



# Chinese Business Interests and Banking in Nigeria

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## EXECUTIVE SUMMARY

### RECOMMENDATIONS

- China needs to clearly understand the nature of the business environment in Nigeria and how this affects the nature and extent of Chinese activities in the country.
- China needs to take a detailed look at all the bilateral links that have resulted in controversies between the two countries and embark on a detailed 'lessons-learned' exercise.
- Although the banking sector in Nigeria offers attractions, China should also look at this sector in other West African countries. It is important for China to understand the dynamics of banking in the West African subregion at large.

China and Nigeria have extensive economic links covering a broad range of sectors from construction and retailing to manufacturing and oil production. Indeed, the impact of China is easily discernible in many aspects of Nigeria's socio-economic life. But although this relationship has been mutually beneficial, with both sides looking for ways of strengthening it, there have also been considerable hiccups. To a large extent, the difficulties in the relationship have been due to the terms of the contracts drawn up between the two countries and the character of the business and political environment in Nigeria. Indeed, China has been involved in some of Nigeria's most controversial bilateral agreements, including the steel projects in Ajaokuta and Aladja, the national railway project, and the oil-drilling project in the Niger Delta. Of all these links, however, the one that seems most extensive and most potentially difficult is that of oil exploration.

But an area where there have not been many economic links between the two countries is the banking sector. This is particularly surprising, as the banking sectors of both countries are undergoing significant changes that require them to go on a 'charm offensive'. Currently, China has formal links with three Nigerian banks. With the current changes going on in the Nigerian banking sector, the time seems ripe for China to play a more important role; specifically, many Nigerian banks will be deeply interested in Chinese investment, while Chinese involvement in the Nigerian banking sector will further strengthen the relationship between the two countries. Interestingly, each of the countries has what can attract the other. To Nigeria, China is a major economic and political force that can positively complement the country's desire to diversify away its economic reliance on the West, while Nigeria offers attractions to China because of its huge market.

## INTRODUCTION

Chinese financial interests in Nigeria are quite extensive. Indeed, in 2009 Nigeria came fourth among the top two-way Chinese trading partners in Africa (after Angola, South Africa and Sudan) and second among the top African importers from China (after South Africa). China has also set up 30 companies (some

solely owned, some jointly owned with Nigerians) in Nigeria. These companies are involved in the construction, oil and gas, technology, service, and education sectors of the Nigerian economy. The Nigeria–China Chamber of Commerce has also been established to ensure the further development of trading relations between the two countries. The relationship has its origins in the 1972 visit to Nigeria of the then Chinese minister of foreign trade and economic co-operation, during which a trading agreement was signed. By the mid-1970s the two countries were well on course for establishing a relationship that was to be mutually beneficial, even if sometimes somewhat controversial and difficult.

During the 1970s a major agreement between the two countries was the Nigerian Railways project, which commenced during the Murtala/Obasanjo regime of 1975–79, but was stalled because of alleged corruption on the part of some Nigerian officials. It was, however, reactivated in December 1995 with the signing of a \$528.60 million agreement that covered the supply of coaches, locomotives, wagons and guard vans, as well as the reconstruction of railway lines. The 1980s and 1990s saw increases in the trading links between the two countries. For example, China was also involved in Nigeria's controversial steel projects in Ajaokuta and Aladja. An enabling agreement was signed between the two countries in May 1997, but this was later plunged into another round of corruption scandals. Other developments during this period include the irrigated rice plantations in Lagos and the revamping of the Nigerian National Electricity Power Authority (later renamed the Power Holding Company of Nigeria).

Since 2000, business contacts between China and Nigeria have increased significantly. Indeed, in June 2002 they signed four agreements covering consulate matters, co-operation against illicit trafficking and abuse of narcotic drugs, psychotropic substances, and the diversion of precursor chemicals. Chinese firms were pouring into the country to do business. In April 2005 China's ZTE Corporation entered a deal with Nigeria Telecommunication to expand Nigeria's telephone network. The Chinese Civil

Engineering and Construction Company built the Nigerian Communications Commission building in Abuja, while Huawei, a giant Chinese telecommunications company, has started operations in Nigeria. China is also the source of the hordes of motorcycles that can be seen daily on Nigeria's roads. Indeed, Shao Huixiang, deputy director-general of Shanghai municipality, where many of the motorcycles are made, confirmed the increase in transactions between China and Nigeria, noting that the trade between Shanghai alone and Nigeria amounted to about \$172 million.<sup>2</sup> There are also many transactions with Nigeria's state governments. For example, Borno State has awarded six major contracts to Chinese construction and engineering firms to stem the wave of flooding that the state is experiencing. A Chinese conglomerate, Zhuhai Minghong Group, is also looking at rebuilding the Awoomama Resort in Imo State.

In the agricultural sector, a state-owned company, Genetic International Corporation of China bought its first consignment of 100 000 metric tons of fresh cassava chips from Nigeria in July 2005. This deal continued over a period of six months on a monthly basis. China has also increased its volume of agricultural imports from Nigeria. Currently over 500 Chinese experts and technicians in various fields of agriculture are at work in 20 states of the Nigerian Federation. In short, the volume of trade between Nigeria and China increased from \$178 million in 1996 to \$2.83 billion in 2007.

Although China is involved in many areas in Nigeria, the country's main interest in the West African nation is oil, a resource that is also at the forefront of controversy in Nigeria, because of the situation in the Niger Delta. Several oil deals have been signed over the last few years, the most significant being the one that allowed China to invest \$4 billion in Nigeria's infrastructure in return for the first refusal rights on four oil blocks.<sup>3</sup> This investment inevitably put China on a collision course with the militants fighting the Nigerian state over the management of oil in the Delta, and on a number of occasions Chinese oil workers have been taken hostage by militants. In January 2006 China's national offshore oil

company acquired a \$2.3 billion majority stake in a major oil field. The last five years have witnessed some major Chinese investments, including the involvement of China National Overseas Oil Company (CNOOC) in an offshore deepwater oil field. This is reported to be CNOOC's largest foreign investment ever, and the company will pay \$424 million for financing, operating and capital expenses. Profits will be shared with Nigerian National Petroleum Corporation in a 70:30 ratio in favour of CNOOC. China has also recently agreed to spend \$2 billion to build refineries and downstream infrastructure, while Sinopec paid \$7.2 billion for Addax in 2009.

#### EXISTING BANKING LINKS BETWEEN CHINA AND NIGERIA

Banking links between China and Nigeria already exist, even though on a comparatively small scale. Broadly, Sino–Nigerian banking links can be examined under two major headings: the sponsorship by Chinese banks of development activities in Nigeria and links between the two countries' commercial banks. Under the first category, a number of Chinese banks have been involved in development activities in Nigeria. For example, in 2006 China Development Bank gave \$20 million worth of financial support to Reliance Telecommunications to assist that company. Also, Export–Import Bank of China (Exim Bank) is involved in the development of oil facilities and railways in Nigeria.

The links between Chinese and Nigerian commercial banks is not particularly extensive. In terms of the relationship between individual Chinese investors and Nigerian commercial banks, it is known that Chinese individuals have significant financial investments in key Nigerian banks. For example, at one stage a Chinese individual owned nearly 5% of one of the major banks in Nigeria.

Three Nigerian commercial banks are known to have established links with China. The first of these is Nigeria's oldest bank, First Bank, which has now been granted a licence to operate in China, thus providing it with a foothold in the Asian region. First Bank also has other banking

relationships with Chinese institutions, including a memorandum of understanding (MoU) with Yuemei Group, a textile manufacturing firm, with a value of \$50 million; a partnership with the Shenzhen Energy Group in the building of a 3 000 megawatt gas turbine power plant in Nigeria, worth \$2.4 billion; and an MoU with another Chinese firm, Guangdong Xinguang Group, for a \$500 million investment in Ogun State, Nigeria. Guangdong Xinguang Group's collaboration with First Bank is in the areas of investment banking, project financing, business advisory services and a correspondent banking relationship between the two organisations. First Bank also has an MoU with China Construction Bank to cover global banking collaboration.

Another bank that has now established banking links with China is Standard IBTC,<sup>4</sup> which has links with the Industrial and Commercial Bank of China (ICBC), necessitating a visit to Nigeria in March 2010 by the ICBC chairman, Jiang Jianqing. ICBC has now acquired a 20% stake in the Standard Bank Group – the banking group to which Standard IBTC Nigeria belongs. ICBC's involvement in Standard IBTC has also made it possible for ICBC to become involved in a number of other economic projects in Nigeria. The visit of the ICBC chairman also gave the Nigerian financial sector the opportunity to showcase the country and to further show the Chinese how things work in Nigeria.

A third bank that has now established links with a Chinese bank is Nigerian Export–Import Bank, which is positioned at the core of Nigeria's trade-oriented activities. It provides short-term guarantees for loans granted by Nigerian banks to exporters and offers credit insurance against non-payment by foreign buyers. The bank has been holding high-level talks and deals with Chinese financial institutions such as Exim Bank. All these links further open China to other opportunities existing in the Nigerian banking sector.

#### CHINA AND NIGERIAN BANKS: POSSIBLE ACQUISITIONS AND INVESTMENT OPPORTUNITIES

There are grounds for China to play a significant

role in acquiring and investing in Nigerian banks, and interviews held with very senior officials of the Central Bank of Nigeria (CBN) and many of the commercial banks show that China will be welcome to play a greater role in the Nigerian banking sector. This can be done in two ways: by investment in any of the eight banks recently rescued by the CBN and involvement in any of the strong ones. Of the rescued banks, Wema and Union might be good investment options, because they are still run like old and conservative banks and have fairly large networks of branches. Most of the other rescued banks, like Oceanic and Intercontinental, were managed largely by individuals and families. Oceanic, Bank PHB and Intercontinental seem to be the worst managed and, as such, the ones with the worst liquidity problems. Among profitable Nigerian banks, China may want to look for investment opportunities in banks like Skye and Sterling. The standard of corporate governance at these banks is very high and they also have strong risk management procedures. However, there seems to be very little room for China to play any major role in the affairs of international banks in Nigeria.

In theory, there is no law restricting the extent of foreign ownership of Nigerian banks, provided the CBN has approved it. According to the new CBN governor, Lamido Sanusi, it is not likely to support foreign banks owning more than 10% of a top-tier Nigerian bank. But while not giving any exact figures, Sanusi confirmed in an interview that it is 'something that needs to be looked at again'. When questioned as to the possibility of a foreign bank owning a Nigerian bank outright, he did not rule out the possibility, and in fact used this as an opportunity to emphasise the difference between him and his predecessor, who was opposed to foreign ownership. Interestingly, he included China Construction Bank, alongside other banks like HSBC and Barclays, among those he would want to see acquiring ownership of Nigerian banks.

## CONCLUSION

Nigeria is a country with enormous potential and a promising future. With its huge population and the changes under way in the banking sector, the country is likely to attract the interest and attention of major global banks. China will be at a major advantage if it can add banking to its economic portfolio in the country. This can also assist China to make further inroads into the region, especially as many Nigerian banks are currently establishing branches in other West African countries. While China has reasons to be disappointed with Nigeria over some of its experiences in the past, especially the corruption and scandals that attended some of the economic links between the two countries, the banking sector in Nigeria is now undergoing a major reform that will give the sector the same standards as banks in other stable economies across the world. More importantly, the sector now seems to be in dire need of major external infusions of interest and investments. There can also be no doubt that the inclusion of banking in the list of other economic links between the two countries will, apart from being mutually beneficial, further deepen the relationship between the two countries.

## ENDNOTES

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- 2 Momoh S, 'How tidy in Nigeria-China relations', *BusinessDay*, 13 January 2009.
- 3 Hurst C, *China's Oil Rush*. Washington, DC: Institute of Analysis of Global Security, July 2006, p. 11.
- 4 This bank was established through a merger between Stanbic Bank of Nigeria and industry giant IBTC Chartered Bank.

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