as a gateway for entering the ECOWAS market (Rigo, 2014: 83).

The approach of Nigeria's President Obasanjo towards China in the direction of "oil for infrastructure" consisted of awarding oil contracts on good terms in exchange for China's commitment to deliver key infrastructure projects. According to Gregory Mthembu-Salter, Obasanjo's decision reflected Nigeria's need for improved infrastructure and growing frustration with the conditionality associated with Western aid.

In 2010 Goodluck Jonathan assumed the presidency and the relationship began to rebound and China declared its new plan for a strategic partnership with Nigeria, following political equality, mutual trust and economic win-win cooperation. The main key objectives of such plan were to enhance political mutual trust, to promote strategic cooperation in the areas of agriculture, oil, electricity, and telecommunications, strengthen co-operation in international affairs, to promote world peace, enhance coordination and human rights.

The productive cooperation between the two countries has resulted in the signing of a number of agreements on trade, protection of investments, mutual support and friendship. For example, taking into account the investment deal in July 2005 China and Nigeria signed a crude oil sale deal worth \$800 million between China International Petroleum and Nigerian National Petroleum Corporation. China's offshore oil producer CNOOC agreed to part with \$2.3 billion for a stake in Nigeria's oil and gas field (*China Daily*, 2007). In 2010 Memorandum of Understanding on peace and cooperation was also one of the important documents signed between China and Nigeria.

In the beginning of their cooperation, Chinese involvement in Nigeria was driven by natural resources, but since that period China's involvement in Nigeria has since expanded far beyond oil. China's public and private companies are developing special economic zones within Nigeria and are building new roads, railways and also airports across the country. China is helping low-income countries to cooperate in order to help them reach their aims in further development.

China's cooperation with Nigeria bringing both countries economic boost, but only a few stumbling blocks could impede progress. Nigerian people are constantly expressing dissatisfaction with the labor practices by Chinese companies, and cheap imported goods that impact national producers. If not taking into account the attributions of responsibility for smuggled goods the two countries still continue to have friendly relations and good will.

Foreign direct investment flow to Nigeria

Nigeria has been one of the few African countries that benefited from Foreign Direct Investments to Africa on a rather significant level. The percentage that Nigeria had in Africa's total FDI in 1990 was over 24% but this amount fell down to 21.07% in 1995. In 2001 the FDI lowered to 5.88% but rose up the next year to 11.65%. The data from United Nation Conference on Trade and Development (UNCTAD) shows that Nigeria was Africa's second FDI recipient after Angola in 2002. From 2004 up to 2007 Nigeria received an impressive amount of investment up to \$13, 956 million in 2006. Following the 2009 Foreign Direct investment flows to Nigeria decreased steadily from \$11.5 billion to \$4 billion in 2015. (UNCTAD, *World Investment Report*, 2009).

From less than \$2 billion in 2000, trade between China and Nigeria reached nearly \$18 billion just ten years later. Between 2003 and 2009, Nigeria was a top destination for Chinese Foreign Direct Investment on the continent, second only to South Africa.

Chinese FDI stocks in Nigeria totaled \$1.03 billion in the period, while FDI stocks for the continent were \$9.3 billion. China's interest in Nigeria is due to energy reserves and a huge domestic market of 150 million inhabitants with growing disposable income. The biggest part of incentive is in China's own successful economic transformation and its capacity to deliver and finance large infrastructure projects in Nigeria.

Chinese investments are concentrated in the oil industry, manufacturing, construction and telecommunication. A study for the African Economic Research Consortium reports that China has established more than 30 solely-owned or joint-venture companies in the construction, oil and gas, services and education sectors of the Nigerian economy (Olugboyega, Oyerantin, 2010). It is an important fact that FDI from Chinese private investors concentrated mainly in the agro-allied industries, manufacturing and communications, contrary to the public Chinese FDI which is directed to natural resources and infrastructure.

The Standard Bank Group Ltd has predicted that Chinese investments in Africa will reach \$50 billion by 2015 and partly it was right. The inward stocks investment to Nigeria increased quite fast from \$23,786 million in 2000 up to \$89,735 in 2015. China's head of mining and metals, George Fang once mentioned that Chinese investments in infrastructure are preparing the groundwork for economic advancement on the continent. This action is supposed to convert the investment into viable while leaving a future economic legacy for African countries.

The Chinese government and businessmen responded to the call for investment opportunities in Nigeria, they have also made positive contributions to the country. It is also a well-known fact that Nigeria's military has benefited from China's technical assistance in the areas of training and hardware supply. China made assistance in the health sector in the "Roll-Back Malaria" programme by providing drugs and mosquitoes treated nets and trained medical personnel estimated at \$3.4 million in 2002.

In 2006 in order to support infrastructure in Nigeria, a Memorandum of Understanding was signed between Nigeria's Ministry of Science and Technology and Huawei Technologies to provide national information communication technology infrastructure. In order to improve education, the government of China has sponsored the training of Nigerian University staff in the learning of Chinese language as one of the means to further more effective cooperation and transaction relations with Nigeria.

Looking beyond the oil

China has been looking to diversify its sources of oil to reduce its dependence on the Middle East. African countries accounted for almost 1/3 of China's total oil imports over the last decade. Moreover, its entry into the Nigerian oil market has not been without complications (Wong, 2009). The former President Olusegun Obasanjo launched an initiative to entice China and other Asian countries in order to acquire oil blocks. He made a proposal to the Right of the First Refusal on oil blocks at discounted rates in exchange for their commitment to invest in downstream and in infrastructure projects. The first bidding round for oil licenses was organized in 2005 with 77 blocks on offer and after failing in completing the oil-for-infrastructure deals in 2005, the Nigerian government held a "mini-round" in 2006 created only for "serious downstream investors". Chinese actors acquired not just bidding rounds but also a few additional assets during Obasanjo's tenure.

In May 2006 the oil bloc bidding round was held and China's National Petroleum Commission (CNPC) was awarded four oil blocs and two oil production licenses in return for commitment to invest \$2 billion to rehabilitate Kaduna's struggling refinery, all this in order to secure their confidence in the Nigerian oil industry (Mthembu-Salter, 2013). Another bidding round in 2007 when 45 oil blocs were on offer, with 24 pre-assigned to 12 companies on Right of First Refusal. The CNPC together with China National Offshore Corporation were given oil bloc in return for a \$2.5 billion loan from China's Export and Import Bank and investment in the Kaduna refinery respectively. This loan from China Exim Bank was supposed to be used for the reconstruction of the Lagos-Kano railway and construction of a hydroelectric power station in Mambila.

During Obasanjo administration, Chinese companies also have acquired other oil assets outside the bidding round and all these were performed by the administration that was seeking to gain the Chinese confidence. For example, Sinopec taking a 29% stake in bloc 2 of the Nigeria-SaoTome Joint Development Zone and CNOOC's paying \$2.3 billion for a 45% in an oil mining license in the lucrative Akpo offshore field, both in 2006.

In May 2007, Yar'Adua became the President of Nigeria and also the foreign policy resulted in significant changes for Nigeria after his inauguration. This change of government greatly affected China-Africa investment relations. Due to the policy of the new President, the practical price of oil at the market benchmark was established and the oil-for-infrastructure projects were cancelled. These changes, however, didn't decrease Chinese investments in the oil sector in Nigeria. China's Sinopec's buying of Canada's Addax Petroleum for \$7.22 billion, Addax is one of the largest independent Oil producers in West Africa with extensive on and offshore operations in Nigeria. China expressed her desire to acquire a large number of oil and gas assets, which is estimated by scientists to contain 6 billion barrels of oil reserves.

In 2010, Nigerian National Petroleum Corporation (NNPC) signed a \$28.5 billion MoU with the CSCEC for the construction of additional Greenfield refineries and a petrochemical Plant in Nigeria. According to the agreement, 80% of the projects' cost was to be funded with a term loan provided by China Insurance Corporation and consortium of Chinese banks and only 20% contribution from Nigerian Petroleum Corporation.

On the other hand, while it could be said that all the development opportunities remain as long as Chinese investments in Nigeria continues, not all the Chinese investments are beneficial to the Nigerian economy. Findings have shown different challenges of Sino-Nigerian investment relations, especially Chinese investments in Nigeria. Some of these problems include the unidirectional character of Chinese-Nigerian relations; concentration of Chinese investments in oil and mineral resources; low level of technology transfer; inferior goods from China; and discouraging of local creativity for manufacturing.

As a result, Asian multinational oil companies gaining access to high-potential oil assets but failing to deliver on the promised infrastructure projects. With contracts cancelled or suspended, much of the headway Chinese oil companies had made into the Nigerian oil market was swiftly overturned. According to a Chatman House report, Nigeria lost up to \$10 billion in failed oil deals with Asian countries (Vines, 2009). Moreover, oil-for-infrastructure deals were not positive to Nigeria as the Asian oil companies only offered to cover the expenses for infrastructure projects partly, through government-to-government loans.

Infrastructure and telecommunication

Nigeria's underdeveloped infrastructure is considered as one of the major impediments to economic development and governments have vowed to rectify the situation. During the Obasanjo era, Nigeria became strongly involved in the infrastructure improvements through oil-to-infrastructure deals. Even though most of these projects were cancelled, Chinese companies are currently at work on construction ventures across Nigeria.

Chinese companies have built and are still in the process of building power plants in Ogun, Ondo, Kogi and Enugu States. The China Civil Engineering Construction Corporation, the biggest Chinese construction company in Nigeria, has more than 50 projects underway and has invested more than \$10 billion in the country. One of the biggest projects is \$850 million railway which is linking the capital Abuja with the northern city of Kaduna. One more important player in the construction sphere is China Geo-Engineering Corporation that started out digging boreholes in the 1980s and quickly moved on to larger projects. The biggest branch of this Corporation is in Nigeria, employing more than 200 Chinese staff.

The impact of Chinese investments in Nigeria's Telecommunication is hard to underestimate. Nigeria is one of the top countries for receiving Chinese investments in

telecommunication sphere. Some of the leading telecommunication giants of China are present in Nigeria such as a multi-national telecommunication company Zhong Xing Telecommunication Equipment Company, Huawei, “Star Time” and another Chinese-owned TV operator has just opened in Nigeria.

Recently, “Star Time”, a Chinese Television cable network increasingly began to penetrate into the Nigerian market. The “Star Time”, according to the conclusion of the marketing director of the Communication firm, has invested about \$70 million in Nigeria since 2009 (*Business Day*, 2011). “Star Times” has revealed its partnership with the Nigerian television as Nigeria itself plans to meet the 2015 deadline set by International telecommunication union for digital TV transition. Moreover, cell phones manufacturing outfit that are to employ local labor is non-existent, so practically Nigerians are short-changed at all expenses of the Chinese.

Zhong Xing Telecommunication Equipment Company and Huawei have won major contracts from Nigeria`s main telecommunication operators (Egbula, Zheng, 2011). Huawei`s officials said its prices were 5% to 15 % lower than those of its chief international competitors, Nokia and Ericsson. ZTE`s prices are said to be 30% to 40 % lower than European telecommunication companies.

In 2005, ZTE won a contract with Nigeria`s main telecommunications operator, Nitel, to expand the country`s CDMA wireless communications network across seven north-eastern states. In 2010, the government of Nigeria awarded ZTE a \$400 million contract to build a national security communications system, and the financing will be provided by Exim Bank of China.

Huawei is the main rival of ZTE in China and Nigeria. In 2004 Huawei secured a \$80 million contract to provide GSM network equipment to Nigeria`s V-mobile. In 2010 the company partnered with MTN Nigeria in a \$40 million project to bring telephonic services to hundreds of rural communities. The company said it has invested \$10 million in the Huawei`s Technology Support Center in Abuja and Training Center for Western Africa, as the proof of its commitment in order to develop local expertise for the telecommunication industry.

Investments in agricultural sector

Apart from Chinese investment in the oil and gas sector, it is important to note that Foreign Direct Investment from Chinese private investors are concentrated in agricultural business, manufacturing and communications (Egbula, Zheng, 2011). Huge land acquisitions from foreign investors have recently raised concern both for the rights of traditional landowners and also for the ability of local farmers to compete. Moreover, these fears may be overstated concerning the case of Nigeria. Chinese investors are making steps into Nigeria`s agriculture sector and also acquiring land, but generally in the way of the relatively small-scale purchases of farmland.

Chinese investment has also created a lot of local job opportunities and bolstering the agricultural sector, which suffers from the lack of funding. China`s Seed Corporation contracts local farmers to cultivate Chinese hybrid rice seeds on a 300-hectare farm, marketing half of the harvest locally and exporting the rest to China. In Nigeria and other African countries, the land is rarely sold out, but Chinese firms have found another way to approach African land, in order to gain access to land indirectly they conclude infrastructure deals and other construction projects.

Taking into account the agricultural sector, China great success in ensuring food sufficiency for its over 1 billion population, through agricultural development, was exactly what President Obasanjo tried to seek the cooperation of the Chinese investors in the development of Nigeria`s agricultural sector. The former President did it in order to diversify the economy and reduce the country`s over-dependence on petroleum oil which was the major source of the Nigeria`s foreign exchange.

The period from 1999 to 2011 has witnessed a tremendous growth in China-Nigeria bilateral relations, during which China's investments in Nigeria's agricultural sector blossomed. Moreover, despite efforts by the Chinese investors to invest in Nigeria's agricultural sector, the sector performed below expectation. The factor responsible for this was the inability of the Nigerian government in presenting the agricultural sector in a more attractive way to the Chinese investors. For example, it was the domestic investment in the oil and gas sector that made it so extremely attractive to the Chinese investors who have been investing tremendously in this sector.

That's why in order to receive an increasing boost of foreign investments, the government of Nigeria should develop agricultural sector by investing more and make it more attractive to foreign and local investors. It is important for the Nigerian government to learn some lessons from Chinese agricultural development model which is quite impressive. During the last years, the government of China has implemented policies aimed at giving an increase in investments in the agricultural sector in order to ensure food sufficiency for its large population. Chinese strategy in agriculture is a lesson to Nigeria to learn how to harness their plentiful human and natural resources for the growth in the agricultural sector which will, in turn, give a boost to the national economy and also help to improve food sufficiency.

Nigeria can cooperate with China in many ways, each year increasing agricultural productivity. It is important to focus on agriculture in order to improve the welfare of Nigerian rural populations, who despite rapid urbanization continue to be economically and politically significant. Moreover, its demand for agricultural products is high, China's foreign trade and investment in agriculture is relatively low, and Chinese provision of economic technical cooperation is much needed given the withdrawal of Nigerian traditional donors from the sector.

Nigeria is in need for Chinese technical assistance programs and enhancing technologies and support to farmers as China did during its food insecurity period. Chinese experience in agricultural research and some policies for rapid development and advanced management that would be for practical reasons for Nigeria's agricultural producers. The Chinese contribution to the development of Nigeria's agriculture should focus on deepening the understanding in Nigeria of China's own framework for agricultural development, technical and financial support (Gubak, Maiwada, 2015).

Investments in free trade zones

During the past years, China has accumulated a wealth of experience and success using Special Economic Zones to promote industrial process and increase foreign investment flow. China currently operates at least 100 SEZs on its own shores, some of which are specialized in areas such as technology or trade. Export Processing Zones and Free Trade Zones have been part of Nigeria's development strategy to increase industrialization, create new jobs and attract FDI since the early 1990s. The zones in Nigeria are regulated and also licensed by the Nigerian Export Processing Zones Authority established in 1992 under the Federal Ministry of Commerce

The development of Lekki and Ogun Free Trade Zones gave Chinese investors control of 165 square kilometers of prime, waterfront real estate in Lagos State and 100 square kilometers in Ogun. The free trade zone plots were transferred under a 99-year leasehold arrangement. Not taking into account receiving compensation, villagers displaced by zones have complained bitterly and some Nigerians have condemned the projects as a "land grab" by foreigners (*Sahara Reports*, 2010).

The Lekki Free Trade Zone occupies a total of 165 square kilometers on the Lekki peninsula, which is about 60 kilometers southeast of Nigeria's economic center. The zone is administrated through a joint venture between the Lagos State government; Lekki Worldwide Investments, a private company established by the Lagos State government; a

China-Africa Lekki Investment Ltd., and a consortium of four Chinese enterprises that includes the China-Africa Development Fund.

The Chinese consortium assumes 60% ownership and the Lagos State government and LWI each hold 20% of equity. Initially, the Chinese investors were to provide \$200 million in funding, while LWI was to inject an additional \$67 million. The State government of Lagos was responsible for providing land and infrastructure as well as relocating and compensating villagers by the project.

The authority to declare a new Free Trade Zone lies exclusively with the President of Nigeria. The Nigerian Export Processing Zones Authority established in 1992 under the Federal Ministry of Commerce. In 1996, the Oil and Gas Free Zone Authority was created and given regulatory authority over all oil and gas related industrial zones and over all oil and gas activities in EPZs and FTZs.

It is necessary to stress out that China's Special Economic Zones in Africa are the means for China to showcase the effectiveness of its development model to share its experience with friendly nations. China is always in a good position thanks to the relocation of labor force, low-tech businesses such as textiles and building materials overseas open up space for Chinese own transformation in economy.

The Lekki and Ogun free trade zones offer promising opportunities for Chinese and other investors eager to be closer to raw materials sources and to important markets in Africa, USA and Europe. From one side free trade zones create new job opportunities and transfer skills and technology and from the other side the zones mainly serve Chinese interests and without greater engagement with local industry, they will contribute little to the achievement of Nigeria's development objectives.

Social and economic impact of chinese investments in Nigeria

Will Chinese unconditional aid, trade and corporate social responsibility help reduce Nigerian poverty and drive Nigerian economy to the higher level? There are several key sets of variables that, if achieve positive consequences have the potential to drive sustainable economic growth and help to evaluate Nigeria's future perspectives. In order to achieve sustainable growth and economic development, demonstrable progress must be achieved in the areas of policy choices, institutions, human capital, entrepreneurial activity, cultural dimension and leadership (Utomi, 1998).

Interviews with a wide array of scientists suggest that Nigerian local and national officials, are not setting policies that will have the strongest possible impact on Nigeria's long-term economic goals. At the same time while many of current policies are likely to benefit Nigeria and contribute to economic development in specific areas, the strategies are neglecting essential long-term needs, important segments of the population and the targeting of the important segments leading to a stronger economic situation. Moreover, development models suggest that a strong middle class is the backbone of growth and the government has not focused its attention on providing the basic need for a much bigger part of the population.

Another component for achieving economic growth and sustainable development is human capital development. Human capital strengthens adaptability and appropriate allocation of resources in society and also improves the ability of agents to adapt to changes and respond to new opportunities (Schultz, 1975: 827-46).

Thus, various investment agreements signed between Nigeria and China cover the aspect of human capital development but the evidence has shown that many of the Chinese investors devote little or no articles at all for the development of human capital. Some Chinese companies have been accused of bringing into the country finished goods and equipment together with Chinese expatriates, thus starving the country of the necessary technology.

The case study also suggests that on human capital development, language barriers and cultural differences weigh heavily against the transfer of the technological skills and education from Chinese to Nigerian citizens. As cheap Chinese labor is often used, huge industrial projects very rarely transfer skills to local African population.

Within the domain of south-south cooperation, Nigeria-China trade and investment relations are hinged on reciprocity, mutual benefit and common development. That's why, China quest for raw materials and markets has found support in Nigeria, which wants investment, new skills and the transfer of technology to strengthen its development which could make the relationship beneficial for both sides (*Nigeria First*, 2006).

In order to conduct a full spectrum analysis of the socio-economic impact of investments in Nigeria, it is necessary to factor the Nigerian business environment that make local products less competitive as these issues drive up costs of production. Of all the components that lead to sustained economic growth, one can argue the strong degree of progress that has been made in the development of Nigerian entrepreneurs. Some Nigerian businessmen have learned to export successfully using Chinese models and have profited by partnering in joint ventures with the China's entrepreneurs.

Entrepreneurship is the ability to adjust or reallocate resources in response to changing circumstances. As such, entrepreneurship is an aspect of all human behavior, not a unique function performed by a class of specialists. "No matter what part of the economy is being investigated, we observe that people are consciously reallocating their resources in response to changes in economic conditions" (Schultz, 1979: 2). Businessmen, farmers, housewives, students and even university presidents, deans and research directors make Schultz's list of entrepreneurs.

Schultz conceives entrepreneurial ability as a form of human capital. Like other forms of human capital, this ability can be increased through education, training, and experience, health care and so on. While education and other human-capital investments also lead to improvements in technical efficiency, Schultz argues that efficiency improvements cannot account for all of the effects of education on economic performance during periods of modernization.

Taking into account that there a lot of closure of many enterprises which faced a high cost of production in the country, resulting in increased unemployment, investments of the Chinese and indeed other foreign investors are highly appreciated in Nigeria's economy.

Another important factor that stimulates economic growth in Nigeria is leadership. Nigeria's elite officials have made China's engagement a priority, but the strongest leadership has been observed on the Chinese side. African leaders have dictated to the Chinese which development projects they would like to undertake, but the absence of true leaders who are willing to stand up and articulate a long-term development strategy that appropriately addresses the needs of the majority of Nigerian citizens remain a key challenge.

Another factor that influences economic development in Nigeria is various bureaucratic obstacles and lack of strong institutions that led to constrained progress in such areas as technology transfer, agriculture and infrastructure. Some Chinese companies are involved in the manufacturing and infrastructure development sectors of the economy and their activity has positively impacted on the country's industrial base.

The loss of revenue for local industries is another factor. Unlike the Chinese manufacturers who have easier access to loan facilities, lower cost of production and reduced import tariffs, the local firms operate under unfavorable conditions, with inadequate infrastructure and social facilities, high interest on loan facilities and high costs of production being the order of the day. As a result, domestic production cannot compete with the imported goods resulting in the loss of domestic market and revenue.

Kaplinsky considered that Chinese investments are impacting Africa in two ways. The first one is the competition in the internal market for domestic manufacturers; the second

one is competition in external markets from export-oriented industry (Kaplinsky, McCormick, Morris, 2007). Another aspect of China's trade pattern in the country is the shifting trends from manufacturing to trading and a higher volume of trading by the flood of cheap Chinese wholesale and retail shops used to establish its networks to sell goods (Alden, 2005: 147-164). With the cheaper prices of Chinese goods, low-income households can now afford to own luxury products like electronic gadgets and make purchasing of clothing, but in the long term, the citizens do not benefit from the quality of this kind of clothes.

Unemployment is one more pressing problem in Nigeria. The National Bureau of Statistics puts the unemployment rate at 19.7%, but many scientists believe this is a gross underestimation (*National Bureau of Statistics*, 2016). Doesn't matter what the actual figure will be, the need for jobs is a constant topic among officials and ordinary Nigerians who would like to see foreign investment lead to job creation. According to the Chinese government, Chinese companies operating in Nigeria and other countries imports over 30.000 Chinese to work in the third countries, the job markets were negatively affected by employment opportunities for the locals becomes very limited. But these pales in comparison to the 350.000 manufacturing jobs that labor union said have been lost because of Chinese imports. For example, the use of Chinese labor, rather than local workers in Chinese sponsored projects in Ethiopia, Sudan and Namibia has been criticized locally. With the flow of goods from China, conflict over labor practice and market strategies are turning out to be an important issue (Anshan, 2007: 69-93).

Still not taking into account unemployment rate of Nigeria, there was a lot of jobs created as a result of Chinese investors setting up business in Nigeria. There have been investments in the construction, manufacturing, agricultural and infrastructural sectors of the country, which had led to a number of Nigerians gaining a job. However, there is no official available data, which demonstrates the exact number of Nigerians employed in these companies.

Taking into account the construction industry that also witnessed a significant involvement by the Chinese, has also some positive effects on Nigeria's economy. In order to boost socio-economic activities and operations governments at local, states and federal level devoted more energy and resources to the infrastructural sector development. Most of the attention was devoted to rail, road and power plants as for example the Rivers state government is part of a joint venture project to build a 125km six-lane road in Port Harcourt.

At the same time, Chinese firms have been quite successful in securing contracts but the manner in which they are secured has been a concern to the industrial unions. In a communiqué by the National Union of Civil Engineering Construction, an affiliate of the Nigerian Labor Congress and the International Building Workers Federation, workers' rights neither were represented properly nor did the Chinese companies paid the promised wages. Chinese construction firms have been accused of the delivering poor quality work in comparison with other multinational companies, like Berger Construction Company and Gitto Construction.

It is necessary to question whether Chinese investment in Africa is a threat to African countries or it is a gain? To answer this question, it is necessary to look at what Western partners had done and what they are currently doing. Granted that the West has provided a significant amount of aid, increased Chinese aid to Africa pales in comparison to what the West had offered Africa as Overseas Development Assistance. However, several billions of dollars offered for the past decades ought to have positively changed the face of Africa. But the vote of Western development partners is in favour for sectors that are critical to Africa economic development. This has contributed to making Africa to record 5.8% economic growth in 2007, its highest ever (Hanson, 2008).

It is important to recognize that Chinese government imposes no political conditions on African government before signing contracts for exploitation or other economic activities. Chinese firms are willing to invest in Nigeria where western companies are unwilling.

Western investors are unwilling to invest in the areas that are of crucial importance for Africa such as physical infrastructure, industry and agriculture. Moreover, China is in need of infrastructure of all types and funding of \$20 billion per annum required in infrastructure investment is laborious (*The China in Africa Toolkit*, 2009: 39).

Talking about the agricultural sector that was given the impediment of growth in this sector of Nigeria`s economy, food security is still an important challenge for Nigeria. Chinese investments can really impact Nigeria`s economy, there are a number of lessons China can share with Nigeria so as to enable her to attain agricultural growth and reduce poverty. It is a well-known fact that commercial agricultural production is vital for strengthening Nigeria`s economic situation. After several economic reforms in 2005, the government of Nigeria started making efforts to diversify its investment far beyond oil sector and began to invest in other crucial sectors.

Although, information about Chinese activities in Nigeria points to increasing economic, social and technical cooperation, the composition of Chinese FDI into Nigeria is fragmented. According to statistics, China has set up over 30 solely owned companies or joint ventures in Nigeria actively involved in the construction, oil and gas technology (Ogunkola, Bankole, Adewuyi, 2008). More often economic policies in Nigeria works against its core objectives, at the same time it strongly encourages investments and investors, there are no institutions that could check and balance on the activities of the companies and the countries that invest in the Nigerian economy.

Ogunsanwo is quite pessimistic about the sincerity in China`s developmental intentions in Nigeria by saying that China “cannot honestly be extremely enthusiastic in encouraging the conversion or transformation of crude oil exporting countries such as Nigeria to petroleum products exporting countries”. There is only one reason for explanation “China needs enormous amounts of imported crude oil for its industry and is searching everywhere including Angola, Sudan, Nigeria and Gabon and in other African countries where such oil is accessible” (Andekola, 2013). Zweig and Jianhai stated that “Beijing`s resources-based foreign policy has little room for morality” (Zweig, Jianhai, 2005: 25-38). After all, some of the very rich resources are found in nations with a history of ineffective governance. China has established relations with rogue nations, at times mired with violent reactions from the citizens of those nations.

If Nigeria were an ordinary country with no resources, the Chinese government could, conceivable have been at loss on the Nigerian resources and possibly concentrated on other countries in order to provide them with valuable resources. But the country has superpower potential that makes it impossible to ignore: its enormous oil reserves, to which China still wants access, a growing appetite for new infrastructure and a large population with growing consumer demands.

The Chinese foreign trade policies are not always filled with selfless intentions; although China may not always have a positive economic impact on the economies of their trading partners given diversity in trading partners. China-Africa relations are first on the grounds of economic investments and marketing strategies especially in the arena of manufacturing.

Another impact of China in Nigeria is a more sustainable development of bilateral cooperation, thanks to Chinese MNCs that are expanding their investments in Nigeria in order to create more job opportunities. According to the Chinese President Xi Jinping, this win-win cooperation provides benefits for their population and both countries need to promote bilateral ties from a strategic level and with a long-term approach (*BBC Monitoring Asia Pacific*, 2016).

From another side, for some scientists, this relationship seems like a zero-sum game. China is without no doubt a productive economic partner for Nigeria, given the fact that they provide aid and have a strategic economic partnership, but it`s also cost some price for Nigeria itself. According to the Financial Times, the perception holds that Chinese

companies are exploitative of local labor in terms of working environment, conditions, wages, and opportunities for growth within the companies (Ogunlesi, 2015). In 2015, a labor union for construction workers gave the government two weeks ultimatum to address complaints of inappropriate treatment of Nigerian workers by Chinese-run companies.

While it is incontrovertible that Chinese investment brings development to Africa to some extent, the fact remains that the impact of the Chinese investment on host economy is dependent on four important factors:

1. the investment motives of the investing firms;
2. The time horizon of the investment;
3. The extent of linkages to other firms;
4. The capacity of local firms to absorb spill-over and face competition (Gu, Jing, 2009: 573).

The motives for investment are also the reason of attractiveness of African market and intense competition faced by private firms in China. Africa is on its way for economic growth thanks to cooperation with China but much more can still be achieved. The absence of strategic engagement on a long run has a broader impact on poverty and social benefits for people in the continent. It points out two main concerns: 1. the resource rich African countries which ought to have a greater leverage in dealing with the Chinese didn't convert it into negotiating power. 2. The African Union has been unable to coordinate African engagement with China to capitalize fully on Chinese engagement for a continental gain (Haroz, 2011: 65-88).

Incentives for attracting FDI

In order to understand the massive flow of investments to Nigeria, it is necessary to examine reasons and special conditions that the government creates for attracting investment flow in the country. While some of the incentives refer to all sectors of the economy, others target specific sectors. For example there are some sector-specific incentives such as tax exemption on dividends from manufacturing companies in petrol chemical and liquefied natural gas sub-sector, 1% duty on all agricultural and industrial machines; there is also some investment allowance of 5% for solid minerals, as well as exemption from payment of customs and import duties; and investment tax allowances for industries in the sector of petroleum.

The following incentives were mentioned in the list of investment incentives from the Nigerian Investment Promotion Council:

1. Companies Income Tax: potential and existing investors in all sectors except petroleum, pay a 30% rate.
2. Pioneer Status: seven-year tax holiday to industries which are situated in disadvantaged local government areas.
3. Tax relief for research and development conducted in Nigeria
4. In-Plant Training- for industries with in-plant training facilities, 2% tax concession granted for 5 years.
5. Capital allowance- for any year of assessment is 75% of assessable profits for the manufacturing companies and 66% for others.
6. Investment in Infrastructure- 20% of the cost for providing social facilities, where they did not exist.

Other conditions that attract investments include the granting of generous expatriates' quota to the investing firm on the need to have skilled and knowledgeable hands to lead the business through the gestation stage. Moreover, investors who are investing in privatized companies as core investors are given the Rights to First Offer in the event that government wants to further divest from such companies.

In order to maximize FDI benefits, conditions like the promotion of local content, tax remittance, protection of the environment, strict accordance with labor, health and trade rights and skills and technology transfers must be met. Moreover, local content can be promoted through an active participation of local entrepreneurs in the operations of the firms to improve knowledge and skills. Many companies, including Chinese, do not comply with the condition of technology transfer. Chinese firms are notorious for relying on cheap Chinese labor for many of the major industrial projects and thus do not see the need for skills transfer to the locals (Utomi, 2008). Thus, it is more efficient and convenient to recruit skilled Chinese than local workers since they are more familiar with the very demanding Chinese work practices of longer hours.

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