



SPECIAL REPORT

2301 Constitution Ave., NW • Washington, DC 20037 • 202.457.1700 • fax 202.429.6063

ABOUT THE REPORT

This Special Report examines the role of Chinese investment and involvement in planned railway projects in Nigeria and its implications for regional security dynamics and peacebuilding. It was commissioned by and undertaken with the support of the United States Institute of Peace.

ABOUT THE AUTHOR

Yunnan Chen is a PhD candidate at the Johns Hopkins School of Advanced International Studies (SAIS) and a research assistant at the SAIS China Africa Research Initiative. Her research focuses on Chinese development finance in Africa's transport and infrastructure sectors.

Yunnan Chen

China's Role in Nigerian Railway Development and Implications for Security and Development

Summary

- Chinese firms and finance play a prominent role in Nigeria's infrastructure development, notably in the construction of several railway lines across the country.
- The intersection of planned railway projects and regional security dynamics has implications for security and peacebuilding and as a potential flash point for local grievances.
- The inherently political nature of railway projects can by definition exacerbate existing regional inequalities and interethnic grievances.
- New railways can contribute to investment and growth in impoverished regions, but security issues—particularly in the Niger Delta and southeastern Nigeria—are significant risks to the implementation of these projects and their feasibility going forward.

Introduction

Thirty years after the first Chinese-built cross-border railway from Tanzania to Zambia, Chinese rail projects are crisscrossing Africa, supported with financing from the Export-Import Bank of China and built by Chinese state-owned enterprises (SOEs). Ethiopia and Kenya in particular have seen significant construction under the umbrella of the Belt and Road Initiative (BRI), which President Xi Jinping unveiled in the fall of 2013. Nigeria, West Africa's largest economy, is no exception.

Chinese finance will go far in addressing Nigeria's large infrastructure gaps and—just as significantly—have wider consequences for peacebuilding in the region. "If you want to get rich, build a road" is an oft-recited Chinese mantra, one embodied in China's domestic

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SPECIAL REPORT 423

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CONTENTS

Chinese Actors in Nigeria's Railway Sector	2
The Economic Benefits of Railway Investment	3
Chinese Strategic Interests	5
Economic and Security Challenges	5
Conclusions and Recommendations	8

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experience where infrastructure investment has been a central growth strategy. This concept ties into a broader philosophy in Chinese discourse that connects poverty alleviation to peace and stability, and that identifies economic growth as a way to achieve both. At the 2015 Forum on China-Africa Cooperation, President Xi's address to African heads of state emphasized China's commitment to African capacity building to promote development and strengthen infrastructure: "Poverty is the root cause of chaos while peace is the guarantee for development," Xi said.¹

Infrastructure investment has been a key part of this cooperation; within it, railway construction is a prominent reminder of China's presence on the continent. Railway infrastructure in Nigeria could lead to significant economic benefits in the long run, generating jobs and skills training and promoting trade. These would be a particular boon in the northeast and south, where endemic poverty has contributed to insecurity and instability. The same projects, however, are at the same time vulnerable: both to these security concerns and to domestic political challenges that could threaten the economic viability of the projects and exacerbate regional inequalities within the country.

Chinese Actors in Nigeria's Railway Sector

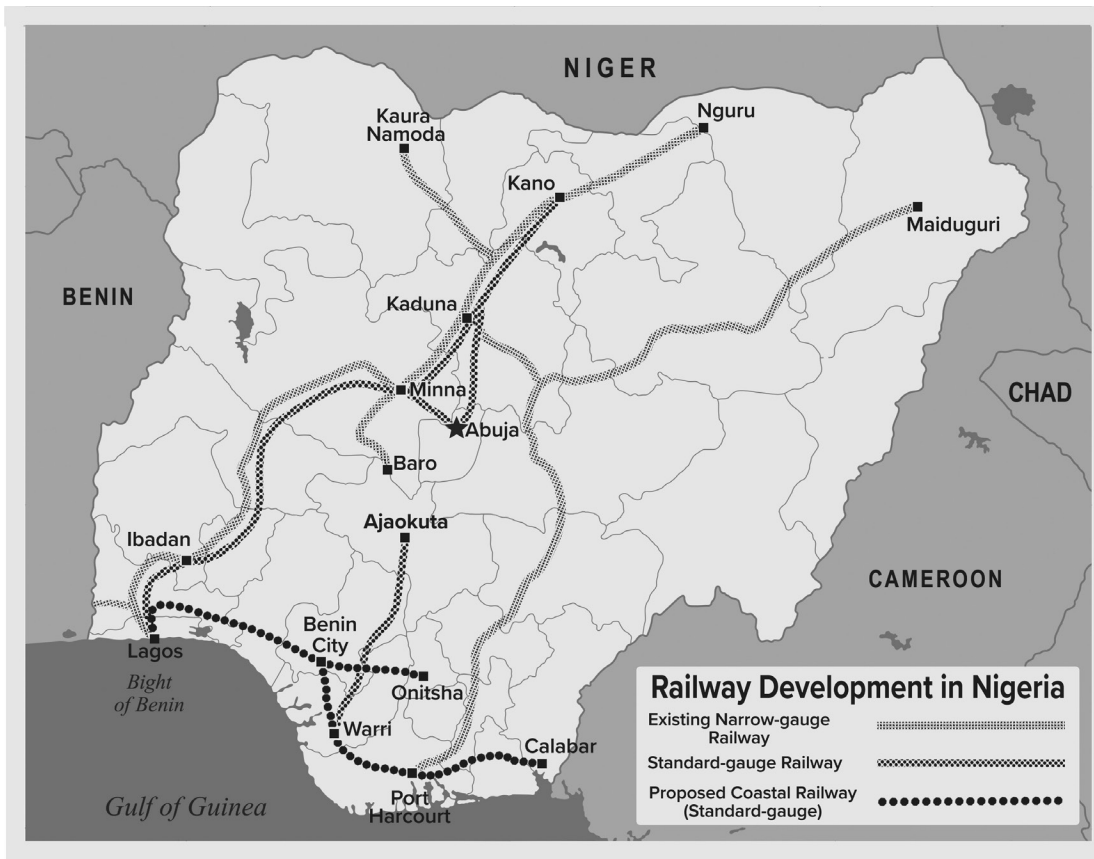
Much of Nigeria's extant railway infrastructure is inherited from the British colonial period. This comprises a narrow-gauge network with three primary north-south trunk lines that end at the coastal cities of Lagos, Warri, and Port Harcourt. These lines traditionally served primarily extractive purposes: connecting the port cities to inland agricultural and mineral resources, which were then exported to colonial metropolises. After independence, however, the inflating costs of bureaucracy and corruption, coupled with the declining relevance of agricultural exports in the post-oil boom, meant that the network gradually fell into disrepair.

Poor transportation infrastructure in Nigeria has been a major economic bottleneck to the development of its industries and exports because high transport costs lower the competitiveness of its goods. In 2002, after decades of neglect, the government under President Olusegun Obasanjo commissioned a twenty-five-year strategic vision to modernize the railway network; this vision was amended and ratified again in 2012. The plan aimed to rehabilitate and transition existing rail routes toward higher-capacity standard-gauge tracks, and to connect all thirty-six major states and economic hubs by new railway networks (see map 1).

Nigeria's government has sought the participation of a number of foreign actors in this effort, including the African Development Bank with German-Nigerian firm Julius Berger for the central trunk line, and, controversially, a new concession with General Electric for the existing narrow-gauge network. The largest projects in this sector, however, have been dominated by Chinese firms. China Civil Engineering Construction Company (CCECC), a subsidiary of China Railway Construction Company, is involved in multiple infrastructure projects across the country, including the Lagos airport expansion, numerous road projects, and inner-city light rail projects in Abuja and Lagos, all financed with concessional loans from the Exim Bank of China.

In the railway sector, Chinese finance is backing two major standard-gauge rail (SGR) projects. The first is an upgrade of the Western trunk line from Lagos to Kano, replacing the colonial track. CCECC was first contracted in 2006 to build the route, but given the Nigerian government's difficulties in raising its portion of the funding, the project was suspended; the line was subsequently segmented to be built in installments.² Of the planned route, the 187-kilometer (116-mile) Abuja-Kaduna single-track SGR was first to be completed in 2014,

Map 1. Railways in Nigeria



Note: Based on author's interviews with Nigerian Rail Commission, Department of Transport, and CCECC.

at a cost of \$874 million. CCECC is in the process of constructing the next 312-kilometer (194-mile) Lagos-Ibadan segment, which was awarded in 2014 after the completion of the Abuja-Kaduna line, at a cost of \$1.2 billion; financing for the \$1.1 billion Kano-Kaduna segment is still under discussion.³ Unlike the light rail and other infrastructure projects, which are financed under concessional terms, the interest rate and loan terms for these SGR projects are undisclosed.

A second major project is a new coastal railway connecting Lagos to Calabar, via Warri and Port Harcourt, to include branch lines to Benin City and Onitsha. This was not part of the original twenty-five-year vision but proposed by CCECC as part of three east-west routes that would crisscross the colonial trunk lines. Of these three, only the southern coastal route had political interest and prospect for finance. The contract for the project, signed with CCECC in 2016, is reported to be worth \$11 billion.⁴ The Nigerian senate approved a loan request to the Exim Bank of China in April 2017, which includes \$3.5 billion for the coastal project, indicating that the route will be segmented like the Lagos-Kano line, with the eastern segment from Port Harcourt to Calabar to be constructed first.⁵ A loan agreement with the Exim Bank has yet to be confirmed.

The Economic Benefits of Railway Investment

Railway development has been featured in China's wider Belt and Road Initiative across Eurasia and East Africa. In Eurasia, as in Africa, Beijing emphasizes the contribution of the BRI to peace by promoting the development and prosperity that come from

economic connectivity. Railways are an integral part of this formula. The intrinsic advantages of railways over road networks lie in their economies of scale: railways need less frequent maintenance and have higher speed and efficiency over long-distance routes, making them a highly advantageous low-cost option for freight traffic and offering huge potential for trade promotion.

Connecting Nigeria's underdeveloped but resource-rich inland regions with richer coastal consumer markets and port cities would have obvious benefits. Reducing inland transport costs—a huge problem for agriculture and manufacturing industries—would improve the competitiveness of Nigerian firms against foreign imports and potentially promote the export and trade of Nigerian goods. New railway hubs could also help attract investment and migration to previously underdeveloped areas.

Railway development also has positive spillover effects for complementary industries in upstream manufacturing supply chains, such as steel and construction materials, and generates demand for retail and services, all of which promote employment. A central trunk corridor would open up agricultural and mining industries in the middle-belt and plateau states. Likewise, the development of the western Lagos-Kano corridor would benefit northern cattle and leather industries, which are currently disadvantaged against cheap imports given the costs of transport.⁶

At a societal level, low-cost transport also promotes easier mobility and migration between regions, where existing road networks are poorly maintained, congested, and often unsafe. The impact of this social mobility can also contribute to social integration between regions and linguistic and ethnic groups. Before their decline, their extractive goal aside, the colonial railways helped connect rural communities to coastal hubs and encouraged rural-urban migration. New railways would foster similar mobility, encourage greater cultural and economic integration, and allow safe and affordable transport for migrants seeking employment and economic opportunities. These benefits are already visible in the completed Abuja-Kaduna line, where demand from commuters has been strong, not only for its efficiency but also for its additional security benefits relative to travel by road.

In the oil-producing Delta, where economic grievance and perceptions of exploitation have long been an underlying factor in regional conflict and insecurity—threatening Chinese investments and personnel as well—the economic opportunities that a coastal railway brings could contribute to peacebuilding and postconflict reconstruction efforts. Better infrastructure can attract investment from non-oil sectors to the region and encourage greater industrial agglomeration. The Nigerian government recognizes this: railways were pledged in a package of infrastructure projects as part of the Niger Delta Regional Development Master Plan, under the amnesty agreements of President Umaru Musa Yar'Adua.⁷ These plans now appear coterminous with the planned coastal line.

Current projects have already generated employment—contrary to popular beliefs of Chinese firms importing their own labor, CCECC's localization strategy mandates a ten-to-one ratio of local to Chinese workers. The company estimates that the construction of the Abuja-Kaduna line itself created four thousand local jobs, and currently approximately five hundred Nigerians are employed in operating the line. Even so, lack of local engineering capacity necessitates continued Chinese management in management and maintenance. The company has been proactive in running training initiatives and technology transfer centers for local engineers, including courses on railway maintenance, signals, and communications systems; staff at the Department of Transport also traveled to China for training on railway network management. However, technology and skills transfer necessitates a long-term systematic investment in local capacity building, which entails the prolonged participation of Chinese companies.

Chinese Strategic Interests

For Beijing, railway investment serves both strategic and commercial goals. The previous decade saw a close relationship between infrastructure finance and China's resource diplomacy. Under Nigeria's Obasanjo administration, the first contract in 2006 for the western SGR railway was tied to oil acquisitions by China National Offshore Oil Company, which gained right of first refusal on four oil blocs. This oil-for-infrastructure model has served well in China's engagement with other oil producers, such as Angola, but in the context of Nigeria's short political cycles it proved unsuccessful and the railway contracts were subsequently suspended under President Yar'Adua.⁸

More recently, infrastructure loans have also been an instrument in China's financial statecraft against Taiwan: loans offered after Nigerian President Muhammadu Buhari's 2016 trip to China led to the closure of Taiwan's trade office in Abuja and a reaffirmation by Nigeria's federal government of the "One China" policy.⁹

On the commercial side, Nigeria has felt the wider impact of trade and investment "going out" that the BRI has catalyzed. Despite having no official status within the BRI, Nigeria remains the largest and most populous market in West Africa for Chinese investors and SOEs. Under the current Buhari administration and the direction of Minister for Transport Chibuike Amaechi, the government has pushed plans for an ambitious railway network connecting all thirty-six state capitals, offering lucrative opportunities for international contractors.¹⁰ Other major Chinese railway SOEs, including China Railway Engineering Corporation, which designed and constructed the first electrified SGR line in Ethiopia, have sought to gain a foothold in Nigeria to eventually bid for these contracts. Notably, China Railway Construction Company, the parent company of CCECC, has also set up a Nigerian office to operate separately from its subsidiary, demonstrating the intensifying competition for overseas contracts, especially as China's domestic investment slows.

New railway projects also occur in a context of growing China-Nigeria economic and security cooperation. In 2017, Beijing pledged to double existing investment in Nigeria by another \$40 billion, and Nigeria is set to gain \$5 billion of the \$60 billion of new finance pledged at the 2015 Forum on China-Africa Cooperation summit. The shift in the wider China-Africa relationship away from resource trade to industrial cooperation will also have implications for how railway corridors develop. One of the rationales for the coastal line is its potential to foster a corridor of industrial zones along Nigeria's seaports. Such a corridor would generate further investment opportunities for Chinese industries looking offshore as domestic economic overcapacity puts pressure on low-level manufacturers.

Economic and Security Challenges

China's growing involvement in railway infrastructure, given the long-term life cycle of these projects, will entail a closer relationship—and potential spillovers—between growing commercial interests and the stability and security of Nigeria's conflict regions. China has previously provided military assistance to Nigeria, and collaborates with the African Union through the China-Africa Cooperative Partnership for Peace and Security in confronting issues of domestic terrorism and piracy.¹¹ These long-term infrastructure investments will also necessitate an expanded interest and potential involvement in Nigeria's security dynamics.

Railway projects will purportedly benefit Chinese investors by providing the economic and indirect social benefits of connectivity, but they will also entail security risks. For example, regional security threats have been a roadblock to the development of a national

railway network, particularly in the northeast, and a potential risk in the southern coastal line. In addition, the construction of large infrastructure works opens the door to corruption and political capture, and the political weight of some regions may lead to inefficient allocations. Finally, the local social and environmental impacts of the railways also need to be assessed and addressed with an eye to local tensions and conflicts.

Terrorism. The current Buhari administration has successfully pushed back the Boko Haram insurgency in the northeastern states and reclaimed the Borno capital of Maiduguri, but sporadic terrorist attacks on civilians continue. Currently no railway routes financed by the Chinese are planned in the northeast, and the threat of terrorism has effectively deterred any railway development in Borno State. The last segment of the railway rehabilitation of the eastern trunk line from Borno to Maiduguri, contracted to a Nigerian firm in 2011, was reportedly abandoned due to attacks by Boko Haram.¹² Gezhouba is the only Chinese contractor involved in rehabilitating the eastern trunk; CCECC has expressed no interest in taking on any segments of it. Despite the real need, and the peacebuilding potential that infrastructure development can provide, the northeast remains in a chicken-and-egg situation. Until it stabilizes, it is unlikely that Chinese or other foreign investors will prioritize infrastructure development in the region. Meanwhile, the termination of amnesty programs in the Niger Delta may also portend a resurgence in militant attacks on infrastructure: although these attacks have largely targeted the oil sector, new rail construction and an influx of foreign Chinese workers also present a vulnerable target.

Kidnappings and local security. In the Delta and southeast, where poverty and unemployment are rife, new construction projects may be a flash point. Chinese rail construction workers in Kenya have been attacked by locals, and across Africa the perception of Chinese contractors taking away local employment opportunities—though often inaccurate—feeds local grievances.¹³ Kidnappings of foreign workers in the Delta have affected both the ability and the willingness of foreign companies to operate. Julius Berger, for example, was forced to demobilize and pull out of the central trunk rehabilitation, forcing the government to turn to CCECC to complete the work. Although Chinese companies have fewer security demands than their European counterparts (who reportedly require an armored tank during operations),¹⁴ the cost of security measures is still high, requiring permanent private security details for personnel and compounds, mobile police, and armed guards for the track. These costs are a significant economic burden for the company and raise the cost of infrastructure projects. The Kenyan case may be instructive for Nigeria's railways: China Road and Bridge Corporation has engaged in a collaboration with Kenyan armed police, local security guards, and the Chinese private security firm Beijing DeWe Security—one of China's top private security firms, responsible for the evacuation of Chinese nationals from South Sudan. Together, they have formed a specialized public safety commission for the Mombasa-Nairobi railway—a case of institutional capacity building between African and Chinese actors that may serve as a model for China's railway ventures elsewhere.

Social and environmental issues. At the local level, new rail developments will also need to manage issues related to social and environmental impacts, particularly land rights and appropriations. The Abuja-Kaduna line was completed successfully largely because, as a single-track line, it was cheaper to construct, and government ownership of land around the administrative capital negated the need for appropriation. The Lagos-Kano SGR line will follow existing narrow-gauge routes, mitigating this problem. Segments of the coastal line will be more problematic, however. For brownfield sites, privately owned land will require appropriation and monetary compensation, making it an intensely political problem. Land rights pose a significant challenge to connecting cities to ports: port connections to Warri, Port Harcourt, and Lagos are still undeveloped in the face of dense

urbanization, which entails large displacement of people and complicates the compensation process, which itself opens up opportunities for local rent-seeking. This situation will be a major challenge in the future development of the coastal line. It is also the responsibility of the state and federal governments, but Chinese companies face a reputational and material risk in that they will be held responsible by locals if social and environmental standards are not met.

Corruption and regional politics. Finally, the political economy of railways remains a long-term challenge to network development. Political corruption has long been a contributing factor to both the decline of the railway sector and the uneven progress of its recovery. The northeastern line and the botched rehabilitation project were plagued by allegations of corruption under the previous administration, and corruption is certainly a factor in the contracted costs of railway infrastructure. A wider problem is the lack of policy continuity on railway plans. The western line alone has passed through seven administrations, leading to inconsistency in network plans across administrations, and even between government and firm actors on which routes are prioritized.

The geography of railways is especially vulnerable to political distortions. One example is the planned extension of the western line to Sokoto in the northwest, reflecting the political importance of the sultanate to forthcoming elections over the commercial benefits of connecting the region. Railway routes have a tendency to shift, with each administration, to emphasize presidential hometowns and states. As fiscal constraints necessitate segmenting lines, politics will condition which segments get priority. The choice of funding the Kano-Kaduna segment has been perceived to reflect the dominance of northern interests in the political elite. Likewise, of the much-vaunted coastal route, the segments to be constructed first will be the eastern route from Port Harcourt to Calabar rather than the western routes from Lagos. This likely reflects the political salience of Rivers state (of which Minister of Transportation Amaechi is governor) rather than any economic rationale, which would encourage maximizing the length of existing network routes. Railway politics have been a source of grievance for resurgent pro-Biafra groups in the southeast: though the coastal line is touted as beneficial to the economic development of the south, the inland Igbo-dominated states say they are neglected in national railway plans, and opposition to current railway plans is strong. No funding has been secured in developing the eastern trunk route, which has not been included in the standard-gauge modernization plans.¹⁵ This exclusion further fuels the perception of marginalization in separatist groups in the south and southeast, increasing the risk of railway projects becoming potential flash points for militants seeking to pressure the government.

Economic challenges for investors. The sporadic and fragmented pattern of network development reduces the economies of scale that give railway networks their efficiency and cost advantages. This has implications for the attractiveness of the SGR network to investors and potential private finance, and raises questions over the feasibility and long-term economic viability of these increasingly sprawling networks. A longer-term question remains over how the government will service these loans: it is highly unlikely that routes will recoup their cost through user fees, and low commodity values have already strained government budgets and the ability to finance new projects. The modus operandi of China's Exim Bank has been to help Chinese firms in winning overseas contracts, but this potentially generates problems of moral hazard as its SOEs push economically unviable projects with the backing of Chinese state finance. In recent years, the Exim Bank has taken a more cautious approach in issuing loans, but the long time frames on these projects and strains on government budgets mean that the role of Chinese SOEs may extend to greater responsibility and involvement in management of railway routes down the line to ensure that debts are

repaid. The economic viability of these projects also depends on the continued stability of the geographic regions. Chinese firms' long-term interests in the projects may necessitate further security cooperation by deepening capacity building in police and transport security institutions, as in Kenya. In sum, the time frames of railway projects may test the long-term sustainability of China's noninterference principles.

Conclusions and Recommendations

Although Nigeria is not written into the Belt and Road Initiative, it has felt the impact of the BRI in the waves of Chinese capital and investment in its infrastructure sectors. Ambitious new railway projects undoubtedly carry benefits: the completed Abuja-Kaduna line is a small demonstration of the employment and commercial opportunities that railway infrastructure can bring. However, building such projects and ensuring their functionality on a large scale will be far more challenging in other parts of the country.

Chinese railway investments bring connectivity advantages, benefiting local industries and potentially attracting greater investment. This can encourage greater industrial agglomeration along Nigeria's main corridors and coastline, which in turn can help catalyze structural transformation and economic development, as well as boost local employment. However, both Chinese and Nigerian actors need to recognize the economic and security risks attendant to large-scale projects. New construction projects also present risks of becoming a flash point in regions such as the Delta, both for tensions against the Chinese and from existing regional grievances against the Nigerian government, which railway projects—by the geopolitical nature of their distributed benefits—could magnify. Both sides also need to recognize the mutual spillovers between infrastructure projects and local conflict dynamics, as failed attempts at railway rehabilitation in Borno state have showed.

In mitigating these economic and security risks, Nigerian and Chinese actors each have an interest in ensuring that loan finance in the railway sector supports economically sound projects. Nigerian policymakers should prioritize network routes that maximize economies of scale in the network, to avoid ending up with a fragmented network driven by regional politics. Second, if these rail projects are to contribute to inclusive growth, policymakers need to ensure that projects promote not only employment but also long-term skills and technology transfer that bring other upstream industries and jobs from China to Nigeria, not just Chinese technology in terms of hardware. Finally, in developing a national network, the Nigerian government should strive to diversify away from Chinese finance, which would mitigate an overreliance on Chinese firms and products that limit their bargaining power, both over financial terms and flexibility in design and development. General Electric's participation as a concessionaire in the narrow-gauge network offers an alternative source of technology and model for operations, and, for US policymakers, an inroad in promoting American commercial interests in Nigerian markets. It also presents a potential platform for future cooperation: as the network develops, both Chinese and American firms would need to coordinate over how to integrate narrow-gauge and standard-gauge networks, to standardize operations, and to cooperate in security and risk management.

Finally, for Chinese SOEs, these large-scale projects need to take local social and environmental impacts into account, particularly in sensitive regions such as the Delta states; this issue underscores the importance of corporate social responsibility practices, as well as consultation with local communities. It is in both Chinese and Nigerian interests to ensure the long-term sustainability of these projects. For Chinese state actors, this may entail a deeper interest in security cooperation to protect their SOEs and investments. Sustainability

means that these projects must deliver the economic goods and inclusive growth that—in the spirit of China’s Belt and Road rhetoric—can foster the intertwined goals of development, stability, and peace.

Notes

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3. As of September 2017, this segment has not confirmed financing from China’s Exim Bank.
4. “Lagos-Calabar Railway Project: FG, CCECC Sign \$11.12bn MoU,” *Vanguard News* (blog), July 1, 2016, www.vanguardngr.com/2016/07/fg-ccecc-sign-mou-11-12bn-lagos-calabar-railway-project.
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15. Hassan Adebayo, “Amaechi denies excluding eastern region from new rail projects,” *Premium Times*, May 20, 2017, www.premiumtimesng.com/regional/south-east/231672-amaechi-denies-excluding-eastern-region-from-new-rail-projects.html.

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