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The Engagement of China in Nigeria's Oil Sector: Is the Transformation Positive?

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Abstract

Many a time, the relationship between China and Africa is stereotyped as an energy quest to sustain China's economic growth, leading to anti-Chinese resistance narratives in Africa. Against this background, the observed presence of China in Nigeria, more specifically, warrants attention, as the strategic relationship has expanded significantly to emerge as a powerful, yet questionable, South-South alliance. We document the economic activities of China in Nigeria, through the channels of trade, foreign direct investment (FDI), and aid, to frame our understanding of the content of those ties. As the engagement of China in Nigeria is skewed towards the extractive industry, this paper mainly focuses on Nigeria's oil sector, by tracing the transforming developments and addressing the challenges of Nigeria that relates with economic, environmental and social life, with China's commercial presence in the oil sector. With the economic dimensions of this contextual engagement, we set out a research agenda that focuses on the effectiveness of commercial activities of China in the Nigerian oil sector.

Keywords: *China-Nigeria relations, foreign investment, trade, aid, oil*

1. Introduction

The expansion of China's economic strength to the African continent has gained prominence in the literature of contemporary African development (Wang, 2007; Hanusch, 2012; Carmody, 2009; Jenkins and Edwards, 2006; Edwards and Jenkins, 2014). The Chinese engagement with Africa became entrenched in "powerful market dynamics" (Eisenman, 2012) since 1995, making China the third importer of manufacturing in 2007 after the United States of America (USA) and Germany (Giovannetti and Sanfilippo, 2009). This fast-growing economic cooperation between China and Africa has led to the proliferation of Chinese companies and other multinational enclaves in the African continent (Mohan, 2013).

Consequently, China's relation is "stereotyped" (*ibid.*) as energy quest[1] to sustain its economic growth (Alden, 2005; Bing and Ceccoli, 2013; Cheru and Obi, 2011; Eisenman, 2012; Oyejide *et al.*, 2009; Taylor, 2006; Tull, 2006), leading to "anti-Chinese resistance narratives in Africa" (Eisenman, 2012). On the other hand, the China-Africa protagonist (Gu, 2009; Aguilar and Goldstein, 2009; Ajakaiye, 2006; Broich and Szirmai, 2014; De Grauwe *et al.*, 2012; Kaplinsky and Morris, 2009; Kaplinsky, 2013; Kragelund, 2009; Renard, 2011; Shen, 2015; Wu and Cheng, 2010; Yin and Vaschetto, 2011) argue that the presence of China has been beneficial to Africa through poverty reduction, improvement in GDP and prices of commodity exports in the global market. While the realities of the potential benefits of China's engagement with Africa remain contestable, bilateral cooperation is continuous with African countries who perceive China as a model for development and an alternative to their traditional partners (Kragelund, 2009; Renard, 2011; Giovannetti and Sanfilippo, 2009), among which Nigeria's engagement with China is one of such bilateral relations.

As in the case of China's engagement in Africa, the relationship between the Western countries and Nigeria is tagged as being exploitative, based on the structure and patterns of investment in the crude oil sector of the economy (Oyeranti *et al.*, 2011; Taylor, 2015). Despite the negative perturbations of external influence on the domestic economy, Nigeria continues to court the presence of these foreign actors, more precisely, in the Nigerian oil sector, that is an essential driver of the local economy[2]. For China, its pursuit of "going global strategy" (Alden, 2005; Biggeri and Sanfilippo, 2009) led to the rising demand for oil inputs[3] that are outstripping the country's domestic resources. Hence, there is a need to source the natural resources from other countries, which includes Nigeria (Ogunkola *et al.*, 2008; Kolstad and Wiig, 2011). However, as essential as the oil sector is to Nigeria's economy, it is plagued with incessant issues of environmental degradation, pipeline vandalization, oil theft/production loss and job loss in the Niger Delta and other regions where exploration and production take place. Previous studies focused on the impact of foreign investment, and the challenges faced by Nigeria's textile industry with the presence of the Chinese as the key player (Oyeranti *et al.*, 2011; Atomre *et al.*, 2009; Murtala Muhammad *et al.*, 2017; Murtala Muhammad *et al.*, 2018). Also, China-Nigeria oil-for-infrastructure plan has been studied (Gold *et al.*, 2017; Quigley, 2014): whether their relationship is win-win or win-lose and the likely political undertones on an aggregate basis (Oyejide *et al.*, 2009; Egbula and Zheng, 2011; Taylor, 2007; Ogunkola *et al.*, 2008). Therefore, to fill this research gap, this paper carries out a detailed assessment of the economic engagement between China and Nigeria in the oil sector, to establish an adequate understanding of the sector-specific impact. The critical inquiry of China's involvement in the Nigerian oil sector is based on the patterns of trade, FDI and aid.

Delineated in this paper are the related opportunities and challenges for the development prospect of Nigeria. The introduction section of this paper is followed by Section 2 that traces the historical and diplomatic ties between China and Nigeria. In section 3, China's entry and environmental blueprint in Nigeria's oil sector shall be discussed, while Section 4 reviews China's engagement in Nigeria's extractive sector, through the channels of trade, FDI, and aid. Section 5 discusses the government's policies towards the sustainability of China-Nigeria relations. Section 6 provides some implications for change and transformation, following engagement of China in the Nigerian extractive industry. Section 7 concludes with some recommendations for further research.

2. The Historical Relationship between China and Nigeria

2.1. General Observations

China-Nigeria relationship is different from that of other African countries, the reason being that Nigeria is the second largest Chinese export market (Haugen, 2011; Egbula and Zheng, 2011) behind South Africa (Quigley, 2014). On the other hand, about 80 per cent of Nigeria's exports to China are crude oil and other minerals (UNCTAD, 2014). The peculiarity of Nigeria is because Nigeria is a member of OPEC, and the 11th largest oil producer in the world with 38 billion barrels of production capacities (as depicted in Table 1). In addition to crude oil, the Geological Survey Agency of Nigeria records 44 exploitable minerals in commercial quantities (Nigeria Investment Promotion Commission, 2015).

Table 1 Volume of Nigeria's Total Proved Oil Reserves in Africa (1994-2014)

	Thousand million barrels						
Region/country	**1994**	**2004**	**2013**	**2014**	**Thousand million tonnes**	**Share of total**	**R/P ratio**
Algeria	**10.0**	**11.8**	**12.2**	**12.2**	**.5**	**0.7%**	**21.9**
Angola	**3.0**	**9.0**	**12.7**	**12.7**	**1.7**	**0.7%**	**20.3**
Chad	**-**	**0.9**	**1.5**	**1.5**	**0.2**	**0.1%**	**52.4**
Rep. of Congo (Brazzaville)	**1.4**	**1.5**	**1.6**	**1.6**	**0.2**	**0.1%**	**15.6**
Egypt	**3.9**	**3.6**	**3.9**	**3.6**	**0.5**	**0.2%**	**13.8**
Equatorial Guinea	**0.3**	**1.8**	**1.7**	**1.1**	**0.1**	**0.1%**	**10.7**
Gabon	**1.4**	**2.2**	**2.0**	**2.0**	**0.3**	**0.1%**	**23.2**
Libya	**22.8**	**39.1**	**48.4**	**48.4**	**6.3**	**2.8%**	*****
Nigeria	**21.0**	**35.9**	**37.1**	**37.1**	**5.0**	**2.2%**	**43.0**
South Sudan	**-**	**-**	**3.5**	**3.5**	**0.5**	**0.2%**	**60.3**
Sudan	**0.3**	**0.6**	**1.5**	**1.5**	**0.2**	**0.1%**	**37.7**
Tunisia	**0.3**	**0.7**	**0.4**	**0.4**	**0.1**	**#**	**22.1**
Other Africa	**0.6**	**0.6**	**3.7**	**3.7**	**0.5**	**0.2%**	**40.0**
Total Africa	**65.0**	**107.6**	**130.1**	**129.2**	**17.1**	**7.6%**	**42.8**
Total World	**1118.0**	**1366.2**	**1701.0**	**1700.1**	**239.8**	**100%**	**52.5**

Notes: * More than 100 years; # Less than 0.05 per cent.
Source: BP (2015).

As a result of Nigeria's enormous oil reserves and mineral deposits, the nature of China's imports from Nigeria is more of energy (Pegg, 2012; Murtala Muhammad *et al.*, 2018). Besides, Nigeria needs fund for its development agenda, while China holds approximately US$3 trillion in foreign exchange reserves (Renard, 2011). Therefore, Chinese officials frequently refer to China and Nigeria's relationship as complementary (*China Daily*, 2015; Alabi *et al.*, 2011).

Specifically, the channels through which China has been able to impact on Nigeria are on FDI, trade and aid. In addition, the technical cooperation and financial aid that Nigeria gets from China indicate a long-time engagement between Nigeria and China (Oyeranti *et al.*, 2011; Ogunkola *et al.*, 2008; Oyejide *et al.*, 2009; Gold *et al.*, 2017). It is worth mentioning here that technical cooperation and financial assistance were the oldest forms of engagement between China and Nigeria before trade and investment were added as the basis for engagement. For a developing country like Nigeria, there is a need to go beyond trade and investment in her engagement with China. As such, the relationship, according to China, has been described more of a strategic partnership. These channels are said to complement each other considering China's goal of relating to Nigeria (Renard, 2011). Another interesting fact is that the movement of citizenries between China and Nigeria is trade-investment-related, with a diverse relationship. This engagement between China and Nigeria is accompanied by a wave of economic migration to Nigeria of state-influenced construction teams, oil and mining workers, as well as private traders of goods and services (Broadman, 2008; Mohan, 2013). Similarly, other challenges and benefit such as environmental spillovers and governance have also surfaced through this cooperation.

2.2. Historical and Diplomatic Links

Similar to most other African countries, the diplomatic relationship that Nigeria established with China is part of the benefits of the eight measures proposed at the 2006 Beijing Summit of Forum on China-Africa Co-operation (FOCAC, 2015)[4]. Furthermore, the 2006 Africa Policy made by China's Ministry of Foreign Affairs reaffirmed its old principles of cooperation with the African continent on trade and investment. In addition to that, the intergovernmental Nigeria-China Investment Forum was founded in 2006 to promote the two countries' investment cooperation among other things. Other agreements include the establishment of China's Development and Trade Promotion Centre in Nigeria, and the establishment of a Nigeria Trade Office in China. The late 1990s to 2000s marked a watershed in the China-Nigeria relations. Part of the strengthened relationship was the bilateral engagement of China and Nigeria that was developed and strengthened with the signing of various agreements and memorandums of understanding (MOUs) as reported in Table 2.

Table 2 Selected Forms of Cooperation between China and Nigeria, from 2001 to 2015

Year	*Agreement*
2001	**Trade, Investment Promotion and Protection**
2002	**The Avoidance of Double Taxation and Prevention of Fiscal Evasion of Tax and Income**
2002	**Consular Affairs**
2002	**Cooperation on Strengthening Management of Narcotic Drugs, Psychotropic Substances and Diversion of Precursor Chemical**
2002	**Tourist Cooperation**
2003	**South-South Co-operation between China, Nigeria, and FAO**
2005	**MOU on a Strategic Partnership**
2006	**Economic Cooperation Agreement between Nigeria and Xinguang International Group of China**
2009	**Agreement against fake products exported to Nigeria from China**
2009	**MOU on promotion between the Ogun State government of Nigeria and Zhejiang Province of China**
2010	**MOU on peaceful cooperation**
2013	**China's State Council Information Office (SCIO) agreement on showing free documentaries of China's economic, political and other accomplishments in the Nigerian Television Authority (NTA) Abuja**
2013	**Economic and Technical Cooperation on:** **i. Provision of finance for the Zungeru power plant and four airport terminal expansion projects;** **ii. Mutual visa exemption for holders of diplomatic and official passports;** **iii. Prevention of theft, illegal imports and exports of cultural property; and** **iv. Maintaining the initial agreements on oil and gas**

Sources: Ministry of Commerce China (MOFCOM, 2015); Nigeria Trade Hub (Nigeria Trade Hub, 2015) and Egbula and Zheng (2011).

The official forms of cooperation are complemented by the exchange of visits between the two countries at the highest political level (see Table 3). China-Nigeria engagement blossomed under the leadership of President Olusegun Obasanjo (1999-2007), because of the "oil for infrastructure" as a development strategy and Obasanjo's frequent visits to China during his tenure. Under this strategy, China was awarded oil contracts in exchange for infrastructure development, due to her expertise in civil work, coupled with her ability to provide the necessary financial assistance (Oyeranti *et al.*; 2011, Gold *et al.*, 2017). However, this "oil for infrastructure" development arrangement with the Chinese government was cut short in 2007 by a new government led by Umaru Musa Yar'Adua. The late Umaru Yar'Adua revoked most of the “oil-for-infrastructure” contracts awarded by the previous government led by Olusegun Obasanjo, based on lack of transparency (Gold *et al.*, 2017).

Table 3 Official Visits (1974-2014)

Year	Name and Status of Leader(s)	Year	Name and Status of Leader(s)
	Visits to Nigeria		
Oct 1978	Geng Biao: Vice-Premier	Jan 2000	Tang Jiaxuan: Foreign Minister
Nov 1981	Huang Hua: Vice-Premier	Apr 2002	Jiang Zemin: President
Nov 1984	Tian Jiyun: Vice-Premier	Apr 2004	Hu Jintao: President
Mac 1990	Wu Xueqian: Vice-Premier	Nov 2004	Wu Bangguo: Chairman of the Standing Committee of the National People's Congress (NPC)
Jan 1995	Qian Qichen: Vice-Premier and Foreign Minister		
Sept 1996	Luo Gan: State Councillor and Secretary-General of the State Council	Jan 2006	Li Zhaoxing: Chinese Foreign Minister
		Jan 2010	Yang Jiechi: Chinese Foreign Minister
May 1997	Li Peng: Premier		
May 1999	State Councillor Ismail Amat: Special Envoy of President Jiang Zemin	May 2011	Sheng Guangzu: Minister of Railways
		Sept 2013	Zhang Dejiang: Chairman of The standing committee of the NPC
		May 2014	Li Keqiang: Chinese Premier
	Visits to China		
Sept 1974	Head of State: Gen. Yakubu Gowon	Dec 2001	President of Senate: Anyim Pius Anyim
Mac 1983	Vice-president: Alex I. Ekwueme	Jul 2002	Vice President: Atiku Abubakar; Deputy Speaker of the National Assembly: Chibudom Nwuche
Sept 1984	Chief of the Army Staff: Gen. Ibrahim Babangida	Feb 2008	President: Umaru Musa Yar’Adua
Oct 1989	Chief of the Army Staff: Gen. Sani Abacha	Jul 2009	Nigerian Defence Minister: Shettima Mustapha
Jul 1997	Chief of the Defence Staff: General Abdulsalami Abubakar	Apr 1999; Aug 2001; Apr 2005	President: Olusegun Obasanjo
		Jul 2013	President: Goodluck Jonathan

Sources: Egbula and Zheng (2011); *This Day* (2014); Ministry of Commerce China (MOFCOM, 2015) and Oyeranti *et al.* (2011).

The trend continued until the Umaru Yar’Adua-led government was succeeded by President Goodluck Jonathan in 2010, when China-Nigeria relations was rekindled, leading to a sharp upsurge in trade, investment and aid to Nigeria. Similarly, President Jonathan also involved China in infrastructural maintenance and solicited China’s assistance in the implementation of industrialisation program, coupled with other areas of economic development (Egbula and Zheng, 2011; Gold *et al.*, 2017).

3. China in Nigerian Oil Sector

3.1. Emergence of China in Nigeria Oil Sector

Due to technology deficiency, high required capital and other associated risks, Nigeria, like other resource-endowed African countries, invites multinational corporations (MNCs) to invest in the oil & gas and other minerals sectors of the country (Obi, 2008, Taylor, 2007). The invitation is done under the Concession Agreement (CA), or Production Sharing Agreement (PSA) method as mentioned in Feng and Mu (2010). In the case of Nigeria, the latter is adopted in the oil sector. The oil sector is dominated by the Western investors that have been in a long-standing relationship with Nigeria (Nigeria is a former colony of the United Kingdom). China's interest in Nigerian oil became more prominent when Nigeria began to experience a stable polity in 1999 (Egbula and Zheng, 2011), when President Obasanjo (1999-2003) sought China's "oil-for-infrastructure" development model used to help develop the civil war-torn Angola (Bing and Ceccoli, 2013; Gold *et al.*, 2017). On the basis of the bilateral relationship, three major Chinese state-owned enterprises (SOEs) listed in Table 4 were granted a refinery permit in Nigeria's oil fields from late 2004 to 2006. Apart from these three, the interest of China in Nigeria has expanded beyond oil production and extraction. The China National Machinery (Sinomach), an engineering Chinese SOE, has more recently sought investment opportunities through construction contracts in Nigeria. Not only that, other firms that are seeking investment opportunities in Nigeria are China Power Investment, China Energy Engineering and Shenzhen Energy and Power Construction Corp.

More specifically, China came into Nigerian oil sector through powerful diplomacy and a deal of launching the Nigerian satellite in 2006 (Taylor, 2007; Taylor, 2015). The successive government revoked

Table 4 Major Chinese Oil and Gas Companies in Nigeria

Company	*Sector*	*Description*
China Petroleum & Chemical Corporation (SINOPEC)	**Oil and Gas**	**Bloc of 64, 66, 29 and operating right to bloc 2 Nigeria-São Tomé Joint Development Zone**
China National Petroleum Corporation (CNPC)	**Oil and Gas**	**Oil Prospecting License (OPLs) for 471,721,732,298**
China National Offshore Oil Corporation (CNOOC)	**Offshore oil and gas**	**45 per cent interest in Offshore exploitation (Oil Mining License OML) 130**

Source: Nigeria Investment Promotion Commission (2015).

the diplomatic oil-for-infrastructure agreement. However, before the oil blocs and licenses were revoked in 2007, China's SINOPEC and Nigerian National Petroleum Corporation (NNPC) signed two agreements in December 2004 to develop Oil Mining Lease (OML) 64 and 66 (Taylor, 2007). The OML 64 has five exploration wells, with one well-encountering hydrocarbon resources, while OML 66 has drilled 18 exploration wells with 12 encountering hydrocarbon resources (Hurst, 2006; Taylor, 2006). Correspondingly, SINOPEC has a contract with the Nigerian Petroleum Development Corporation (NPDC) and the Nigerian Agip Oil Company (NAOC-Eni-Italian Oil) to develop the Okono and Okpoho oil fields, and both have 500 million barrels of reserves (Taylor, 2007; Taylor, 2015). CNOOC and NNPC in 2005 signed a US$800 million agreement to purchase thirty thousand barrels of crude oil daily for five years (Anyu and Ifedi, 2008; Hurst, 2006; Taylor, 2015; Taylor, 2007). Also, CNOOC purchased with US$2.27 billion a 45 per cent acquisition of OML 130 (China's most significant acquisition in the world) in a controversial opaque ownership history for a working interest in an offshore bloc with Total-Petrobras (Alden and Davies, 2006; Downs, 2007).

In April 2006, a further 35 per cent oil exploration license was purchased for US$60 million (Obi, 2008). Subsequently, CNOOC paid

US$2.3 billion plus an adjustment of US$424 million for other expenses for NNPC 50 per cent equity stake in the OPL 246 bloc-Akpo oil and gas field. Also, China acquired OPL 246 oil field with guaranteed 70 per cent profits, while the NNPC would take 30 per cent of the profits as well as in the 80 per cent oil cost. As part of the deal, CNOOC is to refund US$600 million to the Total company being the money spent in developing the oil field. The OPL 246 bloc was equally controversial as it was initially allocated to South Atlantic Petroleum owned by the former Nigerian Defense Minister Theophilus Danjuma who believed that OPL 246 bloc was relinquished for political reasons. Hence, South Atlantic Petroleum sued the Nigerian government and lost the case (Taylor, 2007; Taylor, 2015).

Following the visit of China's President Hu Jintao to Nigeria, CNPC benefited from Nigeria's sale of four oil blocs (2 in the Chad Basin and 2 in the Niger-Delta region) in April 2006 (Obi, 2008). While SINOPEC paid US$2.5 billion to finalise a deal of 20 per cent share in bloc OML 138 with Total oil in 2009. Also, the purchase of Total oil comes on top of the 90,000 barrels per day that are currently being produced for SINOPEC by their client company Addax (Quigley, 2014). Therefore, Chinese companies invest in purchasing equity shares in oil blocs (Alden and Davies, 2006), not sole control, minimising their risk and enhance technological transfer from established industries. Thus, they rely on their major international oil companies (IOC) partners in carrying out actual production and releasing them from the technological demands that come with offshore drilling (Anyu and Ifedi, 2008; Quigley, 2014).

3.2. China's Environmental Footprint in Nigeria

Despite the challenges facing China in the Nigeria oil sector, China is working hard to make headway and leverage in areas where they have a more competitive advantage (Carmody and Owusu, 2007; Downs, 2007;

Alden and Davies, 2006), through offering something different from their Western rivals (Pegg, 2012). Even though Chinese engagement in the extractive industry is late, its *modus operandi* is similar in many respects when compared to the other established MNCs operating in Africa (Kelley, 2012; Downs, 2007; Alden and Davies, 2006). Along with this line, the Chinese MNCs in Nigeria is willing to take more risk and pay higher to secure oil than their Western counterparts. For instance, in 2006, CNOOC offers a quarter of a billion dollars for the acquisition of Nigeria's Akpo offshore oil and gas field over and above that of the Indian oil company (Kelley, 2012, Downs, 2007). While this is regarded as a success in China, the international competitors and non-governmental organizations (NGOs) view China's oil companies' business approach as unfair practices due to bribes and under-the-table bonuses it offers to secure oil fields (Anyu and Ifedi, 2008). Nevertheless, the emergence of China in the Nigeria oil sector is applauded at a time when the Niger-Delta region is becoming vulnerable due to the activities of the militias, oil theft, high production costs, insecurity and corruption concern which has led to the decrease in the number of Western MNCs operating in the region (Obi, 2008; Quigley, 2014).

As China's engagement with Nigeria deepens in the extractive industry, hitherto, its pattern of trade and investment is criticised (Alabi *et al.*, 2011; Oyeranti *et al.*, 2010), as it skewed towards the extractive industry. In support of China, Pegg (2012) argues that China's SOE MNCs' negative impact in Africa is greatly exaggerated and are not significantly different in their actions from the traditional partners who have been exploiting the continent since the colonial period. The Nigerian traditional MNCs partners' activities and their connivance with political elites has led to severe environmental, security and socioeconomic problems in the Niger-Delta oil-producing region (Anyu and Ifedi, 2008). Besides, the resource-endowed Sub-Saharan African countries have challenges in managing their oil wealth successfully (Obi, 2008; Carmody and Owusu, 2007), a situation which predates the emergence of China's engagements in the region (Pegg, 2012). These issues have led to the up-rise of militia and abduction of foreign oil companies' nationals working in the region. The Chinese oil workers like their Western counterparts are not immune from the militia that are agitating and demanding for resource re-distribution and a cleaner environment (Alabi *et al.*, 2011; Pegg, 2012; Hilsum, 2008). Nevertheless, while Chinese workers in the oil region were abducted too, there is no direct hostility towards them when compared with the Western MNCs abductees.

However, China is criticised for its role in selling arms to the Nigerian government to combat the Niger-Delta militias and ignoring human rights concerns amid the time when the region was volatile and traditional allies were reluctant to send any weapons to the reckless Nigerian military (Hilsum, 2008; Obi, 2008; Taylor, 2007). We admit that there are a lot of risks associated with crude oil mining in Nigeria. For instance, the communities where resources are being explored have high expectations of the impact of the oil company's corporate social responsibility (CSR) on them (Pegg, 2012), whereas the term CRS and Extractive Industry Transparency Initiative against corruption in the Nigerian oil sector were relatively new to Chinese investors (Hilsum, 2008). In terms of specific CSR activities, China's CNOOC in 2009 contributed the sum of US$1. 03 million out of the US$2. 28 million (in line with its own share), provided in educational scholarships by the consortium operating bloc OML 130 in Nigeria (Pegg, 2012).

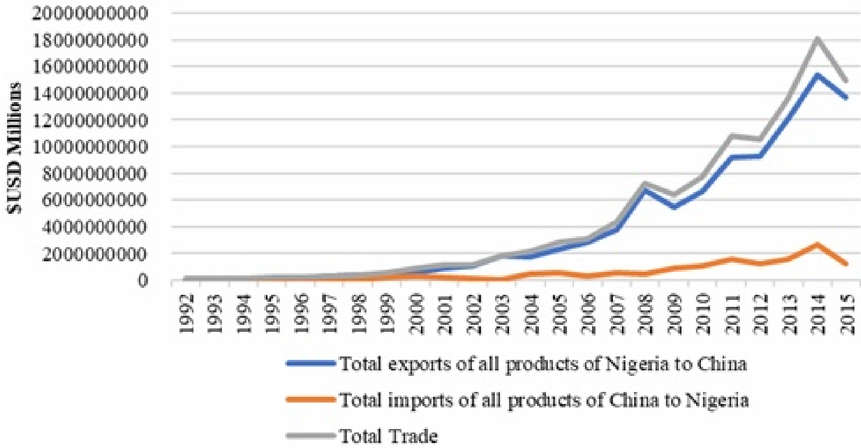
As compared to the Western oil investors who are not meeting up to expectations and are contributing to environmental degradation in the oil-producing region (Kragelund, 2009; Anyu and Ifedi, 2008; Pegg, 2012), the overall size of China's MNCs' mergers and acquisitions in the region are modest (Downs, 2007), reason being that many of the Chinese oil companies invest in onshore fields and not so much in the oil-rich offshore fields. Hence, they are less vulnerable to the population of the areas hurting their production (Quigley, 2014). Therefore, evaluating the long-term consequence of the increased Chinese presence in the Nigerian extractive sectors may be too soon, as such relevance must be demonstrated empirically (Pegg, 2012).

4. China-Nigeria: Role of Trade, FDI, and Aid

4.1. Trade Patterns

As a reflection of the increase in demand for resources (Kolstad and Wiig, 2011), trade between China and Nigeria recorded considerable growth since the 1990s. In 2006, China began to build its first ever free trade zone (FTZ) abroad in Lagos, Nigeria. The Sino-Nigerian joint venture is to provide about 300,000 jobs and serve as a point of exit for locally produced Nigerian goods to markets in Europe and North America (Taylor, 2007). The China-Nigeria trade volume as shown in Figure 1 indicates that from 1992-1999, the disparity in their trade volume is minimal as compared to 2000-2015. The period of their renewed engagement of the year 2000 upward witnesses an astonishing increase in China's exports to Nigeria, though Nigeria's exports increase too. Gauging the exponential rise in Sino-Nigerian trade relations since 1992 when trade volume was US$96 million to US$18.57 billion in 2014 shows that the trade balance is in China's favour, as imports from Nigeria is lower than the number of China's exports (Figure 1). By 2013, Nigeria had a total of 6 per cent of China's trade with the continent, while China recorded a total of US$10,486 million surpluses in trade with Nigeria (UN Comtrade, 2016).

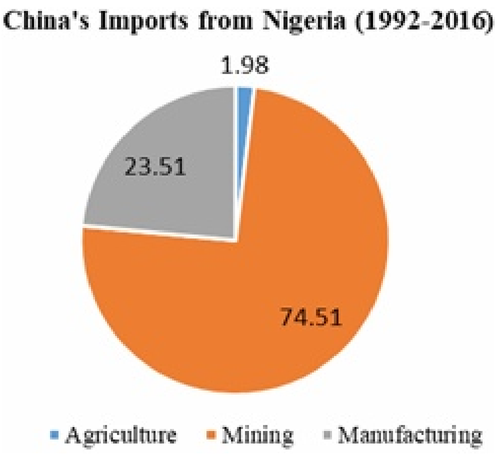
Figure 1 China-Nigeria Trade Flows, 1992-2016



Source: UN Comtrade (2016).

In the composition of trade, China's exports to Nigeria are comprised of diversified manufacturing goods, while China imports mainly minerals from the latter, as shown in Figure 2. In the three categories of trade, agriculture had a small share of 13.4 per cent and 2 per cent as exports from China to Nigeria and imports from Nigeria to China respectively. Due to the non-competitive nature of Nigerian manufacturing industries, its exports to China during the period under study was 23.5 per cent. On the other hand, China exported 77.8 per cent of its manufacturing in return to Nigeria. The third category, oil mining imports of China from Nigeria was about 75 per cent, while Nigeria's exports of mining stood at about 8.8 per cent, which is the focus of this research, and the engine of the Nigerian economy shows surpluses in different years. The structure of trade between China and Nigeria remained the same for the past two decades and is unlikely to change.

Figure 2 Composition of China-Nigeria Trade Partnership



Note: Based on the Harmonized System (HS) at the 2-digit level. HS01-HS24 – agriculture; HS25-HS27 – oil (mining); HS28-HS99 – manufacturing.
Source: Calculated from UN Comtrade (2016).

4.2. FDI Channel

In the entire region, Nigeria accounted for about 6 per cent of China's total FDI outflows. It was ranked as the third largest investment destination behind Mozambique and South Africa in terms of FDI flows in 2013, as against Nigeria's first position in 2012. In addition, at the end of 2012, China's stocks in Nigeria were estimated at 9 per cent, and the share of the oil and gas sector was about 75 per cent (UNCTAD, 2014). As shown in Figures 3a and 3b, until the year 2002, Chinese FDI flows and stocks in Nigeria from 1992-2002 was zero. The period of increase in FDI coincides with when China officially launches in 2003 its "go global policy" (Alden, 2012). The developments in the Chinese FDI flows were US$68 million in 2006, US$390 million in 2007 and US$1631.14 billion in 2008, while FDI stocks totalled US$7446 billion at the end of 2012. However, the level of FDI attracted by Nigeria is still considered relatively minimal vis-à-vis other recipients of Chinese FDI in Africa when compared with her resource base, large market size and potential needs (Alabi *et al.*, 2011).

More so, the actual benefits of Chinese investment that accrue to the Nigerian side have been debatable, as the human capital development in most of the agreements with China has not been given due attention (Atomre *et al.*, 2009). In addition, there is growing concern about Chinese work practices, and people are sceptical about the benefits of Chinese firms. According to Taylor (2007; 2015), China "*has fewer regards for local content, and proper safety standards are not upheld in most of their factories in Lagos. For instance, a fire incident occurred in a Chinese factory in Ikorodu-Lagos, an investigation revealed that the workers were locked up in the factory, which prevented the rescue of the affected persons*". To date, the Chinese firm has not been held accountable for the loss of workers. Nonetheless, Nigeria has continued to embrace Chinese investments (Ogunkola *et al.*, 2008).

Figure 3 (a) Percentage of Nigeria in China's Total FDI Flows to Africa, 1992-2015

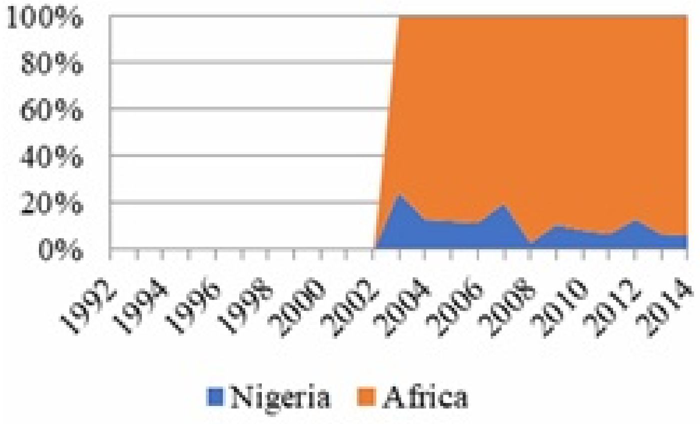
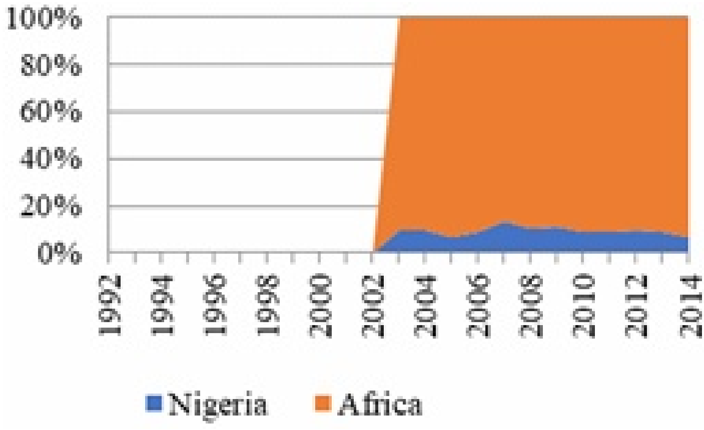


Figure 3 (b) Percentage of Nigeria in China's Total FDI Stocks in Africa, 1992-2015



Source: Computed with data from UNCTAD and Johns Hopkins University (SAIS China-Africa Research Initiative, 2016).

4.3. Aid and Other Forms of Economic Cooperation

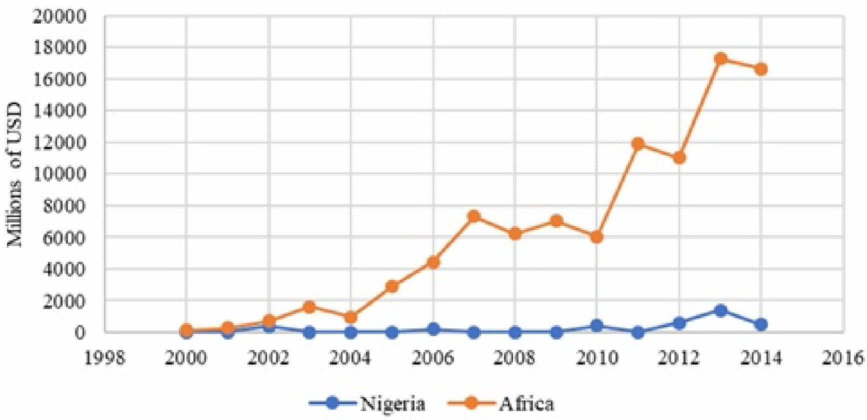
In 1982, Chinese Premier Zhao Ziyang visited Africa and declared the "South-South Cooperation" and added a new principle to its foreign aid: "diversity in the form". The African continent is now the largest recipient (52 per cent) of China's external development assistance, which is influenced by economic reasons, strategic diplomacy, domestic politics, ideologies, and values. China's aid to Africa is highly criticised based on its divergence from the traditional official development assistance's (ODA) norm. The concern is that it would be counterproductive to natural resources for cheap loans and other forms of assistance. However, Chinese finances are no longer automatically linked to access mineral equity, as China is moving towards direct acquisitions as a form of market entry into Africa (Bräutigam, 2011b; Bräutigam, 2011a).

At the bilateral level, China joined the league of donors in Nigeria through formal economic and technical cooperation agreements. For the period 2000-2009, China's aid to Nigeria was about US$589 million (Figure 4). China's official assistance to Nigeria is characterised by aligning debt financing with commercial projects, using aid to leverage funding from non-government sources, and focusing on capital expenditure and development of productive sectors (Bräutigam, 2010; Gold *et al.*, 2017).

As depicted in Figure 4, Nigeria received less than 4 per cent of China's total loan from 2000 to 2014. It is noted that the Export-Import (Ex-Im) Bank actively supports the finance of China's engagement in Nigeria, and while SOEs pioneered China's involvement in Nigeria, private players were not left out. These private entities include companies such as the China Civil Engineering Construction Corporation (CCECC), China Railway Construction Corporation

(CRCC) and Sinohydro, among others. Approximately, 20 per cent of the total construction in Nigeria is carried out by Chinese firms (International Monetary Fund, 2015). The numerous dealings mentioned above make Nigeria to be China-expertise-dependent. Thus, China's approach to financing has also been identified as unique, especially in business development projects, in attracting trade credit and commercial loans, and in most cases, in that repayment is linked to the output of the projects (particularly crude petroleum).

Figure 4 Volume of China's Loans to Nigerian and African Governments, 1998-2016



Source: Computed with data from Bräutigam and Hwang (2016) and SAIS China-Africa Research Initiative (2016).

However, Broadman (2008) and Kelley (2012) argue that the Chinese model of business development is somehow counterproductive, as many of the foreign-funded infrastructure projects do not meet the local needs and are pricy, while most are not supported with maintenance. Few technical investments are channelled into the maintenance of the infrastructure constructed by the Chinese workers due to issues associated with transparency and governance. In a nutshell, the economic cooperation through investments and aid from the Chinese government has the potential to worsen the problem of mismanagement that already prevails in the extractive sector. For instance, China-financed infrastructural development projects under the Belt and Road Initiative (BRI) or the One Belt One Road (OBOR) carried out in Ethiopia and Sierra Leone are generating argument in the media (Kuo and Kommenda, 2018). The China's Ex-Im Bank-financed Mamamah airport project in Sierra Leone was cancelled due to bombardment of disapproval from Sierra Leoneans, International Monetary Fund (IMF) and World Bank who perceived it as uneconomical when the existing one is grossly underutilised (The British Broadcasting Corporation, 2018; *Construction Kenya*, 2018). Also there are problems with the inaugurated Addis Ababa-Djibouti freight railway amid Djibouti's concerns over non-proximity to users, maintenance, completion, and the quality of material used among others (Bekele, 2016; Anberbir, 2017; Berhane, 2017).

Nevertheless, there are no concerns on the potential implications of these African countries' problems with China for the future of Sino-Nigeria relations. This is because the empirical evidence in the foregoing indicates the nature and the direction of the impacts of Sino-Africa relations vary from one African country to another, depending on the economic, social and political structures of the country in question (Kaplinsky and Morris, 2009; Broich and Szirmai, 2014). For these reasons, Yin and Vaschetto (2011) cautions on the issue of over-generalizing the findings and conclusions of specific case studies or selected countries in Sino-Africa relations as it may not be too relevant or applicable. Rather, African governments must strengthen their bargaining power and institutional structures to enact rules and regulations to be adhered to for the sustainability of their relationship.

5. Government Policies

There is no bilateral trade agreement between China and Nigeria. Instead, several policy reforms and agreements such as bilateral investment treaties that is meant to protect and promote investments partly explained much of the developments in China's engagements with Nigeria (Oyeranti *et al.*, 2010). Therefore, the China-Nigeria trade can also be explained through the analysis of changes in "at-the-border" trade policies, "behind the border" domestic market constraints, "between-the-border" factors and mutual relationship between investment and trade (Ogunkola *et al.*, 2008).

More so, the Nigerian government has formulated various attractive policies through its agencies to attract FDI, promote trade relations and development assistance to maximise China's engagement in all facets of its relations. The Bureau of Public Enterprises (BPE) – the agency responsible for the privatisation of state-owned enterprises in Nigeria – is an example. The agency emphasised and appealed to the Chinese government to invest in petroleum, mining, telecommunications, power and manufacturing sectors as these represent the main targets for investment (*ibid.*). In addition, the Nigerian Export Promotion Council (NEPC) is vested with the responsibility to administer export incentives in Nigeria. The Nigeria Investment Promotion Commission (NIPC) was as well created to support government policies gearing towards promotion, mobilization and reformation of the investment climate into key resources sectors. NIPC is conferred with the power to promote economic linkage and technology transfer between major projects, and smaller adjacent businesses, to improve productivity, competitiveness, employment and growth in the economy (NIPC, 2015). In agreement with China-Nigeria development policies, the Chinese government did not hesitate to lay out to the Nigerian officials its terms of relations, which is energy security, to sustain its rapidly expanding economy. This happened during the process of renewal of bilateral engagement with China in the year 2002 (Egbula and Zheng, 2011).

More importantly, due to the sensitivity of Niger-Delta and other mining communities, the Nigerian government established the Federal Environmental Protection Agency (FEPA) with Public Act (1988). FEPA is to change the legal status quo of environmental regulation in the Nigeria petroleum industry, and to control or minimize the associated environmental impacts (Ite *et al.*, 2013). Under the FEPA Act of 1988, penalties and enforcement mechanisms were imposed on MNCs to be liable for the costs of cleanup, restoration and payment of compensations to parties injured during their practices. According to Ebeku (2008), the Nigerian Petroleum Act 1969, Regulation 26, requires that one year upon a lease of license, the MNCs through its agents and contractors should submit to the Minister of Petroleum Resources the detailed program for the recruitment and training of Nigerians in all phases of petroleum operations, while Paragraph 37 demands that the oil MNCs upon ten years of oil mining lease should employ 60 per cent of all categories of skilled, semi-skilled and unskilled Nigerian citizens (Ebeku, 2008). Other policies include the Extractive Industry Transparency Initiative against corrupt practices in oil sector, CSR, labour law, and a local content requirement that will enable human capital development, environmental protection and technology transfer (Hilsum, 2008; Alabi *et al.*, 2011).

However, in despite of the government policies put in place to checkmate and sanction excesses from MNCs investing in Nigeria, China has been alleged for near total disregard for labour unions demand, labour law and work-related safety. Beijing disputably import workforce from home, thus depriving the host economy of the benefits of job creation. Yet, there are no "known voices" in Nigeria be it among economists, politicians or civil societies against China's current disposition in this area. Neither has it raised any critical concerns about the implications of continuing China-Nigerian relations (Oyeranti *et al.*, 2011; Taylor 2007). Although survey results show that Chinese private enterprises in Nigeria, Madagascar and Ghana uses over 90 per cent local workers for production except for managerial positions (Gu, 2009), we are of the opinion that the Nigerian government should not only put in place good governance and better macroeconomic environment, but should also ensure that Chinese investors comply with laws and regulations as this will translate to sustainable relationship.

6. Implications for Nigeria

The China-Nigeria engagement is considered complementary, when investments, trade and aid are taken together. This is evident through an increase in trade alongside with an increase in FDI and aid from China. The increase in trade, FDI and aid from China is reflected in the upward movement of Nigeria's oil sector. Chinese vertical-type investment pattern in Nigeria's oil is highly concentrated in just 2-3 large SOEs and it is significantly questionable whether the benefits get to the beneficiaries, i.e. the local community. While the macro implications of China's engagement in the extractive sector of Nigeria indicate positive and negative transformations for the latter, the micro-level effects remain unclear as surveys are restricted towards that area. More importantly, "beneficiation"[5] or "resource nationalism" must be accounted for to provide a clear understanding of whether China's involvement in Nigeria has been meaningful and transformative for the latter. The effects on the local economy and local communities, regarding domestic linkages, spill-overs (technology and skills), job creation, labour standards/human rights and environmental concerns, are key to understanding sustainable benefits from China's engagement in the extractive sector of Nigeria.

For example, the local content[6] development in the Nigerian energy sector has to some extent led to high-end value-chain activities, with many local companies licensed to operate upstream oil and gas assets and provide high-end engineering and drilling services to MNCs (Akinkugbe, 2013). Despite that, Broadman (2008) argues that the Chinese engagement in Africa only produces limited spillovers, as their business strategies entail the enclave type of corporate profiles. Regarding employment in the extractive sector, which is relatively less labour-intensive, recent statistics indicate that between 2007 and 2014 more than 8,000 jobs were created in Nigeria through cooperation with China (*China Daily*, 2015). Notwithstanding, the labour union has complained about the poor working conditions and the low wage payable to Nigerian workers in Chinese companies (Egbula and Zheng, 2011; Atomre *et al.*, 2009). In the context of the oil mining sector in Nigeria, employment generation following China's growing involvement and adherence to labour laws by Chinese companies is unknown (Ayodele and Sotola, 2014). Broadman (2008) is sceptical of employment creation in large numbers in this sector, because of the large capital involved and the sizable growth in imported Chinese labourers (Mohan, 2013). The outlook on employment generation appears even more unfit with the recent news of unregistered Chinese companies engaged in illegal mining in Nigeria, denying the local citizens gainful employment as these companies recruit mostly Chinese workers (*Daily Times Nigeria*, 2015).

Furthermore, the poor track record of China's environmental issues at home is alarming; hence environmental concerns in the extractive sector in Nigeria (Rocha, 2008) will not be prioritized by Chinese companies, and this may lead to further degradation. Nigeria is being considered an infamous nation because of its oil-companies-related challenges. The above arguments have yielded no consensus on the impacts of Chinese engagement in Nigerian's extractive sector of the local and community economy. It is empirically evident that the domestic outcomes of Nigeria through the growing involvement of China in her extractive sector is worthwhile. Existing surveys are relatively restricted (Hanusch, 2012) and even if they have examined the attitudes towards the Chinese in Africa, they have done so at the country-level basis. Examination at the country-level may provide some implications for the local economy (for example, the displacing effects of cheap imported manufactured goods from China, and the exacerbation of the resource curse), but often do not detail the implications for the local community. As discussed above, there are several socioeconomic dimensions through which the local community can be directly affected by larger activities in the extractive sector.

7. Conclusion and Recommendations for Further Research

This paper has conducted an analysis of China's three effective strategies: trade, FDI and aid in Nigeria's oil sector. Although China-Nigeria relations may be too early to measure considering the period of engagement, especially when comparing the benefits and the time frame of Nigeria's traditional partners, it puts some assertion to rest on the magnitude of Chinese engagement with Nigeria, which is often exaggerated by the media. Furthermore, it also qualifies as some arguments and anecdotal evidence on the implications of China's participation in Nigeria's extractive sector of the local economy and community. It is noted that there are no clear answers to the extent of beneficiation to the local community in Nigeria with the opening of the oil sector for China's participation. Further research is therefore required to study the detailed impact on the local economy and host communities, following China's involvement and engagement in the oil sector. For this purpose, this paper recommends a detailed survey of businesses in the extractive industry of Nigeria that has varying degrees of involvement with Chinese investors (large SOEs, small SOEs and private players).

Notes

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1. At present, 30 per cent of China's energy is derived from Africa (Ayodele and Sotola, 2014), of which 70 per cent comprises crude oil (Kelley, 2012).
2. The extractive sector accounts for about 98 per cent of Nigeria's exports, and about 40 per cent of its investments (Ogunkola *et al.*, 2008).
3. China became the world's second largest importer of oil after the US (Hanson, 2008; Alden, 2005). It is estimated that by 2030, China's demand for oil will increase to 13.1 million barrels per day. This request will amount to the entire oil production in Africa and twice the production of Saudi Arabia (Kelley, 2012).
4. FOCAC was inaugurated in 2000, and there has been follow-up every three years in Beijing to foster the strategic China-Africa relations.
5. A term used to describe the proportion of the value derived from mineral exploitation which stays in the country and benefits the local community.
6. The Nigerian Oil and Gas Industry Local Content Bill was signed into law in April 2010. It places obligations on international and local oil companies relating to capacity-building and use of Nigerian services and personnel.

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