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China and the Bélinga project in Gabon

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“If you want to be rich, you must first build roads.”(Chinese proverb)

## Introduction

- 1 Throughout the last decade China’s foreign direct investment (FDI) and economic exchanges with Africa have risen consistently and significantly. Even though the spectrum of Chinese activities in Africa is quite large – ranging from retail to agricultural projects – the bulk of efforts is concentrated in the extractive sector. The rising concern about diminishing resources as well as competition – real or potential – coincides with the arrival of new actors (such as India, Brazil and especially China<sup>1</sup>) and puts the substratum-rich African continent into the centre of global stakes. If the scramble for petroleum generally prevails, other natural resources, such as mineral ore or copper, play an important role as well.

Regarding several points, the Bélinga iron ore project in Gabon reflects not only the current Chinese involvement but also the changing nature of its extractive business in Africa<sup>2</sup>. On one hand, the growing use of FDI and the role played by multinational firms lead to the increasing internationalisation of the capital (Alden, Davies, 2006; Levasseur, 2002). At the same time, the recent Chinese interest for the Gabonese iron ore illustrates the evolving strategic value of different natural resources (Raffestin, 1980) in a certain economic context.

Gabon is a sparsely populated state with a total of 1.5 million and a very low density of inhabitants per square kilometre. Historically, one of the major pillars of the

“Françafrique”, its economy is largely dependant on a petroleum-based rent (Pourtier, 1989; Yates, 1996). The country’s interest for mineral ore expresses a rather recent shift, knowing that the state’s economy has successively been based on timber, petroleum, uranium and manganese.

- 2 This case study highlights the role of politics in implementing an investment of this scale and underlines the interrelation of both political and economic factors in large project management. Given the large sums invested, the number of preliminary construction works and the outlook for jobs, the Bélinga mining project has from the start been promoted and qualified as a flagship project for the Gabonese national economy. The initial Chinese commitment for rapid exploitation and desire to have access to natural resources converges with the Gabonese aim of diversifying its economy. It also reflects the idea of a shared necessity: the need for Chinese firms to acquire international experience and become more competitive facing the challenge of developing basic infrastructure in Gabon<sup>3</sup>. While China’s African policy stresses the feature of ‘mutual benefit’ through its investments, it raises the question of if and how it is displayed on the ground. Though the project might affect the country’s spatial organisation and is expected to stimulate development dynamics, the prospects in a longer term for both sides need to be analyzed.

The death of former president Omar Bongo in June 2009 as well as the commodity volatility has however challenged the realisation of the project. The changing domestic political context has introduced new risks and costs for the Chinese. Thus, since the signature of the contract in 2006, the delays have been significant. If Chinese operators have initially been depicted as less profit-orientated and sensitive (than Western operators) towards the realities of the host society, recent developments show a different picture of China’s involvement in Gabon.

- 3 Regarding research about the extractive sector, two major tendencies appear. On one hand, studies establishing (at various degrees) a direct link between resource rich countries and the negative impact on their domestic economy still prevail (Ross, 1999; Soares de Oliveira, 2007). On the other hand, a range of analyses have drawn a more possibilistic view around the concepts of trajectory and bifurcations<sup>4</sup> opposed to the predominant natural resource curse approach (Magrin and van Vliet, 2005, 2009). By focusing on the evolving strategies around the Bélinga project as well as the potential development opportunities, the current study adheres to the second pattern.

While analyses and scientific literature about the Chinese involvement in the African extractive sector have become more and more abundant and diversified over the last couple of years (Taylor, 2006; Downs, 2007; Ferreira, 2008; Large, 2008; Soares de Oliveira, 2008; Alden, Alves, 2009; Li, 2010; van Vliet, Magrin, 2011), the Gabonese case has been mostly ignored. The constant postponement of the Bélinga project might partly explain, why so far, few scholars have taken an interest in this example<sup>5</sup>. Most of the analyses regarding Sino-Gabonese relations underline the Bélinga project, with a focus on the potential rivalry between traditional partners and China as well as economic diversification challenges at a national level.

- 4 The present paper reviews the development opportunities linked to this project and shows how China’s initial strategic approach in Gabon has progressively been evolving. Thus, the early stages of this mining project provide an interesting insight of firm behaviour and how the different parties involved act and react at the beginning of an extractive cycle (van Vliet, 1998; Magrin, van Vliet, 2005; Dittgen, 2011).

- 5 In this article, we will be examining the three following hypotheses:
- In regards to the Bélinga project, the preferential political ties and financial support from the Chinese government facilitate the rapid enforcement.
  - This long-term investment creates indirect development opportunities at a local scale.
  - However, by focusing on the mining sector, Gabon's diversification attempt is not leading to a major change in the structure of its economy despite the infrastructure development at a regional and national scale.
- 6 In order to analyse the evolving nature of the project, it appears necessary to identify the actors involved and to study under what circumstances the project has been elaborated. First, this study aims to stress the entanglement of politics and economic interests regarding the Chinese presence in Gabon. Subsequently, the extractive sector – at the heart of the Sino-Gabonese relations – as well as the past and present dynamics around the Bélinga project will be analysed more extensively. Finally, it will be interesting to assess the impact, the stakes and challenges linked to this long-term investment.

## New actor, old habit ? A politicized intensification of economic relations

- 7 If the increase of the Chinese involvement in Gabon appears to be quite recent, the initial contact is much older. Diplomatic links between the People's Republic of China and Gabon were established in 1974. This decision followed Gabon's wish for a general political opening and the coming into power of Omar Bongo in 1967 (Dittgen, 2007; Yates, 2008, pp. 210-214). His first State visit to China and meeting up with Deng Xiaoping and Mao Zedong that same year happened at the height of the Cold War. Bongo justified this growing connection with China and diversification of partnerships by his wish to accelerate the country's development. Since this trip, which has set the base for this cooperation, the relations tied between the two countries have been growing stronger over the years. During his 41 years in power, the Gabonese president returned to China on many occasions. If Omar Bongo has been both a symbol and a pillar of the '*Françafrique*'<sup>6</sup>, at the same time he did not neglect other possibilities and was able to diversify the country's partnerships.
- 8 From an economic point of view, relations with China have remained limited for a long time and confined to marginal sectors. China's presence has first been felt through the dispatch of agronomic and medical teams, the construction of hospitals and the launching of agricultural projects. If Sino-Gabonese relations have gradually expanded to other fields, it is only from the late 1990s onwards that commercial ties between the two countries have experienced a significant strengthening<sup>7</sup>. Currently, manganese and timber exports from Gabon are the most affected by the boom of the Chinese economy (Tableau de bord de l'économie, 2008). China's strong demand of mineral ores has furthermore led to an increase of exports by Comilog<sup>8</sup>.
- If natural resources represent the bulk of Gabon's trade with China, imports from the Middle Kingdom – covering a wide range of manufactured products – have remained at a relatively low level: 45 million € in 2006 and approximately 108 million € in 2009 (World Trade Atlas database, 2010)<sup>9</sup>. On the other hand, Gabonese exports towards China have however been growing considerably. Evaluated at 245 million € in 2005, the

latter experienced a significant rise in 2006 ( 572 million €), reached the highest level in 2008 ( 1.25 billion €) before experiencing a slowing down in 2009 ( 500 million €). In spite of this temporarily decline and difficulties to obtain precise figures regarding exports in more recent years, the tendency is leaning towards a continuous increase.

- 9 Initially considered as a marginal partner, more recently a number of sources have already placed China as Gabon's second largest customer behind the United States (Lafargue, 2005; Report by the Centre for Chinese Studies, 2007; Report by the Economic Mission of the French Embassy in Libreville, 2002). Nevertheless, the United States remain the "top customer", mainly by acquiring over 50 per cent of Gabon's petroleum, and France continues to be Gabon's leading supplier with a market share of around 35 per cent<sup>10</sup>. Current developments point however towards a changing situation: namely a decline of exchanges between the "traditional" partner France and its former colony due to China's increasing involvement. If it is plausible that in the long run, China might surpass France as a trading partner, the French's overall hold and influence in Gabon will not disappear overnight (Yates, 2008, p. 221).
- 10 At the same time, official visits by Chinese dignitaries towards Gabon have increased: the most relevant being those by former Prime Minister Li Peng in 1997 and President Hu Jintao in 2004. In regards to the Sino-Gabonese cooperation, the latter reflects a major turning point. Choosing Gabon as the only destination in Subsaharan Africa, during the Chinese president's first African political tour, has been interpreted as a result of the diplomatic influence of the country and mostly of its president Omar Bongo. From an economic point of view, such events constitute key moments for the establishment and signature of contracts in various domains. Hence, not only does it illustrate the role of politics within Sino-African relations, but it also shows that to some degree, the efficiency of a cooperation manifests itself through the rhythm and the importance of visits<sup>11</sup>.

It was in Gabon that president Hu revealed the new Chinese policy towards the African continent and set the broad outline of the 'new Sino-African partnership'. One of the key ideas put forward by the Chinese president during his stay was that Sino-African diplomacy should have a common interest in transforming the current economic world order, dominated by the United States<sup>12</sup>.

Moreover, the view on the complementary economic links between Africa and China and the huge potential of cooperation has met the Gabonese ambitions. Jean Ping, former Minister of Foreign Affairs, himself half Chinese and half Gabonese, stressed that henceforth the priority should go to partners able to guarantee the country's economic and social progress. Convinced by the positive impact of Hu Jintao's visit on the progress of economic and diplomatic exchanges with China, both parties have opted for a strengthening of the Libreville-Beijing axis.

In this context of a developing cooperation, several agreements have been concluded. China offered a set of grants, interest free loans aimed at projects to be determined by consent as well as the finalization of cooperation projects undertaken previously. At the same time, a memorandum of understanding had been negotiated between Unipecc – a subsidiary company of the Sinopec Petroleum group – and Total-Gabon.

If the Chinese presence in the field of oil has until now been limited to the stage of research and exploration, the PRC is purchasing an increasing amount of its petroleum from Gabon<sup>13</sup>. At the hands of the challenges facing today's Gabonese oil sector (decrease in production), the government hopes to revive its main area of revenues

through the growing interest of Chinese companies. As an example, Sinopec has recently confirmed its wish to invest in Gabon's oil sector by taking part in the bid of 42 deepwater petroleum blocs (Gaboneco, 8<sup>th</sup> of September 2010).

- 11 Beyond the commercial activities, Chinese loans, whether interest-free or prime rate, have been constantly growing since the beginning of 2000. Projects, such as the construction of the Senate (2005), a new radio and television complex ("Cité de l'information" in 2007), the "Grand Poubara" hydro electrical dam project ( 292 million €), the stadium of Sino-Gabonese friendship ( 46 million €) for the 2012 edition of the 'Africa Cup of Nations', and above all the Bélinga project (2.2 billion €) have taken the Sino-Gabonese lending habit to an upgraded level.

The change of scale of the Sino-Gabonese relationship as well as the fact that the Gabonese State henceforth considers China among its privileged partners can be explained by the provision of financial assistance and credit lines at preferential rates. Gabon's repeated attempts over the decades to get debt relief from Western donors failed due to high capita income figures<sup>14</sup>. In this particular context, interest-free or preferential loans from China came as a welcome alternative (Yates, 2008, p. 210).

Altogether, it is often thanks to diplomatic and political ways that the Gabonese government has tried to persuade businessmen to invest in Gabon. The political aspect accounts for an important part in regards to bilateral and multilateral relations and reveals the rivalries between various partners. In a longer term, it would be interesting to assess to what extent Chinese investment could allow Gabon to be less economically dependent on France and International Financial Institutions. On the other hand, it also depends on Ali Bongo's political choices; in other words, either opting for a continuation of privileged Franco-Gabonese relations or a gradual exit of the French fold<sup>15</sup>.

- 12 If the Sino-Gabonese cooperation is certainly multiform and covers areas of varying importance, at present "it is not possible to speak of the Chinese presence in Gabon without mentioning the mega Bélinga project [...]"<sup>16</sup>, which in scale and impact exceeds by far other projects launched by the Chinese. At the same time, it illustrates their particular interest for the mining sector.

## At the heart of the Sino-Gabonese dynamic: the mining and the Bélinga project

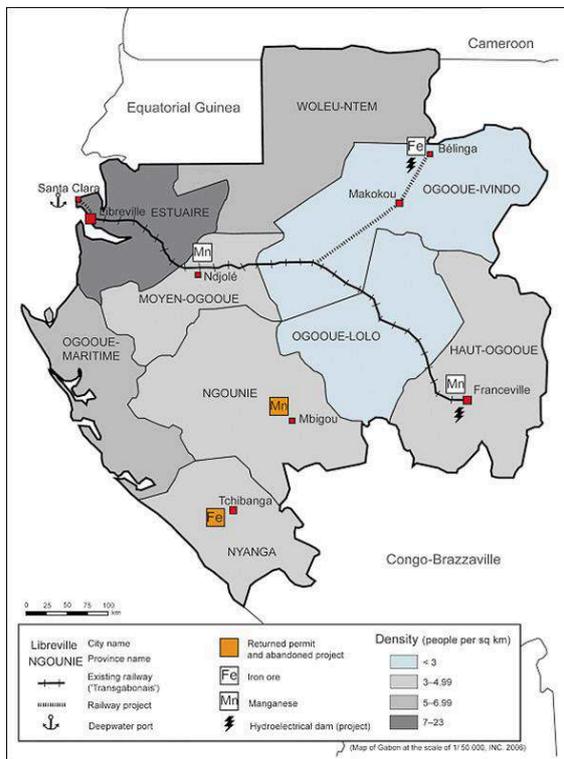
- 13 The objective of economic diversification, promoted by Omar Bongo during the mid-1990s and parallel to China's growing need for basic mineral products, has put the mining sector at the centre of both interests. Mostly interested in iron, manganese, phosphate or niobium, Chinese actors have established themselves in various locations. However, since numerous contracts were not signed until the third quarter of 2006 or later, and some stumbling blocks remain, in most cases operating as such has not yet started<sup>17</sup>.

In the field of manganese, two Chinese companies (CICMH<sup>18</sup> and Sinosteel) managed to obtain operating permits in Ndjolé and Mbigou. The first site, located in the Bembélé mountains, is accessible and near the Transgabonais railway route, thereby facilitating the transport of mineral towards Libreville. However, the one in Mbigou is situated in a rugged area making exploitation very difficult. At present, the latter mine is not economically viable and Sinosteel has therefore returned the license to the Gabonese

State. Since operating permits are only granted to companies incorporated under Gabonese law, the Chinese entities interested in manganese in Ndjolé had to merge and form a Gabonese company<sup>19</sup> under the name of C.I.C.M.G. (Compagnie industrielle et commerciale des mines du Gabon).

Moreover, the Chinese have expressed their willingness to take over the manganese operating permits in Okondja and Franceville, both returned by Brazilian operators. The latter concentrated their efforts on to the Bélinga project and therefore stopped their activity in these smaller sites. In addition, the Chinese did obtain an exploration permit for an iron site in Tchibanga. However, given the limited knowledge of the iron content of this concession, the lack of infrastructure and especially after winning the operating concession for Bélinga, they soon returned the license to the Gabonese State.

Illustration 1 – The Chinese presence in Gabon's mining sector



Source : INC, 2006.

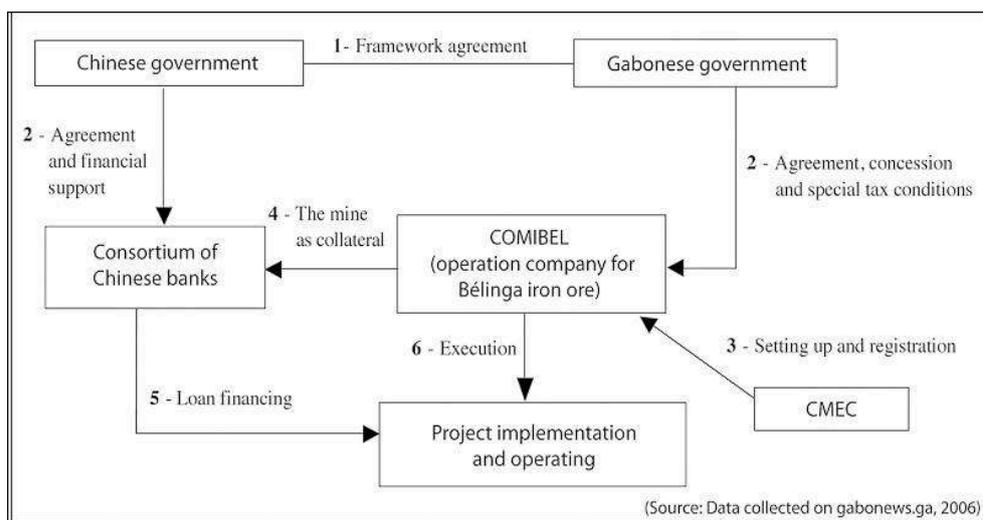
- 14 If the Chinese have diversified the potential operation sites, Bélinga iron has from the start been the main focus and considered as the most important project. A call for tenders was launched in 2005 and several companies showed interest in winning the permit enabling the exploitation of the Bélinga iron ore. Eventually, a Brazilian company, CVRD (Companhia Vale do Rio Doce) and two Chinese companies, CMEC (China National Machinery Equipment Import & Export Corporation) and Sinosteel Corporation have been the final challengers, with the aim of forming a consortium with Comilog. Following the presentation and evaluation of their respective projects, the Gabonese government did decide in favour of the Chinese protagonists at the expense of the Brazilian company.

This choice has been justified by a combination of several factors. While the Chinese view Bélinga as a priority, the Brazilian determination to exploit the mine is considered

being much lower. In terms of warranty, the Chinese companies did also diverge from their Brazilian counterpart. Whereas Brazil turned to a bank with predominantly private capital, the Chinese government itself vouched for the project by using public funds via its Eximbank and added development insurance<sup>20</sup>. Delays given by the Chinese, particularly for the construction of connected infrastructures, also seemed shorter. In regards to job creation and employment opportunities, a sector of utmost importance for the Gabonese government, the Chinese offer appeared to be more consistent.

The signing of the framework agreement, in regards to the exploitation, has defined the different stages of the project as well as the distribution of tasks and responsibilities. As previously mentioned, the launching of extractive activities requires the creation of a company incorporated in Gabon. This has led to the creation of a company named Comibel (Compagnie minière de Bélinga), set up to manage the operation of the mine. The following diagram shows the involvement of the Chinese government in the project management. From a Gabonese perspective, the most pregnant point concerns the repayment of the Chinese investment, which will be guaranteed by the exploitation of the mine<sup>21</sup>.

Illustration 2 – Task allocation concerning the implementation of the Belinga project



Source : data collected on gabonews.ga, 2006.

The launching of the operation depends however on the outcome of the preliminary work, initially supposed to take between three and four years. First of all, the mine needs energy to run and it is necessary to build accommodations for the future operators. The construction of a hydroelectric dam in Ogooué-Ivindo (with a capacity of 50 megawatts), carried out by CMEC will guarantee the power supply of the mine. The surplus will be allocated to the entire province. Simultaneously, there is another hydroelectric project (the 'Grand Poubara' dam) located in the province of Haut-Ogooué (cf. map) with a capacity of 250 megawatts, conducted by Sinohydro, particularly known for having developed the Three Gorges Dam in China. This significant project will provide the necessary energy for both mining sites in Okondja and Franceville as well as address the province's shortage of electricity. Since the production capacity will by far exceed the provincial consumption, the surplus will be evacuated to the capital Libreville and enhance a power networking at the scale of the

country. Nevertheless, the dam projects remain closely related to the mining sites and are primarily designed to assure the functioning of these activities.

At the same time, logistics is essential to assure a consistent transportation of the iron ore. To face these challenges, the project includes the construction of two railways ramps of a total length of 560 km – one leading from Booué to Bélinga, the other from Ntoum to Santa Clara – and both connected to the Transgabonais (cf. map). The railway line will lead to a future deepwater port at Santa Clara, able to manage the export of 20 million tons according to production estimations of the mining site.

The overall cost of the preliminary infrastructure – the Ivindo dam project, the deepwater port and the railway connections – amounts to approximately 2.2 billion € and is fully advanced by the CMEC company and the Chinese government. The revenues from the exploitation of the Bélinga mine will cover the repayment of all parallel investments. Besides the iron ore reserves, it is also hoped to find precious metals, including gold.

While the existence of the Bélinga mine has been known since 1895, its exploitation has been judged non profitable by Western companies<sup>22</sup>. Nevertheless, for the Chinese market, the project holds high strategic value. Through the provision of large sums, ‘package deals’ and incentives to finance long-term commitments – unprofitable in the short term – Chinese parastatals benefit from the influence and involvement of their government. Consequently, they do not attach the same level of importance to economic efficiency in the short term as private OECD companies would (Soares de Oliveira, 2008, p. 107). To some extent, this also marks the current difference with Western donors and companies, primarily guided by the pursuit of short-term profit (Soares de Oliveira, 2008)<sup>23</sup>.

- 15 Whether in terms of impact on the Gabonese economy or the linked development potential at a regional and local scale, a project of such proportions raises many questions. Hence, during the phases of contract negotiation, the actors involved must take into account challenges of different natures.

## Effects of the Bélinga project in a context of attempted economic diversification

- 16 Since the beginning of oil production in Gabon in the late 1950s, the economic dependency on oil revenues has only been increasing. In recent years, oil made up more than half of the State revenues, 53 per cent of its GDP and counted for 82 per cent of the country’s exports in 2009 (Gaboneco.com, 27<sup>th</sup> of March 2009). Despite the significant revenues generated during the “Glorious Twelve” (Pourtier, 1989), the latter have not encouraged a diversification of the economy; worse, they rather deepened the structural problems and weakened further development possibilities. By gaining oil royalties, other sectors such as industries, logging, mining and tourism have been neglected over the past 30 years (Katendi, Lescot et al. 2006).
- Even so, a certain number of major infrastructures such as the *Transgabonais* (at the time, the backbone of the country in terms of communication), the port in Owendo or the Mvengue airport in Franceville have been financed by oil revenues. Yet, first attempts to diversify the domestic economy have failed.
- Eventually, the oil royalties redistribution system, which allowed running a country made up of a plethora of state officials and managed by the Bongo clan, was finally

undermined (Pourtier, 1989). Since the 1986 oil glut, the IMF and the World Bank have imposed structural adjustment measures, which have not really contributed to significantly reduce Gabon's public debt<sup>24</sup>. During the same period, the poverty level increased and the living conditions of the population deteriorated. If the explosion in oil prices, especially after 2003, has initially helped to maintain or even boost Gabon's oil-related revenues, it merely compensates for a gradual reduction of production levels. Concerned by the fading of its oil reserves, Gabon has embarked on a new attempt to diversify its economy, both to address the structural problems of the country and to prepare for its post-oil era.

In recent years, with the support of the World Bank, Gabon has engaged in vast reforms in order to revitalize its economy. This has resulted in the establishment of an investment charter in 1998 aiming to attract foreign capital, as well as a socio-economic development strategy based on the expansion of the private sector. To complete this project, the focus is directed towards priority sectors and alternative to oil, such as mining, eco-tourism, a new forest policy and fishing, but without neglecting or abandoning the oil sector<sup>25</sup>. However, the emphasis is put on areas that require large investments to be profitable. Regarding this point, Chinese increasing interests and Gabon's ambition for economic diversification meet indirectly.

- 17 If mining resources in Central Africa have so far only been partially exploited, the growing Chinese needs in the field of raw materials entitle Gabon to gather the necessary investment capital to launch large-scale projects in this sector. The Bélinga project is a significant example, particularly regarding infrastructure and job creation. On one hand, the connection to the railway and establishment of further roads will intensify the communication network – until now very insufficient – and help open up the isolated province of Ogooué-Ivindo<sup>26</sup>. In this context, the mentioned transport infrastructures, linking the mine to the coast, may also act as a structural axis for the country as a whole.

Resolving the unemployment problem reflects however the biggest challenge of this project. According to different state officials, the creation of direct and indirect jobs – related to the development of the mine and other infrastructure – is estimated at about 30,000, of which 26,000 would be reserved for the Gabonese<sup>27</sup>.

By qualifying Bélinga as “project of the century”, former president Omar Bongo aimed to attach a special importance to the employment section. Hence, hiring procedures as well as a training component were included<sup>28</sup>. Upon signing the contract during the last quarter of 2006, a number of tasks were defined: the Chinese firms agreed to integrate a number of qualified Gabonese into the workforce and provide opportunities for continuing education. As for the Gabonese authorities, they committed themselves to establish training courses in relation to the labours and jobs required for the project. In order to circumvent potential future problems – either of communicative nature or differences in working techniques – the Gabonese government also planned to select a certain number of engineers and technicians to be sent to China for training.

The use and benefit of hiring local employees lies in the duration of such operations. Whether for private companies or parastatals, it is cheaper to encourage local employment than bringing in Chinese workforce in terms of profitability in the long run<sup>29</sup>. Following such an operation process over a period of activity of about 20 years, the operating company would employ Chinese workers at the beginning before gradually replacing them by skilled Gabonese workers trained in specific areas in the meantime. Given the preliminary phase of infrastructure development, initially fixed

between three to four years, the labour market in Gabon would have time to adapt to the job applications required for this project. In addition, the Bélinga project envisages the possibility of creating an industrial complex, which could have a significant impact on a local scale.

The Gabonese people need however to adopt a change in their mentality in order to seize every opportunity linked to Bélinga<sup>30</sup>. The economy based on oil royalties accelerated the development of a “rentier mentality” already initiated by the timber exploitation during the 1950s. Gabon’s money distribution logics as well as the import of most consumption goods, has neither encouraged the diversification of its domestic employment nor of its economic structure. Under the effect of 30 years of oil revenues, manual labour has been devaluated<sup>31</sup>. It is therefore questionable whether broad-based industrialization in the short run may be a development factor for such a sparsely populated country.

- 18 Apart from the mine exploitation, there are downstream effects linked to this project, which can generate an increase in traffic, flows of goods and people in the Ogooué-Ivindo province. With the potential arrival of several thousand people, this phenomenon sets a platform for indirect jobs in different areas such as agriculture and food supply. Moreover, indirect jobs are more likely to promote the development of one of the most remote and under-equipped provinces of the country. As examples, one could mention the modernization and strengthening of agricultural technologies, the expansion of trade, the construction of roads and infrastructure as well as an increase of logging.

Through the Bélinga project, two possible trajectories seem to turn up: one is the formation of an enclave with a simple mining town, built from scratch but disconnected from its surroundings; the other as a graft with a city – certainly in relation with the mine – but able to diversify its economy<sup>32</sup> (Magrin, Van Vliet, 2005). Gabonese authorities – both at national and local levels – have to assume their responsibilities, encourage this process and various initiatives in order to make sure that the province benefits from spillover. The main goal is to create a stable and viable economic base outside the mining sector. Another way to encourage the setting up and development of a sustainable growth area would be to develop Makokou – the administrative centre of the province with an approximate current population of 13,600 inhabitants – and connect the city to Bélinga through an efficient transportation system.

Be it for the construction or the operating phase, the role of the Gabonese government is crucial in making sure that as many local economic players as possible get involved in the project and in encouraging the use of local materials (cement, timber...). Furthermore, the implementation of hiring nationals with required qualifications, the supervision of both activities and the development plan, the allocation of bank loans and the enforcement of the contract procedures form the essential domains of the government’s task<sup>33</sup>. The negotiation phase prior to the signing of a contract is therefore very important. A number of preliminary studies, taking into account the working arrangements, the financing, the hiring of local workforce, the distribution of tasks as well as the environmental impacts, need to be carried out. Generally, once the contract is signed – depending on the prevailing balance of power – it becomes more difficult to amend certain sections and the civil society has a hard time defending its interests.

- 19 However, since the signing of the contract in late 2006, several points of disagreement remain and few concomitant events have caused the postponement of the project. The death of Omar Bongo, the continuous price fluctuations of the iron ore as well as requests from NGOs and the civil society, show the complexity and difficulties of implementing such a project.

## Towards the questioning of a project of declining interest?

- 20 If the promise for a rapid exploitation of the mine helped to work in China's favour at the beginning, it is precisely the delays in execution, which could ultimately cause them to lose the contract. The construction phase has finally started, but the project evolves at a very slow pace, leading to doubts about China's ability and willingness to honour its commitments.
- 21 Omar Bongo had been lobbying intensively for the Chinese, especially in the months prior to the signing. Since his death, they no longer seem to enjoy a privileged position. Shortly after the completion of the contract, some referred to it as a "contract of shame" or a mere "sales contract" of 1,600 billion CFA francs, which the Gabonese authorities had sold off to CMEC and Eximbank. This sum corresponds to the loan, granted by Eximbank to Comibel.

Since the amount is entirely funded by the Chinese side, the latter will hold between 85 to 90 per cent of the capital, leaving only 10 to 15 per cent to the Gabonese government. In exchange, the Chinese actors benefit from a number of advantages and preferential treatment regarding the exploitation of the natural resources. The Gri-Gri International, a satirical Gabonese newspaper, has criticized the Gabonese government's commitment to "grant an exemption from all taxes for Comibel, including turnover taxes and revenues, as well as regarding the import of materials used and directly linked to the project for a period of 25 years".

Apart from several points of disagreement between involved Gabonese and Chinese players, more and more voices of criticism from civil society and local NGO's have been raised against a contract perceived to be largely favouring the Chinese side. These discontents are primarily directed towards environmental aspects and doubts about economic benefits for the local population<sup>34</sup>. In order to respond to this wave of pressure, the Gabonese government has ensured addressing these two issues in particular. It is only in December 2009, three years after winning the tender that the Chinese operators delivered technical feasibility and environmental impact studies to the Gabonese authorities for approval. The Gabonese requested this action in order to ratify the agreement signed in 2006.

To avoid frightening off potential investors, the Gabonese government has initially not been inclined to set the standards too high. Through the above mentioned pressure from the civil society and the persistence of a number of disputes, the authorities in charge are already considering a renegotiation of the contract (Gabonéco, 2<sup>nd</sup> of April 2010). Being uncertain of the Chinese's ability to honour their commitment makes some people wonder if it might have been preferable to conclude an agreement with the Brazilian company CVRD, seen as having the necessary expertise for such a project (Dougeli, 4<sup>th</sup> of January 2010). The persisting interest from Brazil for this project (Gabonéco, 12<sup>th</sup> of April 2010) makes it possible for the Gabonese authorities to be more

demanding in some areas and shows a certain reversal in the balance of power between the different parties involved. As long as Gabon has not ratified the agreement, cancelling it and thus enabling the Brazilian comeback remains an option.

It is in this uncertain context that a Chinese delegation arrived in Libreville in April 2010, aiming to resolve several stumbling blocks related to cooperation projects between the two countries. During this visit, several projects were signed and the Chinese government agreed on further donations and grants. Although the Bélinga project represents the major bone of contention between the two parties, it is interesting to note that the press coverage made no reference regarding this issue. Indirectly, it reveals China's persistent attachment towards a donation policy. At the same time, this charm operation shows that China is not letting go so easily; however there is no evidence that the Chinese are actually going to carry it out.

From a purely economic point of view, the current setting raises the question of whether the Bélinga project portrays a new form of barter with loans secured by the exploitation of the iron ore. Facing a very long repayment period of the loan, linked to a strong dependency on iron price fluctuations<sup>35</sup>, one wonders what will be the tangible benefits for Gabon in an area where the return on investment is rather limited in the short run. In the meantime, another concern is the maintenance and above all the utility of the project-related infrastructures after 25 years of operation<sup>36</sup>. If Gabon's main objective is to reduce its dependency on oil royalties by opting for a sectoral economic widening – albeit primarily focused on mining – neither the functioning nor the structures of the economy have experienced essential transformations. Under these conditions, shifting away from the rentier model seems very difficult and not really foreseeable.

Soon after Hu Jintao's visit in 2004, some local newspapers already wondered if China could help Gabon elaborate alternative development strategies in order to get out of the economic crisis (Meye, 11<sup>th</sup> of March 2004). On one hand, by focusing on natural resources, China's cooperation policy can be seen as a mere continuation of economic strategies once deployed by Western powers. It is therefore necessary to put this phenomenon into perspective, which in the case of Africa has very rarely led to a broad-based development. Nevertheless, if implemented, the Bélinga mining project could eventually expand over the years and lead to a wider economic outlook<sup>37</sup>.

## Conclusion

- 22 Chinese presence in Gabon has been steadily increasing since 2006 due to the scale and expectations linked to the Bélinga project. Beyond the actual operating of the mine, the large sums invested in infrastructure development stress the importance of the project. Having established diplomatic relations with Gabon since the 1960s, the People's Republic of China is far from being a new player in this country. It is however the combination of China's growing demand for natural resources and the desire for diversification of Gabon's economy that has led to an intensification of Sino-Gabonese relations.

If the Bélinga project reflects the entanglement of political and economic interests, the persistence of a set of disagreements, particularly in the field of local employment and the environment, has been delaying the carrying out. Rising voices amongst the civil society request the renegotiation of a contract being perceived as too advantageous to the Chinese side. After all, as showed by the Gabonese case, the preferential political

ties and financial support from the Chinese government are not necessarily a guarantee for a rapid enforcement.

In regards to potential spillover, restructuring of the economy or geographical reorganization at both regional and national level, the stakes are high. Given the nature of the contract – resembling a new form of barter with the parallel infrastructures being reimbursed by the extraction of the ore – benefits for the Gabonese economy appear to be limited in the short run. Despite infrastructure development at different scales, Gabon's diversification attempt centred around the mining sector is for the moment not leading to a major structural change of its economy. If possibilities for project expansion exist, future challenges will still remain high and require a change of the Gabonese mentality.

The study of the Chinese involvement within the Gabonese extractive sector shows the continuous implication of the Chinese State through financial and diplomatic support of its parastatals in sectors considered as strategic. If this procedure has been quite successful to win tenders across the African continent, the present case reveals that current enforcement dynamics depict a much more complex situation. Hence, the Bélinga project illustrates the evolution and shifting of the balance of power contingent on the local and international context. After heavily relying on the Chinese government to secure investments in the extractive sector, the companies involved might ultimately adopt more profit-orientated and individual strategies in the long run. It is imaginable that those recent developments in Gabon exceed the mere example of this case study and reflect a changing Chinese approach towards mining activities in Africa over the years to come.

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## NOTES

1. All of them are characterized by substantial territories and share the same interest for natural resources, essential for the pursuit of their domestic growth.
2. As Chris Alden puts it “ While the drive to secure energy resources is at the heart of Beijing’s renewed engagement with Africa, there is nonetheless a growing depth and complexity to relations that bears closer analysis” (Alden, 2005).
3. Gabon is globally characterised by a poor communication network. The total railway network amounts to 810 km since 2005 for a country which covers an area of more than 267,000 square km. At the same time, the percentage of paved roads is estimated at only 10% in 2004 (from 2005 up to now, no precise data is to be found).
4. If Cappocia and Kelemen have discussed these concepts extensively, Magrin and van Vliet have applied it to natural resources. See Rosser (2006), for a more detailed synthesis about the resource curse debate.
5. The most relevant studies on the Chinese engagement in Gabon’s extractive sector have been conducted by Yates (2008) and Alves (2008). Parallel to these, a number of reports have been conducted by the Centre for Chinese Studies in South Africa (November 2007, August 2009).
6. Bongo has not only been in close contact with all the French presidents of the fifth Republic but also maintained privileged economic and political relations with the former colonizer. Considered by some as a “French puppet”, Omar Bongo had gained tremendous political influence and strength over the decades of rule. For a more detailed discussion on this topic, see Yates (2008). Even though Omar Bongo has (also) either visited or received all the Chinese political leaders from Mao Zedong to Hu Jintao, the former links to France cannot be compared to the current rise of Sino-Gabonese relations.
7. In 1995, Gabon’s trade with China totals at 89 million €. Between 2005 and 2006, bilateral trade doubles from 274 to 622 million € and reveals the increasing potential between the two countries. This tendency continues until 2008 (1.36 billion €) before falling back to 612 million € in 2009 (World Trade Atlas Data, 2010).
8. Comilog ( Compagnie Minière de l’Ogooué ) is a Gabonese business subsidiary of the French mining and metallurgic group Eramet, operating in the manganese exploitation and plays an important role in the Gabonese economy. Established in 1953, the shares are initially subdivided between US Steel and French investors. Progressively, the Gabonese State acquires a share in 1974, and in 1999 Eramet takes over the interests of US Steel and other European investors. By 2003, Eramet holds 61% of the stock while the Gabonese state keeps 27% (Yates, 2008, p. 214). In

November 2005, Eramet obtains a 30 years concession for the Transgabonais railway and in October 2010 the mining company signs an agreement with the Republic of Gabon on increasing its stake in the company Comilog (Eramet website, date of access, 9th of May 2011).

9. For comparison, imports from France amounted to approximately 562 million € in 2007; those from the United States to 92 million € (African Statistical Yearbook, 2010, p. 201).

10. Website of the French Ministry of Foreign Affairs, “Maison des Français de l'étranger”, [date of access, 29 of January 2011].

11. That being said, the combination between political and economic affairs is far from being specific to China-Africa relations. See Alden, Davies (2006) for a more detailed discussion on this topic. Furthermore, it is necessary to separate Chinese parastatals, which are enjoying broad support from the Chinese government, from private entities which are not necessarily or entirely pursuing the priorities and methods defined by the Chinese state.

12. See He Wenping (2009).

13. In 2004, China has already been the third largest buyer of Gabonese crude oil/year behind the United States and France (Yates, 2008, p. 208).

14. In 2006, Gabon's GNI per capita amounted to 3,500 €, roughly more than four times the average of African countries that same year (755 €), (African Development Bank, 2008). However, the income inequality is considerable.

15. However, by choosing Paris for his first official visit, newly elected President Bongo demonstrated the ongoing predominant role of France in Gabonese foreign policy (RFI, 19th of November 2009).

16. Interview with Paul Tongui – Gabonese Minister of Foreign Affairs, – on [www.cooperation-internationale.com](http://www.cooperation-internationale.com) in connection with the 35 years of Sino-Gabonese cooperation (20th of April 2009).

17. In regards to Sino-African contracts, especially within the extractive sector, it is either impossible or very difficult to get access to detailed information. Negotiations between Chinese parastatal companies and African governments are most of the time characterised by an opaque environment and the number of actors involved are quite limited.

18. CICMH stands for Huazhou Industrial and Commercial Mining Company, a partnership between China's Ningbo Huaneng Kuangye and Huazhou Mining Investment Company (Centre for Chinese Studies, 2007, p. 84).

19. According to the Gabonese Mining Code, activities in this sector (covering exploitation and marketing) can only be carried out by corporations displaying at least 51% of national shares (Enforcement Decree of the Mining Code, 2000, p. 17).

20. The involvement of the Chinese state as well as the support for its parastatals is a common scenario when it comes to areas identified as strategic for the Chinese economy.

21. The estimated reserves of the mine amount to one billion tons with an iron concentration between 64% and 68%. According to various sources, the site of Bélinga is “one of the last major untapped iron deposits in the world” ([www.lesechos.fr/info/industrie/afp\\_00246494-fer-de-belinga-nouvelles-discussions-entre-la-chine-et-le-gabon.htm](http://www.lesechos.fr/info/industrie/afp_00246494-fer-de-belinga-nouvelles-discussions-entre-la-chine-et-le-gabon.htm); date of access, 25th of January 2011). If the quantity of iron ore is not sufficient to repay the credit, the Chinese part has made sure to include an additional decree in the contract requiring other possible methods of compensation from the Gabonese government (Okimi, 25th of October 2007).

22. A first consortium, in which an American company Bethlehem Steel held 50 per cent of the shares alongside other French and German companies of SOMIFER (Société des mines de fer de Mékambo), was initially formed during the 1950s. In 1974, the Gabonese State acquired 60 per cent of the shares and production was expected to start as soon as the extension of the Transgabonais would be finished. The lack of funding, the saturation of the iron market and unprofitable circumstances have however prevented the project from being carried out; subsequently all the shareholders involved pulled out (Yates, 2008, p. 216).

23. In the longer run, we will however see that the Chinese mining activities in Gabon reflect a more complex reality.
24. Gabon's public debt – although decreasing to 1.5 billion € in 2009 compared to 2.06 billion € in 2004 – still remains at a high level (African Statistical Yearbook, 2010, p. 199).
25. Given that the Gabonese government requires considerable funding to achieve the objectives defined in terms of growth and poverty reduction, oil revenues still remain necessary to assure the financing of the capital needed.
26. In this very sparsely populated province, the population totals at only about 60,000 people with a density of 1.1 inhabitants per square km. (Data collected on PopulationData.net, date of access 15th of January 2011).
27. With regard to this section, no Gabonese source provides detailed information. Consequently, it remains unclear how many of those potential jobs will be allocated to the construction of infrastructure or to the operating of the project (Some sources state however that the operation phase would generate 3,000 direct and 10,000 indirect jobs). Moreover, while the majority of the sources speak of 26,000 jobs being reserved for the Gabonese, very few indications are made concerning the duration of employment as well as the allocation of the remaining 4,000 jobs (one can only assume that the latter will be dedicated to Chinese workforce). The major question remains to know whether the reported numbers really reflect the reality, once the project is implemented.
28. Measures include a policy of “gabonisation”, which aims to provide preferential employment for the Gabonese regarding assignments that can be executed by nationals. Following the terms of the contract, the workforce training is not only limited to executives, but it also includes technicians and other employees.
29. If, for a period of 25 years of operation, the company hires Chinese labour force, it will have to adopt a rotation scheme. Thus, Chinese contractors usually only stay between two up to four years and have the right to return home (at least) once a year, usually for the Chinese New Year. By extrapolating this procedure over 25 years, repetitive travels and adaptation to the host environment for newcomers will undoubtedly raise the costs of operations.
30. “Despite the creation of about 30,000 jobs, the Gabonese will first have to show an interest in the project and endeavour to follow courses of study and training within the fields that meet the job offers” (Obiang, 12th of September 2006). Following the inauguration of Ali Bongo as Gabon's president in October 2009, the latter “urged the Gabonese population to adopt a change of mentality and get back to work in order to build a rich and prosperous country in a harmonious way” (Mbog Batassi, 16th of October 2009).
31. See Yates (1996) for a more detailed discussion about the “rentier mentality” in Gabon.
32. In Gabon, examples of mining towns that live by the rhythm of the mine are numerous. In Moanda as well as in Mounana, located in the Haut-Ogooué province, the mining activity has preceded the establishment of the cities. In Mounana, the stopping of the mining activity, in an area where the economic dynamics have been largely polarised by this sector, caused the abandonment of other activities resulting in the image of a ghost town. This can be explained by the fact that up to now commercial activities and restoration in Gabon, are predominantly carried out by African expatriates and Lebanese. The latter are more likely to promptly withdraw after the cessation of a large mining activity than if local people were encouraged to venture into this field. Moanda however, another mining town built from scratch, has rapidly diversified its economy towards trade and services, to the point of even being able to compete with Franceville (2nd largest city in the country) for a while.
33. Series of interviews conducted with M. Charlemagne in Libreville in April 2007, at the time deputy-managing director, in charge of electricity and technology development at the Ministry of Energy, Mining and Petroleum.

34. In a letter, addressed to the President of China Eximbank in Beijing, Brainforest (a NGO based in Gabon with the support of several international NGOs) pointed out the major concerns regarding the realisation of the Bélinga project. Among the most relevant ones, we can cite the worries about having launched the construction phase without the publication of any impact studies (although required by Eximbank guidelines), the lack of participatory actions from sides of the Chinese operator, the negative effects related to the Ivindo National Park dam construction, pollution as well as the impact on village communities [<http://www.internationalrivers.org/files/Brainforest%20letter%20to%20China%20Exim%20Bank.pdf> , date of access 30th of March 2011].

35. According to the Cyclope Report (2010), the evolution of the iron ore value in 2010 remained highly unpredictable and unknown. The collapse of steel prices in the second half of 2008 due to falling demand of Western countries had an immediate impact on the iron ore market. Iron ore hit its lowest point in March 2009 at \$ 59/ton before slowly recovering and finishing the year at a level of \$ 110/ton.

36. It is only after this period of time that they will be owned by the Gabonese government.

37. In matters of potential project widening, oil activities conducted by CNPC's (China National Petroleum Corporation) in Chad draw an interesting case of comparison. Initially limited to petroleum exploitation, the "Rônier" project gradually integrated a refinery and the development of a linked industrial complex. See van Vliet and Magrin eds. (2011, forthcoming) for a more detailed discussion on this topic.

## RÉSUMÉS

Depuis quelques années, le Gabon nourrit l'ambition de réduire sa dépendance envers les revenus du pétrole et de diversifier son économie. Cette volonté coïncide avec l'augmentation des investissements chinois dans les pays africains richement dotés en ressources. Parmi l'éventail des relations sino-gabonaises, le secteur minier - et surtout le projet de la mine de fer de Bélinga - se place au centre de l'intérêt des deux parties.

Sous le règne d'Omar Bongo, ce vaste projet minier avait été promu et présenté comme fleuron de l'économie nationale. Cependant, malgré les promesses de développer les infrastructures et de fournir des opportunités d'emploi, la tentative de diversification économique du Gabon semble toutefois limitée et ne pas vraiment mener vers un changement structurel majeur. Un certain nombre de critères ont par ailleurs retardé la réalisation du projet Bélinga et introduit de nouveaux risques et coûts pour les Chinois. Parmi les plus révélateurs figurent la volatilité des prix des matières premières, la mort du président Omar Bongo en 2009 ainsi que l'opposition croissante de la société civile. L'objectif principal de cet article consiste à étudier les possibilités de développement liées au projet et d'analyser l'approche évolutive de la Chine envers le projet

Gabon's recent ambition to reduce its dependency on oil revenue by diversifying its economy coincides with China's growing investment in resource-rich African countries. Within the wide range of Sino-Gabonese co-operation, the mining sector - and above all the Bélinga iron ore project - is central to both parties' interests.

Omar Bongo's regime promoted this large-scale project as the flagship of the national economy. However, despite the promise of infrastructure development and employment opportunities, Gabon's attempt at diversification seems limited and is not leading towards any major structural

change. A number of issues have challenged the realisation of the Bélinga project and introduced new risks and costs for the Chinese. These include commodity price volatility, the death of president Omar Bongo in 2009 and increasing dissent among civil society. The paper reviews development opportunities linked to the the Bélinga project and analyses China's evolving approach towards the project.

## INDEX

**Mots-clés** : activité minière, Chine-Gabon, diversification économique, IDE, projet de Bélinga

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