THE IMPACT OF CHINESE INVESTMENTS IN ADDRESSING INFRASTRUCTURE ISSUES IN NIGERIA'S DEVELOPMENT AGENDA

By

Rindap Manko Rose
Political Science Department
Plateau State University, Bokkos
E-Mail – roserindap@yahoo.com
Phone number- 08029100276

ABSTRACT

Nigeria and China established diplomatic relations in February 1971, but there were concerns about the nature of investment relations between Nigeria and China. The study found that Chinese investments were in the construction and manufacturing sectors in Nigeria; however, the Chinese investments imported Chinese labour, necessary materials and equipment from China. As a result of this, employment and businesses were lost in the process. This implied that the investment relations were in favour of China, thus creating an uneven balance in the distribution of the benefits from the investment relations. The study recommended that Nigeria should strengthen laws in the areas of labour services, local content and technological transfer. By this, Nigeria could derive benefits from the investment relations with China.

Introduction

China's growing involvement in the African continent drew intense scrutiny from traditional partners (USA, United Kingdom and European Union) and raised the question of whether or not collaboration was beneficial for African countries and their development goals. In Nigeria, Chinese foreign direct investments were given prominence by past and present administrations. During President Olusegun Obasanjo's government (1999-2007), Nigeria-China investment relations blossomed as a result of the oil-for-infrastructure-development approach. The strategy was borne out of the need to address grossly deficient infrastructure. Under the strategy, China was awarded oil contracts in exchange for infrastructure development due to its expertise in civil works, coupled with its ability to provide the necessary financial assistance. Similarly, President Goodluck Jonathan involved China in infrastructural improvements. In 2015 alone, Nigeria received $2.4 billion in Chinese foreign direct investments, and in June 2017, it was $4.7 billion, and it was concentrated in the industrial sector (David, 2017).

Interestingly, the investment relations between Nigeria and China involved the execution of government contracts in the form of infrastructure such as railways, dams and telecommunication. Most of the Chinese investments in Nigeria were in the construction sector. It was within this context that the study focused on ways to effectively utilise the opportunities offered by China in addressing the infrastructural issues in Nigeria.

Theoretical Framework

The literature on International Relations theory was reviewed to identify a theoretical framework relevant to the research problem. One of such theories was:

Realism

Realism was a school of thought that explained international relations in terms of power. The exercise of power by states toward each other was called power politics. Adherents of realism rejected the utopian and moralistic doctrines espoused by idealist thinkers. Classical realism could be seen in the writings of Thucydides of Ancient Greece, Sun Tzu of Ancient China and Renaissance Italy's Niccolo Machiavelli (1532). These thinkers argued that the leaders of nations used their power to advance the interests of their own nations with little regard for morality or friendship. Hans Morgenthau (1973) opined that the first law of nature was self-preservation, and states were naturally guided by national interests defined in terms of power. In sum, realism's emphasis on political interactions and international security could not be used in explaining the evolving world order, promoted by economic interdependence. This weakened realism as a framework for analysing contemporary Nigeria-China investment relations.

Constructivism

The intellectual roots of constructivism extended from the work of the twentieth-

century Frankfurt school of critical social theory to more recent research by Peter Berger and Thomas Luckman (1967) on the Sociology of Knowledge and by Anthony Giddens (1984) on the relationship between agency and social structure. For constructivists, agents (states) and structures (global norms) were mutually constituted. The structure of the international system rests on the formation and dispersion of norms. They believed that the nature of the interactions between two states was simply the product of material factors such as the balance of trade or the balance of military power or the structure of domestic institutions. Inter-state relations was shaped by subjective factors such as: beliefs and ideas that people carried around. In brief, the theory focused strongly on the role of ideas in shaping inter-state relations. Therefore, it failed to explain the complexities surrounding inter-state relations.

Complex Interdependence

KeohaneO. and Nye Joseph made an important contribution to the field of international relations by introducing the theory. They challenged three key assumptions of realism: states were the only significant actors; security was the dominant goal and force was the dominant instrument. They noted that, states cooperated because it was in their own common interest and the direct result of the cooperation was prosperity and stability in the international system. Additionally, the theorists recognised the increased complex transnational connections and interdependences between states, while there was a decrease in the use of military force and power balancing. One very significant aspect of complex interdependence theory was that it integrated both the elements of power politics and economic liberalism and it took into consideration both the costs and benefits of interdependence relationship. It was therefore, appropriate in explaining Nigeria-China investment relations.

The Impact of Chinese Investments in infrastructural Development in Nigeria

In recent years, Chinese state-owned enterprises (SOEs) invested billions of dollars in foreign reserves and used Chinese construction and engineering resources to assist Nigeria in developing its oil, gas and other mineral resources. Besides, Chinese private foreign direct investments were in the agro-allied, manufacturing and communications sectors. It would be worthwhile for the study to discuss in brief the sectorial distributions of Chinese investments in infrastructural development in Nigeria.

(a) Chinese in Nigeria's oil and gas sector

The Nigerian government through its 100 percent state –owned company Nigerian National Petroleum Corporation (NNPC) controlled the Nigerian oil industry with shareholding in the major producing companies involved in the industry. Despite ranking in the top ten producers of crude oil, Nigeria imported 85 percent of the fuel used in the country, this wascaused by a deficit in the oil and gas infrastructure. To remedy the situation, at the advent of

democratic government, the government embarked on programmes of reforms to encourage private investments in the oil and gas sector in order to sustain long term economic growth. The reform plans include: privatization of the existing refineries, liberalization/deregulation of the oil industry and removal of subsidy on petroleum products.

Specifically, China Offshore Oil Corporation (CNOOC) and China Petroleum and China Corporation (SINOPEC), the two major investors in Nigeria's energy sector, expanded their reserves by acquiring interests in oil production. In 2016, Nigeria signed oil and gas infrastructure agreements worth USD$80 billion with these Chinese companies. The USD$80 billion loan was to be spent on pipelines, refineries, power, facility refurbishments and upstreams (Alexis, 2016).

(b) China powering Nigeria

Nigeria, the largest oil producer in Africa and the sixth largest oil exporter in the world, still scored low on power generation, transmission and distribution chart in the world. Several reasons were given for power failure, important among them were; the lack or minimal investment in the power sector and poor generating conditions of existing power plants. To beef up this sector, Shandong No. 3 Electric Power Construction Company (SEPCO III) won a USD$360 billion contract for the Papalanto plant. Contract details revealed 35 percent of the total investment would be paid in cash by the Nigerian side within months, with the remaining 65 percent taking the form of loans. The conditions attached to the loan stipulated that USD$114.9 million for the projects 335 MW power plant, totalled in 2002, at 6 percent interest, a grace period of 6 years, maturity in 12 years. The total cost of the project was USD$359.71 million, with a Chinese commitment of USD$297.75 million, funded by the Export-Import Bank of China(AidData, 2005).

Consequently, the federal government and a consortium of three Chinese firms signed an agreement in 2017 for the construction of the 3,050 megawatts Mambilla hydro-electric power plant worth USD$5.79 billion in Taraba state. The project was scheduled to be completed in six years. The China Exim bank and other Chinese lenders provided 85 percent of the contract sum amounting to USD$4.92 billion, while Nigeria put forward 15 percent amounting to USD$868.87 million. The scope of the project include four dams (Nya, Sumsum, Nghu and Api Weir), two underground power house of 12 units of 250 MW each, two numbers of 330KV of 700Km transmission lines to Makurdi and Jalingo, 120 km of access roads connecting the project site and nearby communities, as well as the resettlement of an estimated 100,000 affected persons. The Federal Executive Council in August 30, 2017, approved the sum of USD$5,792,497,06.2 for the project. The approval paved the way for

the signing of the contract document with the China Gerhouba Group Corporation, Sinohydro Corporation Limited and the GCOC Group Company Limited (Onodim, 2017). In November 2017, the power deal was stalled due to a lawsuit at the International Court of Arbitration, Paris, France. It all happened that in 2003, the Federal Ministry of Power awarded the build, operate and transfer (BOT) contract of the project to Sunrise Power and Transmission Company Limited (SPTCL), a local content partner. In November 2012, a general project execution agreement (GPEA) was signed with SPTCL. The Ministry of Power Nigeria, however, in November 2017 signed another Engineering Procurement and Construction (EPC) contract with Sinohydro Corporation of China, CGGCC and GCOC to form a joint venture for the execution of the project and then excluded SPTCL. In response to this, SPTCL filed a suit against the Federal Government of Nigeria and its Chinese partners at the International Court of Arbitration over an alleged breach of contract (Thisday, 2019). Following the resolution of the lawsuit in 2020, fresh attempts were made to resume construction.

Transport Sector: In March 2011, the Federal government commissioned a 12.2 billion naira 488km Lagos-Jebba rail track rehabilitation contract awarded to Chinese Civil Engineering Construction Company (CCECC) in November 3, 2009. Another important milestone of Chinese finance in Nigeria's infrastructural development was a concessionary loan of USD500 million from the Chinese government for the railway modernization programme of the Abuja-Kaduna standard gauge (single track) at a cost of USD849 million. The Nigerian government provided the balance. The loan was given at less than 3 percent interest rate, repayable in 15 years. The rail modernization project which began with the Abuja-Kaduna line was flagged off by the Goodluck Jonathan's administration in February 10, 2013 (Hongwu & Ubi, 2015). It was completed by the Chinese Civil Engineering Construction Corporation (CCECC)in December 2014 and the railway was officially inaugurated on 26 July, 2016. The rail road project which stretched to about 186.5 km with nine stations and a design speed of 150 km per hour later gulped nearly USD850 million.

Similarly, China Railway Construction Corporation in August 2016, received approval of the Federal Government to construct a rail line in Kano at the sum of USD$1.85 billion. The rail, with a total length of 743 kilometres was expected to travel at a speed of 100 kilometres per hour. The railway construction connecting Lagos and Calabar cost USD$11.1 billion and the one connecting Lagos and Kano cost USD$8.3 billion (Nathaniel, 2017). The present project was earmarked to be completed in 2023 and would be in 4

sections namely; the 200km Ibadan-Ilorin section, the Ilorin-Minna section with a distance of 270km and then the Abuja, Kaduna and finally Kano, a distance of 300km.The track laying work on the Lagos-Ibadan railway line was completed by the Chinese Civil Engineering Construction Corporation (CCECC) on March 28, 2020. The line was initially given to CCECC in 2012, but work only began in March 2017 at a cost of $1.5 billion (Ochayi, 2020).

Although, Chinese investments were concentrated in the construction and manufacturing sectors in Nigeria,China's transformational investments in power, railways and roads could benefit Nigerians by improving investment climate and welfare in the country. Besides, a large number of Nigerians were employed over the years in Chinese investments in Nigeria.The Chinese Ministry of Commerce reported that 317 companies were operating in Nigeria. Chinese companies were mostly engaged in manufacturing in Ogun-Guangdong and Lekki, Special Economic Zones, Nigeria. As at 2017, 23 out of the more than 30 companies registered for business in the zone were operational and so far employed more than 5000 persons. Calabrese and Tang (2020) were quick to stress that, most of the workers in the construction sites and manufacturing lines were semi-skilled. Experienced local technicians were scarced in Nigeria and they were highly sought after by foreign competitors.

Consequently, these benefits came with some drawbacks. Firstly, the Chinesewere accused of importing much of its labour and inputs for infrastructural projects in Nigeria, thus benefitting the Nigerian economy less. For instance, the Chairman of Dorman-Long Engineering (a steelyard in Lagos) divulged that, Chinese construction companies, mostly state-owned, largely imported their steel girders, reinforcing beams and other materials from home. But a Chinese Executive (CCECC, a construction firm in Nigeria) agreed that, they do buy some local materials, but China's exports were more readily available and better made, so they could be quickly and reliably included in complex projects (Bradsher & Adam, 2015). With this, there would be little benefits for Nigerian local firms.

Issues with Chinese Investments in Nigeria

Attempts by Nigeria to participate in global economy was to a large extend stifled by poor technology. As a result, China became its best partner in terms of technological transfer. However, concern was raised over the role of China in this regard. Increasingly, the technology transferred from Chinese foreign direct investment was insignificant because most of the Chinese firms bring into the country complete equipment with Chinese technicians. This could be seen through the negotiations between Zamfara state government and a Chinese firm. The government signed a USD$250 million

agreement for the construction of three new processing and smelting factories in the state. Under the joint venture projects, Chinese companies got 90 percent in each of the joint venture projects while the Zamfara government got 10 percent. The Chinese firms would design the projects, select appropriate technology, buy all the equipment, install and run them while Zamfara government would provide land, acquire both exploration mining licenses, provide security for the Chinese investments and employ 5,000 local miners (Rindap, 2015).

In addition, massive influx of Chinese FDI into the country to produce goods and services might lead to closure of domestic competing firms, with adverse effects on employment. Domestic firms operating in sectors of interest to China (such as oil and gas, power, construction, manufacturing and services) might lose as a result of lack of competitiveness.In a speech by the former United States Secretary of States, Rex Tillerson, he noted that Chinese investments could address Africa's infrastructure gap, but such investments would do little to improve Africa's job fortunes while increasing its debt burden" (Solomon, 2018). With this scenario, Nigeria must renegotiate the terms of agreement with China to minimise the negative impact of job losses in the economy.

Issues of lack of inputs or raw materials, poor infrastructure such as poor electricity supply, insecurity, frequent change in government policies, made the Nigerian economy heavily import dependent on China. Due to crippling shortage of electricity, most businesses relied on generators which significantly added to the cost of production and prices of goods produced in Nigeria thus making them less competitive to those manufactured in China. Moreover, insecurity, arising from terrorism, kidnappings and cybercrimes were major issues to the realization of Nigeria's investment potential. Among these security concerns, terrorism and kidnappings emerged as the major threat to economic relations in recent years. The last segment of the railway rehabilitation of the eastern trunk line from Port-Harcourt to Maiduguri, CCECC expressed no interest in taking on any segments of it due to attacks by Boko Haram.

Keeping in view the vast potential for expanding Nigeria-China investment relations in recent years, these issues identified were obstacles affecting Nigerian and Chinese investments from beneficial investments relations. If these issues were addressed, it would go a long way to create conducive environment for enhancing beneficial investments relations for the two countries.

Conclusion

Nigeria's quest for infrastructural development made it necessary to seek China's assistance in accelerating technological change and economic growth in the country. The Chinese foreign direct investments in Nigeria were spread in the transport, power, oil and gas sectors and were responsible for improving these sectors to standards. Though, most of the works carried out by the Chinese firms in Nigeria

were still ongoing and those completed were put to use already. Notwithstanding, Nigeria should be mindful of its dependence on China for foreign capital in the form of aid, which usually increases corruption and dependency syndrome.

Recommendations

1. Nigeria should ensure that Chinese investments create opportunities for local capacity building.
2. Nigeria should strengthen laws in the area of labour services, local content and technological transfer.

References

AidData (2005). *China loans USD$297.8 million for the Papalanto gas turbine power plant*

phase 11 to Nigeria in 2005. Retrieved August 22, 2017, from china.aiddata.org/173/

Alexis, A. (2016, June 30). Nigeria signs USD$80bn of oil, gas infrastructure deals with

China. Retrieved June 22, 2017, from www.reuters.com/article/idUSL8N19M2HO

Bradsher, K & Adam, N. (2015, December 6). In Nigeria, Chinese investments comes with a

downside. *New York Times*. Retrieved July 19, 2019, from www.nytimes.com

Calabrase, L. & Tang, X. (2020). Africa's economic transformation: the role of Chinese investment.

Retrieved August 13, 2021, from www.gov.uk/

Eboh, C. & Joe, B. (2013, September 29). Nigeria signs USD$1.3 billion power plant deal

with China.*Reuters*. Retrieved June 22, 2018, from www.reuters.com/article/idUSRE98S0AG20130929

Hongwu, L. & Efem, N.U. (2015, September). *China-Nigeria economic cooperation:*

Evaluating Chinese finance in Nigeria's infrastructural development. Paper presented

at the conference on the 4th Meeting of China-Africa Think Tanks Forum, organised

by the China Development Bank. Tshwane, South Africa.

Nathaniel, A. (2017, March 12). *Chinese firms take over Nigeria's rail construction sector*.

Businessday. Retrieved March 17, 2017, from www.businessdayonline.com/chinese/

Onodim, O. (2017, November 11). FG, Chinese consortium sign USD$5.8bn power plant

agreement. *Punch*. Retrieved June 22, 2018, from punchng.com/mambilla-fg-Chinese/

Rindap, M. R. (2015). An assessment of Nigeria-China economic relations from 1999-2014.

International Journal of Arts and Humanities, 4 (1), 18-30.

Solomon, E. (2018, March 12). *Should Africa be worried about Chinese loans*? *Thisday*.

Retrieved July 04, 2018, from www.thisdaylive.com/index.php/2018/03/12/