



African Center *for* Economic Transformation

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# LOOKING EAST: CHINA- AFRICA ENGAGEMENTS

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LIBERIA CASE STUDY

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Monrovia, December 2009

## Preface

This report examines China’s economic and political engagement with Liberia—especially from 2000 to 2008—along three dimensions: trade, foreign direct investment (FDI) and economic and technical assistance (ETC)—the Chinese term for aid and debt. It supports ‘Looking East: A Guide to Engaging China for Africa’s Policy-makers’, a report on China’s economic engagement with Africa commissioned by the African Center for Economic Transformation (ACET).

Liberia’s Poverty Reduction Strategy (PRS) provides a framework for analyzing China-Liberia economic engagement in relation to Liberia’s national development goals. Its ‘four pillars’ are consolidating peace and security, revitalizing the economy, strengthening governance and the rule of law and rehabilitating infrastructure and delivering basic services. Goals compatible with the PRS include rebuilding roads and other critical infrastructure, reviving traditional mining, minerals, forestry and agriculture sectors and diversifying the economy over the medium term with competitive production of labour-intensive downstream products. Whenever possible, this study uses the PRS framework to organize findings and offers policy recommendations promoting PRS goals.

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Kofi Blankson-Ocansey, Senior Associate, ACET, coordinated the work. Edward Brown, Director of Policy Advisory Services, provided overall supervision. K.Y. Amoako, president of ACET, provided guidance for the study.

The views expressed in this study are those of the authors and do not necessarily reflect the views of ACET or the Rockefeller Foundation.

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## **List of Acronyms**

ACET	African Center for Economic Transformation
AGOA	African Growth and Opportunity Act
CBL	Central Bank of Liberia
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
EEC	European Economic Commission
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
LISGIS	Liberia Institute of Statistics & Geo-Information Services
NIC	National Investment Commission
OECD	Organization for Economic Co-operation and Development
PRS	Poverty Reduction Strategy (of Liberia)
SEZ	Special Economic Zone
SME	Small & Medium Enterprises
SOE	State Owned Enterprises
TNC	Trans National Corporations
UNCTAD	United Nations Conference on Trade & Development

## Executive Summary

As part of a larger study of China's economic engagement with Africa conducted by the African Center for Economic Transformation (ACET), this report examines China's economic engagement with Liberia since 2000. It has two goals: to understand China's economic engagement with Liberia and to evaluate the potential for mutual and sustainable benefit along three key dimensions of engagement: trade, foreign direct investment (FDI) and economic and technical cooperation (ETC)—the Chinese term for aid and debt. Because quantitative data is limited in post-war Liberia, an analysis of Liberian and Chinese stakeholder perceptions from more than 80 interviews has been included to provide insight into the extent to which the economic relationship between China and Africa is felt to be of relevance to Liberia today and into the future.

The modern era of China-Liberia relations began in the 1970s, but until recently the direction of the relationship had been uncertain, due largely to Liberia's changing positions on diplomatic recognition of Taiwan. Since 2003, however, relations have stabilized and expanded.

China's emerging trade with Liberia is characterized by significant imbalance, a small quantity of raw materials flowing from Liberia to China and a larger quantity of manufactured goods flowing from China to Liberia. In the current state of affairs, it is projected that as long as Liberia's appetite for relatively inexpensive manufactures, food and consumer goods from China continues to be strong, and Liberia continues to sell its chief export commodities—especially rubber, its chief export elsewhere—the trade deficit between the two countries will expand in China's favour. Liberia is well-endowed in iron ore and has serious prospects of discovering oil in its territorial waters; both of these factors augur well for it in terms of its future economic relations with China, which has a very strong demand for both of these materials in its ongoing industrialization drive. Indeed, China has made recent investments in Liberia's mining sector that may reduce the trade deficit in future through the export of iron ore and the anticipated spill-over into other ancillary value-added industries. Furthermore, a proposed China-sponsored Special Economic Zone (SEZ) would house various export-oriented industries and will potentially help to reduce the trade deficit significantly.

Under the current Liberian administration, the economic relationship with China incorporates plans for significant long-term Chinese foreign direct investment (FDI) for the first time in Liberia's history. Chinese FDI in Liberia rose from zero in 2003 to \$9 million in 2005. Most Chinese investments in Liberia are large, government-implemented projects, mining being the most important. There is scope for Chinese FDI to make a bigger impact on Liberia's economy, given that it was only 12% of Liberia's total inward FDI in 2003, exceeded by FDI from Brazil, Germany and the United States.

In the timeframe under review, the ETC between China and Liberia has reached a cumulative total of \$88.3 million, of which \$61.9 million - mostly targeting infrastructure and basic services - were disbursed between 2006 and 2008. With Liberia's bilateral debt obligations to China being only about 1% of the total, Liberia was a fairly insignificant player in the 2007 China-Africa debt waiver negotiations.

Current thinking in Liberia ascribes to China the roles of ‘strategic’ or ‘development’ partner, both designations connoting a perspective that is long-term and close, but assumes that both parties have a common beneficial end in view. As positive as such a view might be, it goes without saying that it is a view of the future and not necessarily of the present. Within this rubric of partnership, people of influence in Liberia have noted that there is a specific and much needed role that China ought to be persuaded to fill, that being the role of an “enabler” that allows post-conflict countries such as Liberia to circumvent the overly lengthy approval processes of traditional development assistance providers. In this view, certain highly important and critical development objectives can be met, with the attainment of the goal of national recovery via economic empowerment accelerated.

There is consensus within Liberia, from the uppermost echelons of power downwards, for the need to change practically every aspect of its economic paradigm—in other words, the need for transformation. It is apparent that the goal of Liberians, as reflected in recently completed agreements and in current negotiations, is to embed higher and higher levels of value-add within its production of goods and within its services output. With the prospect of China assuming greater importance in Liberia’s future economy, it is natural that future dialog with Chinese governmental and economic stakeholders will focus on this objective. The only issue at stake is the construction of the right kinds of incentives to ensure that while there are immediate benefits to be achieved from Liberia’s natural resources. Greater attention must also be paid to leveraging every dimension of the interaction (trade, FDI and ETC) to enhance growth in GDP by improving agricultural productivity and by building sustainable small and medium enterprises.

A full-scale strategic partnership, which has often been a desirable goal for the Chinese relationship with Liberia, is of value precisely because China provides a model of a country that recently has embarked on a journey of transformation from a largely agrarian society to one that is now a leading global manufacturing power which has, by most objective accounts, reached several impressive milestones along the way. There is much that can be applied from the strategic developmental framework pursued by the Chinese, even if the two countries are vastly dissimilar.

Any Chinese and Liberia strategic partnership will have to comprise both short- and long-term strategic initiatives that have as their overall goal the attainment of the transformation of the Liberian economy. The Sino-Liberian strategic partnership needs to be harmonized with other partnerships and initiatives that Liberia engages in with other parties. The short-term measures the two countries should consider may include specific trade policy and investment policy reviews aimed at addressing the current conditions that deliver sub-optimal results from the Liberian perspective. More than that, they should also look into the future and create a framework for accelerated Liberian growth.

Other objectives that should be pursued in the short-term might include the streamlining of administrative requirements, a reduction in the minimum investment to qualify for incentives, transfers of technology skill and equipment, increased domestic employment, post-investment audits and more effective links between legal residency approvals and investment approvals.

In the longer term, the strategic partnership will include the design of a new economic growth plan that focuses on structural issues that currently bias the Liberian economy toward consumption. The partnership should also enhance the acquisition of investment in productive sectors of the Liberian economy, and determine the proper usage of ETC to accelerate Liberia's growth potential.

## 1. Trends in China-Liberia Relations

### History of China-Liberia relations

Liberia's relations with China during the past 30 years have been unstable. Formal diplomatic relations between the two have opened and closed—triggered by changing policy on diplomatic recognition of Taiwan—according to shifting political alliances during Liberia's internal conflicts.

Liberian president William R. Tolbert, Jr. first established formal diplomatic relations with China on February 17, 1977—a likely consequence of his efforts since 1971 to establish Liberia in the non-aligned movement. During Tolbert's first high-level visit to Beijing in 1977, China and Liberia signed several economic assistance agreements, the largest being assistance for agricultural improvements and construction of a sports complex in Monrovia. The sports complex was in the planning stages when Tolbert was ousted in 1980 during the coup d'Etat led by Master Sergeant Samuel K. Doe of the People's Redemption Council.

Doe's government, in gratitude for significant American support to his regime in the early years, initially reversed Tolbert's decision on the “one-China” policy and contemplated re-establishing diplomatic relations with Taiwan. However, in deciding to continue previous policy, Doe's government re-affirmed Liberia's diplomatic relationship with China in 1982—resulting in a Doe visit to Beijing and completion of the Samuel K. Doe Sports Complex in Paynesville outside of Monrovia.

Liberia triggered the next break in relations on October 9, 1989 by signing a joint communiqué re-establishing relations with Taiwan; China suspended relations with Liberia the next day. During the civil war, the Monrovia-based Interim Government of National Unity resumed diplomatic relations with China while the National Patriotic Reconstruction Assembly Government—Charles Taylor's wartime government—was doing business with Taiwan. After Taylor's election as president, Liberia endorsed a “two Chinas” policy on September 5, 1997—resulting in another suspension of relations by China on September 9. Diplomatic relations finally resumed in 2003 when the National Transitional Government of Liberia—following the ouster of Charles Taylor—issued the Communiqué on the Resumption of Diplomatic Relations.

Meanwhile, China's policy toward Africa had shifted in focus from ideology to economics. Since the end of the Cold War, China has spearheaded global debate on issues of importance to Africa such as democratization of international political institutions, cancellation of international debt owed by African countries and consultation in addressing international issues (Muekalia 2004). China founded the Forum on China and African Cooperation (FOCAC) in 2000 as the state-level mechanism for formal China-Africa cooperation on trade and investment. As China's president Jiang Zemin put it in 2000, ‘China is the largest developing country in the world and Africa is the continent with the largest number of developing countries. China and Africa are faced with both historical opportunities for greater development and unprecedented challenges’ (Jian 2000). Liberia participated in FOCAC ministerial meetings in Addis Abba in 2003, and Beijing in 2006 and in the fourth in Cairo, November 2009.

During periods of diplomatic recognition, China provided Liberia with assistance—mostly large, Chinese government-implemented projects—including infrastructure construction, medical teams and scholarships for study in China. Chinese companies started to enter the Liberian market in 1981 (Ministry of Commerce 2007; People’s Republic of China).

During his 2007 visit to Liberia, China’s president Hu Jintao expressed China’s appreciation for Liberia’s support of the ‘One China policy’ and ‘China’s great cause of national unification’. He proposed four means of facilitating further cooperation:

- Promoting exchanges between government departments, legislatures, political parties and individual citizens to lay a solid socio-political foundation for China-Liberia friendship.
- Cooperating on trade and the economy, completing ongoing cooperation projects and encouraging businesses to cooperate.
- Jointly pushing for Liberian implementation of the measures announced by the Chinese government at the 2000 FOCAC Beijing meeting.
- Expanding cultural exchanges and strengthening cooperation in education, health, culture, personnel training and international affairs.

### **Policy and institutional framework for China-Liberia relations**

As with most countries in Africa, China’s economic objectives in Liberia are fuelled by its desire to acquire inputs, now largely in the form of commodity materials, for its fast growing industrial base. Politically, China also seeks to use economic engagements in a manner that strengthens its diplomatic relations with the goal of becoming a global presence in deliberations on matters of development.

Within its ‘Five Principles of Peaceful Coexistence’ and ‘one-China’ policy frameworks, China negotiates trade, investments, aid and debt without other political preconditions. China’s Africa policy, outlined in January 2006, calls for greater collaboration in trade and investment and offers strategies for advancing Chinese and African development interests. China’s state owned enterprises (SOEs) implement these policies, especially for trade and investment.

Liberia is a post-conflict nation, battered by 15 years of civil war and suffering from years without investment in education or in the quality of its workforce. By the end of the war all economic, social and political indicators told a tale of national decline. Understandably, reviving the economy is Liberia’s top priority.

Liberia’s post-war national development strategy is outlined in the Poverty Reduction Strategy (PRS), which itself is rooted in Liberia’s 1944 Open Door Policy for attracting foreign direct investment (FDI) to rural areas and underdeveloped sectors. The four pillars of the PRS are consolidating peace and security, revitalizing the economy (especially the iron ore, rubber and timber industries), strengthening governance and the rule of law and rehabilitating infrastructure and delivering basic services. The PRS operates in a framework of national laws and international treaties meant to regulate domestic and foreign businesses in Liberia (see appendix B for a list of laws and treaties).

Liberia seeks to attract FDI through an investment incentive structure administered by the National Investment Commission (NIC). Incentives include tariff protection, income tax waivers, tax and import duty exemptions, no restrictions on profit repatriation, favourable leases on government-owned land and preferential treatment in government procurement. The incentive periods last five years, with a possible two-year extension. Duty exemptions on imports of essential production equipment and supplies are meant to help investors recover their investments within five to eight years; many firms granted incentives make a profit within this period.

To access these incentives, foreign investors and the NIC negotiate an investment contract after project review by the ministries of Commerce, Finance and Justice. For projects needing public land, especially in rural areas, endorsement is sought—but not required—from local tribal authorities. Contracts above seven figures require approval by the legislature and president. Foreign investments must meet certain conditions to qualify for an investment incentive contract (Investment Incentive Act 1973). The proposed investment must meet the following conditions:

- Fall within priority areas: agriculture, forestry and fishing, building and construction, mining and quarrying, electricity, gas and water, transport and communications, manufacture or assembly of finished and semi-finished goods, service sectors providing technical services to priority areas and service sectors providing services and supplies to tourism.
- Be capitalized at least at a minimum level of \$100,000.
- Employ and train Liberians at all skill levels, with the requisite number increasing as the venture expands.
- Use Liberian raw materials and other supplies when their quality and price, based on a determination by the government, equals those of imports.
- Produce local value added of 25% or more.
- Give Liberians the option to purchase shares or otherwise participate in the venture's ownership.

An investment contract is only mandatory for foreign-owned ventures wishing to access Liberian investment incentives.

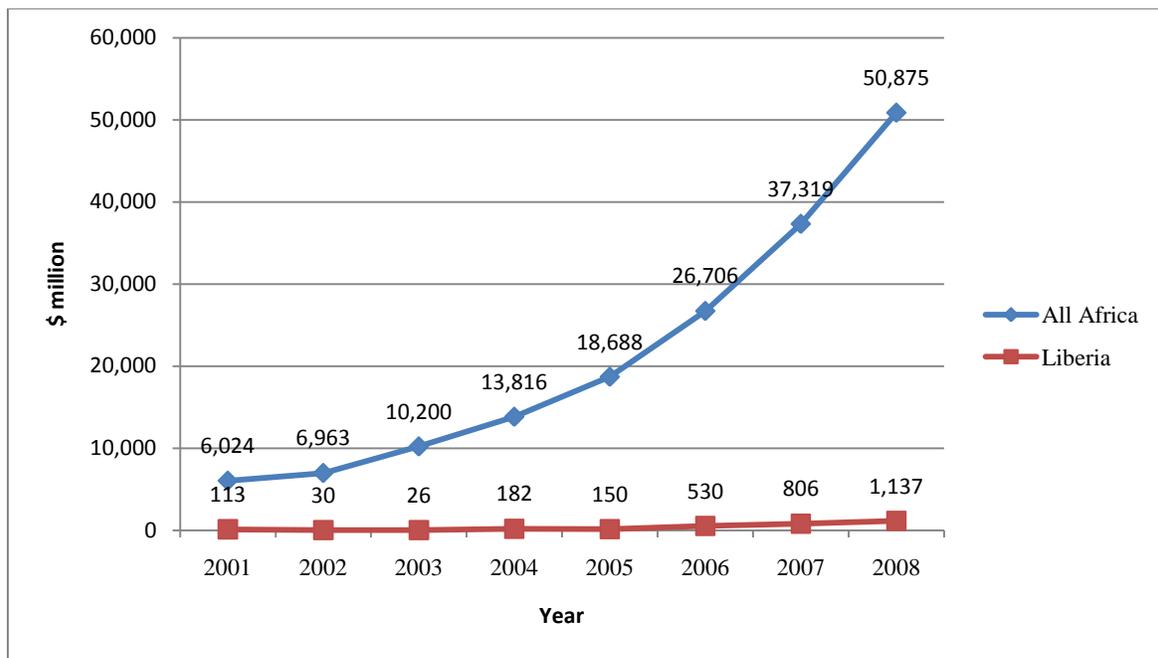
Currently, this legal framework—designed to ensure that foreign investment serves national development—needs to be enforced by Liberia to ensure that the projected benefits are obtained in return. Moreover, the investment monitoring institutions are below adequate operational strength, a situation that is bound to be exacerbated in the future if the government's plans to attract more investment bear fruit. Liberia will need to address these concerns to benefit from its deepening economic relationship with China.

## 2. Trade

### Value and volume of trade

As a major importer of primary commodities, China's demand for certain products has proved to be a benefit to African commodity exporters. Since 2001, trade between China and Africa has grown rapidly in both directions. Overall, China runs a trade deficit with Africa, a consequence of it importing very large quantities of a few commodities, such as oil and iron ore, from a small number of African countries. The majority of African countries, though, have large and widening trade deficits from their trade with China because they export value-added manufactured goods in fairly large quantities from it and import relatively lower-value commodities to it. Chinese exports to African countries, Liberia being no exception, grew exponentially from 2001 to 2008. As the value of African imports from China doubled between 2004 and 2006, Liberia's almost tripled, then doubled again between 2006 and 2008 (figure 2.1).<sup>1</sup>

**Figure 2.1 Chinese exports to Africa and Liberia (\$ millions)**



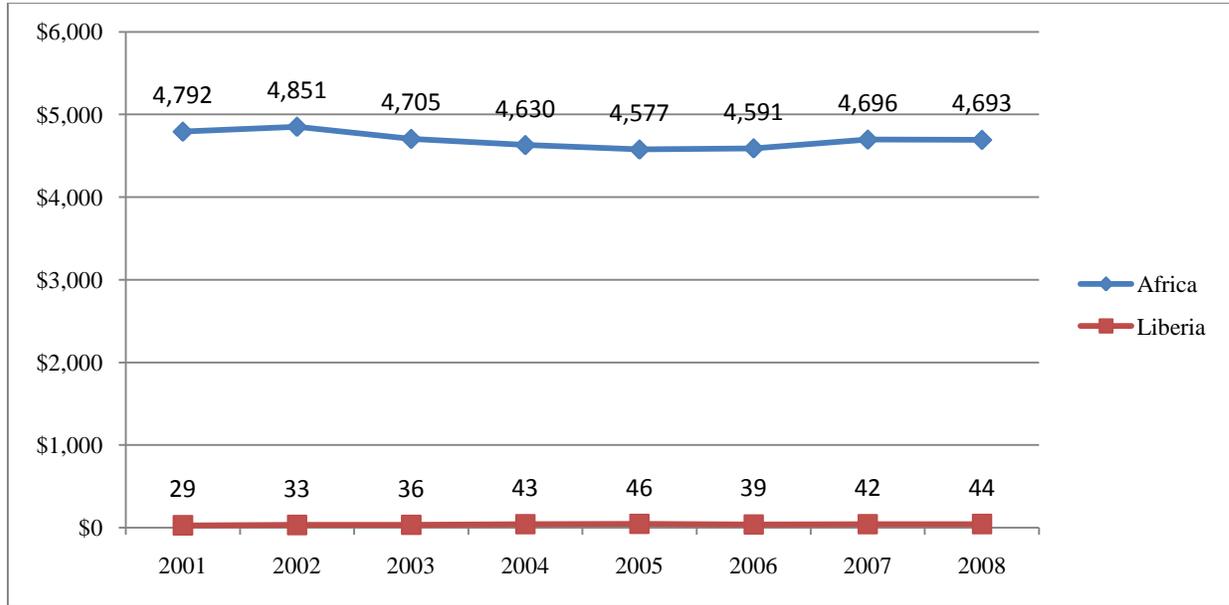
*Source:* CNMcKinsey, March 26, 2009. Based on official data at January 1, 2009.

African and Liberian exports to China, on the other hand, have remained nearly flat. In fact, by 2008 Africa's total exports had still not fully regained their previous highs after declining

<sup>1</sup> Data on Liberia's imports and exports are poor (see Appendix A for difficulties obtaining data). For example, the Central Bank of Liberia has not compiled balance of payments and external sector statistics since 1987—a 22-year gap. The data presented here are published official figures, but it is important to note that they differ from other, perhaps more reliable, sources. Given this, we present these data solely as a reference against which other data can be discussed. Despite their limitations, these figures are still useful for understanding trends, identifying opportunities and crafting policy prescriptions and strategies going forward.

from 2002 through 2006. Liberia’s peak year of exports to China was 2005, with approximately \$46 million Chinese export revenues China (figure 2.2).

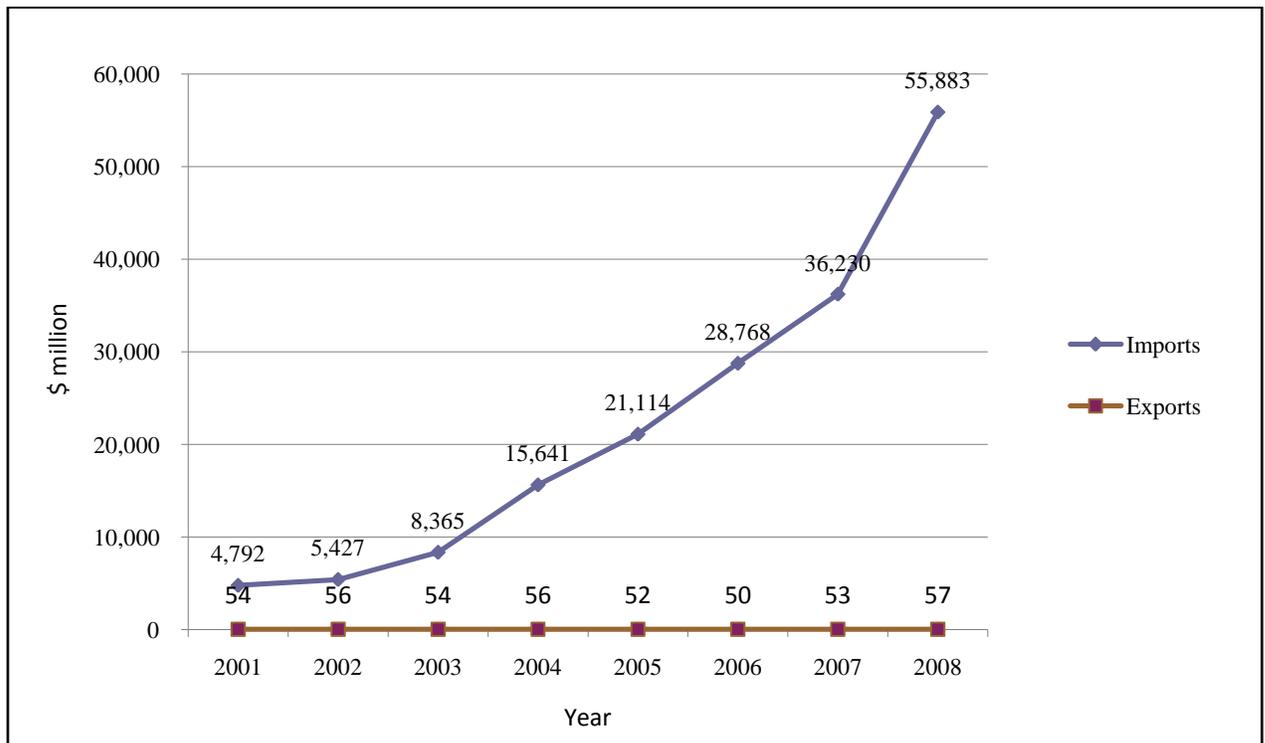
**Figure 2.2 China's imports from Africa and Liberia (\$ millions)**



Source: CN McKinsey, March 26, 2009. Based on official data January 1, 2009.

Liberia’s trade deficit with China is increasing, driven by divergent economic conditions (figure 2.3). Essentially, Liberia is beginning an arduous process of reconstruction after decades of civil conflict that almost destroyed the entire productive capacity of the nation. As a result, Liberia’s export profile is dominated by one primary commodity—rubber, and on the other side of the equation, it imports a great deal of its food and manufactured consumer goods needs, a substantial portion of which is now purchased from China. The other partner in this analysis of trade between countries, China, is currently a world-class exporter of manufactured consumer goods. To maintain its pre-eminence in this realm, it imports equipment, technology and commodities—such as petroleum and iron ore—all items Liberia does not export (or has not resumed exporting). Chief purchasers of Liberian exports from 2002 to 2006 were Spain, Poland, Germany and the United States (table 2.2). Chinese investments in Liberian mining may reduce the trade deficit in future.

Figure 2.3 Liberia's exports and imports with China (\$ millions)



Source: CNMcKinsey, March 26, 2009. Based on official data at January 1, 2009.

Table 2.1 Liberia-China balance of trade in 2007 (\$ millions)

	Exports	Imports	Balance of trade
Total	99,000.00	37,684,833.4	-37,585,833.4

Source: Liberia Institute of Statistics and Geo-information Services (LISGIS).

**Table 2.2 Liberia's main export destinations, 2002–2006 (\$ millions)**

	2002	2003	2004	2005	2006
Germany	569	406	172	43	270
South Africa	1	1	1	1	186
Poland	73	103	130	45	181
U.S.	43	56	81	88	131
Spain	8	19	0	113	127
Total, including others	1,080	929	911	973	1,156

*Source:* IMF, Direction of Trade Statistics. © 2007 Economist Intelligence Unit.

### Sector analysis

Shifts in the Liberian economy from mining and quarrying—primarily iron ore—in the pre-civil war context to a current dependence on agriculture—specifically rubber (table 2.3), and a small industrial output (table 2.4) have rendered it much less diverse than it might have been given their pre-conflict trajectories. To be able to develop a more balanced trading profile against the world, and not just China, Liberia’s economic renaissance has to be accelerated. In the meantime, the strategic imperatives of providing incentives for investment goods in the trade mix, and encouraging local or regional production of consumption goods Liberia imports will have to be pursued vigorously to ensure that the foundation is properly laid for a more robust, higher value-added and diversified future economy.

**Table 2.3 Liberia’s key agricultural and forestry production (2006 to 2008)**

Commodity	Unit	2006	2007	2008
Rubber	MT	93,533	135,200	87,901
Coco bean	MT	1,107	2,126	3,285
Coffee	MT	11	N/A	124
Sawn timber	PCS	N/A	610,864	1,036,879

*Source:* CBL, Annual Report 2008.

**Table 2.4 Liberia's key industrial output (2006 to 2008)**

Commodity	Unit	2006	2007	2008
Cement	MT	135,486	157,200	94,037
Beverages	Liter	17,275,820	19,911,496	17,595,586
Paints	Liter	89,998	77,980	119,540
Candle	KG	579,233	473,239	289,041
Chlorox	Liter	713,776	526,153	456,534
Rubb. alcohol	Liter	210,127	297,105	118,964
Mattresses	PCS	978,373	102,802	108,596
Finished water	Gal	643,436,265	782,711,397	N/A
Gold	Ounce	304	10,014	20,067
Diamond	Carat		21,700	60,536

*Source:* CBL, Annual Report 2008.

In the specific instance of China, the data shown in tables 2.3 through 2.9 shows a thorough top-level review of the import and export profiles of the two countries. Taken as a whole, the data represent a hopeful future for the relationship between China and Liberia, especially given the interest that China is currently showing in helping Liberia exploit its natural resource base appropriately. The multibillion dollar investments China has agreed to make in Liberia offer the hope, if directed properly, of facilitating value-added spill-overs and a diversified product mix that can be targeted to China's giant markets. Much needs to be learned on both sides to make this projection a reality, but it is clear that relatively modest Chinese investments and relatively modest gains in Chinese markets ought to go a long way to assisting with Liberia's economic transformation.

**Table 2.5 Liberia's exports, 2006 and 2007 (\$ thousands)**

Harmonized system code	Description	2006		2007	
		c.i.f. value (\$ thousands)	Percent	c.i.f. value (\$ thousands)	Percent
I	Live animals, animal products	60	0.04%	54	0.03%
II	Vegetable products	23	0.02%	98	0.05%
III	Fats and oils, waxes	2	0.00%	548	0.28%
IV	Beverages and tobacco	291	0.19%	2,653	1.36%
V	Mineral products	1,006	0.66%	500	0.26%
VI	Chemical products	48	0.03%	48	0.02%
VII	Plastics and rubber	150,165	98.04%	179,756	92.35%
VIII	Hides and skins, leather				
IX	Wood and articles, charcoal			9	0.00%
X	Cellulose material and paper				
XI	Textiles and textile articles			9	0.00%
XII	Foot wares			11	0.01%
XIII	Construction materials, ceramics			2	0.00%
XIV	Precious stones and metals	152	0.10%	8,157	4.19%
XV	Base metals	1,393	0.91%	1,895	0.97%
XVI	Machinery and equipment	16	0.01%	171	0.09%
XVII	Vehicles and transport equipment			37	0.02%
XVIII	Optical, medical apparatus				
XX	Miscellaneous articles	5	0.00%	688	0.35%
	Total	153,161	100%	194,636	100%

*Source:* Central Bank of Liberia: Liberia's Balance of Payments and External Sector Statistics, September 2008.

The much-anticipated prospect of discovering oil in Liberia offers a cautionary tale that reinforces the need for Liberia to continue to diversify its output beyond the plastics, rubber and base metals that have great appeal to China. Rather than assuming that oil will be a panacea, an analysis of China's purchases of oil, its main African import, representing 80% of its imports and a third of its total oil imports (table 2.9; Foster, Butterfield and Chen 2008), shows that oil alone cannot transform African economies, and that much more transformative actions need to be pursued to achieve that end.

**Table 2.6 China's top imports 2008 (\$ billions)**

Harmonized System code	Description	Value (\$ billions)	Percent
V	Mineral products	255.5	23%
VII	Plastics and rubber	97.4	9%
XV	Base metals	61.2	5%
XVI	Machinery and equipment	405.4	36%
XVII	Vehicles and transport equipment	26.9	2%
XVIII	Optical, medical apparatus	77.7	7%
	All other imports	209	18%
	<b>Total</b>	<b>1,133.10</b>	<b>100%</b>

*Source:* Ministry of Commerce, China.

**Table 2.7 China's top exports 2008 (\$ billions)**

HS Code	Description	Value	Percent
V	Mineral products	31.6	2%
VI	Chemical products	42.4	3%
XI	Textiles and textile articles	113.0	8%
XV	Base metals	101.8	7%
XVI	Machinery and equipment	610.6	43%
XVII	Vehicles and transport equipment	39.3	3%
XVIII	Optical, Medical apparatus	43.4	3%
XX	Miscellaneous articles	75.5	5%
	All other exports	370.9	26%
	<b>Total</b>	<b>1,428.50</b>	<b>100%</b>

*Source:* Ministry of Commerce, China.

**Table 2.8 Liberian imports by type, 2007**

Harmonized System Code	Description	c.i.f. value (\$ thousands)	Percent of Imports
I	Live animals, animal products	32,661	8%
II	Vegetable products	57,002	14%
III	Fats and oils, waxes	13,540	3%
IV	Beverages and tobacco	46,720	11%
V	Mineral products	80,502	19%
VI	Chemical products	22,919	6%
VII	Plastics and rubber	12,925	3%
VIII	Hides and skins, leather	712	0%
IX	Wood and articles, charcoal	1,193	0%
X	Cellulose material and paper	4,919	1%
XI	Textiles and textile articles	15,506	4%
XII	Foot wares	3,909	1%
XIII	Construction materials, ceramics	5,006	1%
XIV	Precious stones and metals	11	0%
XV	Base metals	33,920	8%
XVI	Machinery and equipment	54,600	13%
XVII	Vehicles and transport equipment	24,236	6%
XVIII	Optical, medical apparatus	906	0%
XX	Miscellaneous articles	4,156	1%
	Total	415,343	100

*Source:* Central Bank of Liberia: Liberia's Balance of Payments and External Sector Statistics; Sept 2008.

Liberia chiefly imports food, machinery and equipment, construction materials and transport equipment from China (table 2.9). These are all goods that reflect the nature of the development imperatives in Liberia at the moment. Indeed, in the near- to mid-term, Liberia may have to focus even more on shifting the mix of imports from China toward more productive goods such as machinery and equipment.

**Table 2.9 Liberia's imports from China, 2007 (\$)**

Import	2007 (\$)	Percent of imports from China
TOTAL	37,684,833.38	100
Transport materials	5,758,585.83	15.3
Machinery and equipment	6,639,632.21	17.6
Medical equipment	98,305.94	0.5
Appliances	-	0
Construction materials	-	0
Industrial	5,075,995.82	13.5
Building materials	6,893,760.09	18.3
Fertilizers	138,134.91	0.4
Others	10,386,884.79	27.6
Fuel, gasoline, lubricants	-	0
Consumer goods	1,205,102.79	3.2
Clothing	1,488,431.00	3.9

*Source:* LISGIS.

The prospects for greater trade between China and Liberia are expected to improve as Liberian mining and minerals industries return to production. Nevertheless, reducing the trade deficit will require that more attention is paid to the fundamental mix of imports and exports between the two countries, with Liberia making the commitment to diversify agriculture and to create more value added goods that are capable of being sold in China's markets.

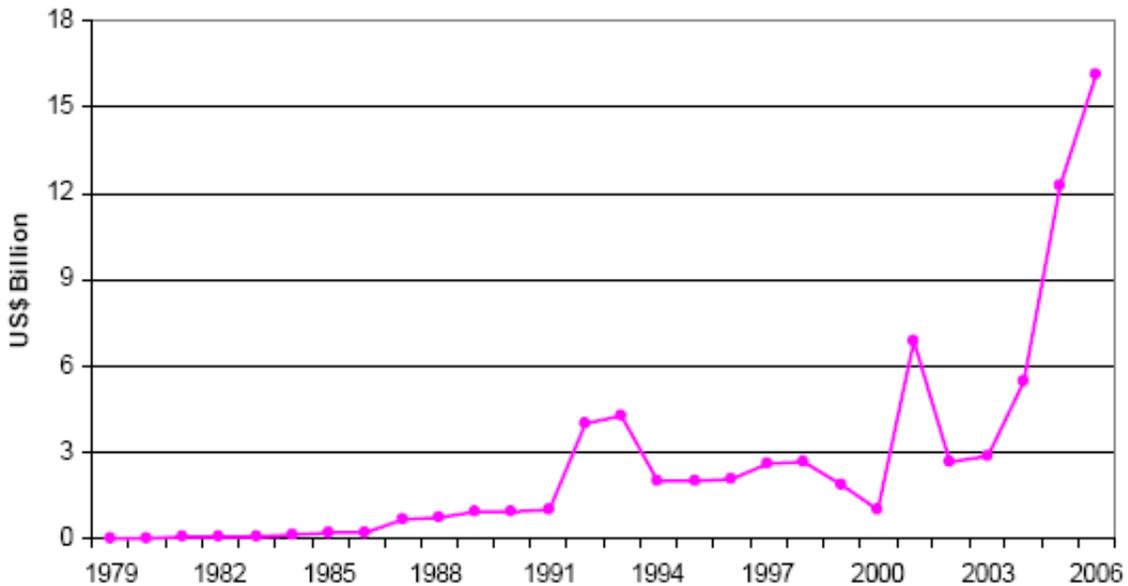
### 3. Foreign Direct Investment

#### Investment trends

China's foreign direct investment (FDI) is disproportionately small relative to the size of its economy, still accounting for only 0.6% of global FDI by the end of 2005 (IMF 2006). But FDI is rising rapidly, growing 25.6% between 2000 and 2009 (figure 3.1; Leeds University Business School 2009).

Currently, China's government and large state-owned enterprises (SOEs) focus FDI on South and East Asia and—to a lesser extent—Africa (Morck, Yeung and Zhao 2007), preferring countries with tax havens or significant natural resources. The largest Chinese investors in Liberia are state-owned enterprises—often official monopolies in a major industry (Morck, Yeung and Zhao 2007)—controlled at a national or regional level. At the national level, many of the largest Chinese sources of FDI are the most profitable SOEs.

**Figure 3.1 China's foreign direct investments have grown rapidly since 2000**



Data sources: Ministry of Commerce and China Statistics Bureau

Source: Reproduced from Morck, Yeung and Zhao (2007).

Africa's share of Chinese FDI is fairly small. South Africa, Nigeria, Sudan and Zambia receive the most while Liberia's share being almost nonexistent. China's FDI flow to Liberia has been irregular, starting with none in 2003, rising to \$9 million in 2005 and declining to -\$7 million in 2006. Despite the irregular flow, Chinese FDI stock rose steadily from \$6 million to \$30 million from 2003 to 2007. Total FDI flow to Liberia was \$69 million in 2003 and \$35 million in 2004 (according to the UNCTAD, FDI/TNC database), Chinese FDI over the same period represented 12% of total flows to Liberia. The largest sources of FDI continue to be Brazil, Germany and the United States, with the largest affiliates of transnational corporations coming from Japan, Taiwan, Germany and the United Kingdom.

**Table 3.1 Chinese FDI in Liberia (\$ millions)**

	2003	2004	2005	2006	2007
Flow	0	1	9	-7	0
Stock	6	6	16	30	30

*Source:* 2007 Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce, People's Republic of China.

Recently signed oil and minerals deals between Liberia and Chinese companies—a January 2009 mineral development agreement between the government of Liberia, China Union (Hong Kong) Mining Co., Ltd. and China Union Investment (Liberia) Bong Mines Co., Ltd. and a November 2006 memorandum of understanding between the National Oil Company of Liberia and Sinopec International Exploration and Production Corporation—may change the small-scale pattern of Chinese investment.

The NIC approved six new Chinese projects between 2004 and 2009 totalling more than \$2.7 billion, skewed by the \$2.6 billion China Union mining project approved in 2009 (table 3.2).

**Table 3.2 Chinese investment flows to Liberia, 2004–2009**

	Project	Sector	Investment size (\$)	Year	Liberian participation
1	Liberia (West Africa) China Commodity Trading Center	Construction	10,000,000	2004	
2	KBL (Liberia Mining Company)	Mining	1,154,405	2007	60% Liberian/ 40% foreign
3	Golden Key Inc. Hotel	Hotel	8,861,406	2008	
4	Safari Enterprise Ltd.	Hotel	8,023,378	2008	
5	China Henan International Group Co. Ltd. (Chico)	Mining exploration	35,000,000	2009	
6	China Union	Mining	2,600,000,000	2009	

*Source:* National Investment Commission.

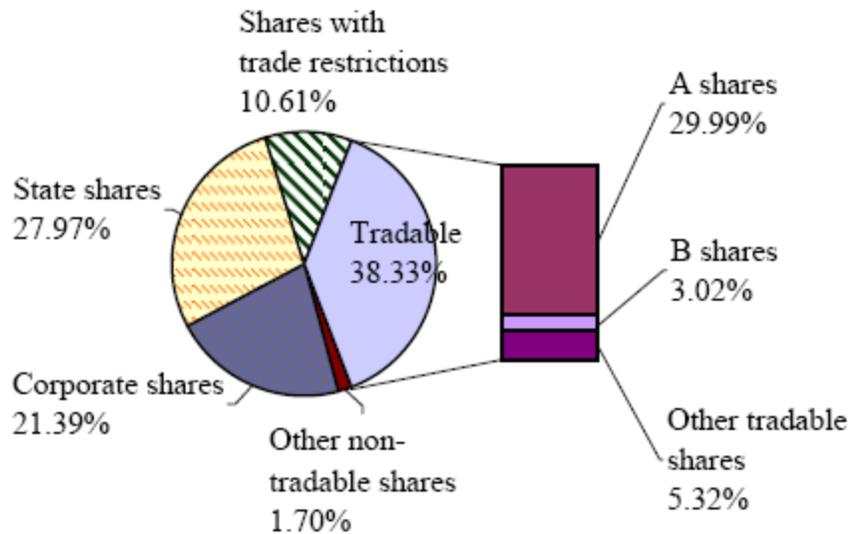
### Sector analysis

Globally, most Chinese FDI flows to mining and the exploration for natural resources. Chinese investments in the natural resource sector in Sub-Saharan Africa were valued at around \$10.6 billion from 2001 to 2007. Liberia received \$24 million or 0.002% of that total. The \$2.6 billion China Union project, the largest single FDI in Liberia's history, will revitalize iron ore mining in the central regions. Liberia has also approved two other mining projects totalling around \$36 million and two hotel industry projects valued at more than \$8 million each.

Chinese companies listed by the Chinese Securities Regulatory Commission are the largest FDI players and represent potential joint venture partners with African entrepreneurs and

governments. Ownership of these companies is divided among state shares (28.0%), corporate shares held by other SOEs (21.4%) and shares—with trade restrictions—owned by other state-related entities (10.6%). More than one-third (38%) of shares are tradable, A-Shares reserved for domestic investors and B-Shares (3%) traded openly in Hong Kong and elsewhere (figure 3.2).

**Figure 3.2 Ownership structure of listed Chinese companies, 2005**



The major classes of tradable shares are “A” shares for domestic investors, “B” shares that are locally traded but originally reserved for foreign portfolio investors, and cross-listings in Hong Kong or abroad.

Data source: China Securities Regulatory Commission (CSRC)

Source: Reproduced from Morck, Yeung and Zhao (2007).

Doing businesses with Chinese investors requires doing business with Chinese national or provincial governments—unlike business with western investors. Investments in small retailing ventures are the exception.

Liberia has, unquestionably, an attractive endowment of natural resources, spanning its rich marine coasts, fertile agricultural lands, and untapped mineral deposits. These assets alone deserve a significant amount of attention from the world’s most populous country, one with a giant and growing industrial base.

At issue though is the crafting of the right kinds of incentives for China to take a serious sustained interest in Liberia, especially given its current investment profile. A strategic partnership between China and Liberia in the area of FDI requires a revamping of the Liberian posture toward attracting investment and the development of a very proactive strategy toward selling the prospects and benefits of investment in Liberia to Chinese stakeholders.

#### 4. Economic and Technical Assistance

China's ETC in Liberia has been small but is growing as China changes its foreign aid policies. Recent international aid to Liberia has focused on humanitarian assistance. The prolonged and destructive civil war claimed 270,000 Liberian lives—about 7% of the population—and destroyed or delayed vital infrastructure and support systems. In the war's aftermath, Liberia needs to resolve challenges related to internal displacement and refugees, restore rural farming communities and re-establish social customs and traditions.

International aid to address these issues is vital and must come from both Organization for Economic Cooperation and Development (OECD) countries and non-traditional donors like China. To be most effective, the aid process should be driven by well-informed and well-executed Liberian government policies—some still being implemented under the Poverty Reduction Strategy (PRS).

##### *Chinese aid to Liberia*

To use Chinese aid effectively, Liberia will need to harmonize aid processes with those embodied in the OECD's 2005 Paris Declaration, calling for local ownership of clear strategic priorities. Currently, Liberia is diligently crafting the appropriate mechanisms for accessing Chinese aid and focused on ensuring that this ETC is clearly and formally linked to Liberian national priorities.

Chinese aid rests on the 'four pillars' of Liberia's Poverty Reduction Strategy: consolidating peace and security, economic revitalization, strengthening governance and rule of law and rehabilitating infrastructure and delivering basic services (table 4.1)<sup>2</sup>.

**Table 4.1 Chinese aid to Liberia, 2006–2008 (\$ millions)**

Pillars of the PRS	Pledged	Disbursed	Balance
Peace and security	6.2	6.2	0
Economic revitalization	14.2	14.2	0
Governance and rule of law	0	0	0
Infrastructure and basic services	68.0	41.6	26.4
Total	88.3	62.0	26.4

*Source:* Submission by the Chinese Embassy to the LRDC's Steering Committee.

***Peace and security.*** China funded three programs—totalling \$6.2 million—between 2006 and 2008: supplying military equipment such as radios and transmitting stations, training Liberian military officers in China and renovating army barracks.

***Economic revitalization.*** During 2006 to 2008, China funded a mineral resources survey, donated cash to support the national budget and cancelled some pre-2005 debt (table 4.2).

<sup>2</sup> China has not contributed to pillar three—governance and the rule of law.

**Table 4.2 China's direct contributions to Liberian economic revitalization, 2006–2008 (\$ millions)**

	Project name	Pledged	Disbursed	Balance
1	Initial mineral resources survey in promising areas within Liberia	0.1	0.1	0
2	Cash donation as budget support (May 2006)	1.0	1.0	0
3	Cash donation as budget support (February 2007)	1.5	1.5	0
4	Debt cancellation (partial write off of debt matured before 2005)	11.6	11.6	0
	Total	14.2	14.2	0

*Source:* Chinese Embassy's Presentation to the LRDC's Steering Committee.

**Infrastructure and basic services.** During 2006 to 2008 China funded 20 basic services projects, from basket weaving classes to building a rural hospital, reportedly pledging \$68.1 million (table 4.3).

**Table 4.3 Chinese aid in infrastructure and basic services, 2006–2008 (\$ millions)**

	Project	Pledged	Disbursed	% Disbursed
1	Ministry of Foreign Affairs renovation	1.3	1.3	100%
2	SKD Stadium renovation	8.5	8.5	100%
3	Farm tool donation	1.0	1.0	100%
4	Anti-malaria drugs	0.3	0.3	100%
5	Office materials	0.04	0.04	100%
6	Training materials to Gender Ministry	0.03	0.03	100%
7	Scholarships for Liberians	3.8	2.9	75%
8	Technical training in China	5.0	4.3	86%
9	School uniforms	0.1	0.1	0.2%
10	Medical team to JFK Medical Center	1.0	1.0	100%
11	Chinese medical team residence	0.9	0.9	100%
12	Agricultural team to Booker Washington Institute	0.8	0.8	100%
13	Bamboo and rattan weaving	0.4	0.4	100%
14	Malaria prevention	0.4	0.4	100%
15	Liberia broadcasting station renovation and equipment	4.1	3.7	90%
16	Construction at University of Liberia Fendell campus	21.5	10.8	50%
17	Provision of labs at University of Liberia	0.5	0	0%
18	Rural school construction	2.2	1.5	70%
19	Hospital construction in Tappita	10.3	0.6	6%
20	Central Agricultural Research Institute construction project	5.9	3.2	55%

Total	68.1	41.8	61%
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*Source:* Chinese Embassy’s Presentation to the LRDC’s Steering Committee.

*Note:* Total and % disbursed amounts may not correspond exactly to pledged and disbursed amounts due to rounding errors.

According to the World Bank’s report *Building Bridges* (2008), Liberia has not received any Chinese infrastructure funding. But two Chinese firms are constructing roads and bridges funded by third-party donors and the Liberian government. China Henan International Cooperation Group (CHICO) received a World Bank-funded contract of \$23.4 million to rehabilitate and pave roads in Monrovia and environs, including repaving the Robertsfield Highway, the major route to Liberia’s international airport. China Chunk Wan International Construction Corporation is building a bridge (valued around \$14.6 million) to reconnect Monrovia’s commercial downtown to Bushrod Island—a major commercial centre—and the Free Port of Monrovia.

### ***Opportunities for Chinese aid***

The current conditions in Liberia are such that critical infrastructure needs must be tackled to provide an adequate platform for economic take-off. In the near- to mid-term, substantial investments in the form of aid to these infrastructural needs must be made. Aid of one form or another must be judiciously applied to these infrastructural plans. There is no doubt that China’s interest in Liberian investments will be enhanced by the infrastructural build out. Herein lies an opportunity to create an environment of mutual benefit for both countries. Indeed, Liberian and Chinese stakeholders have identified a number of emerging areas and project opportunities for Chinese aid:

- ***Special Economic Zone.*** A Special Economic Zone (SEZ) is in the planning stages, with a steering committee working on a pilot program in Grand Bassa County. Initially to be managed by China Union, the SEZ concept has been expanded to allow participation by other countries. A draft law, submitted to the SEZ steering committee for validation, would regulate the establishment, development and operation of multiple mixed-use SEZs in Liberia to accelerate economic development, increase the standard of living, reduce poverty levels, create new employment opportunities and improve workforce skills. Other SEZ goals include de-urbanizing heavily populated cities, achieving long-term environmental, labour and gender sustainability, promoting human rights and enhancing ongoing peace-building efforts. The proposed SEZ law would also use the SEZ as a policy instrument to pilot legal and economic reforms nationwide and encourage investment, export activity, infrastructure development and capacity-building in harmony with the PRS and international standards—including Economic Community of West African States (ECOWAS) commitments, International Labor Organization safeguards and World Trade Organizations disciplines.
- ***Free Port of Monrovia.*** Government officials are talking with China Union about rehabilitating the Free Port of Monrovia. This would result in increased employment for Liberians from both China Union and Liberian-owned companies providing services— such as transportation—to port workers.

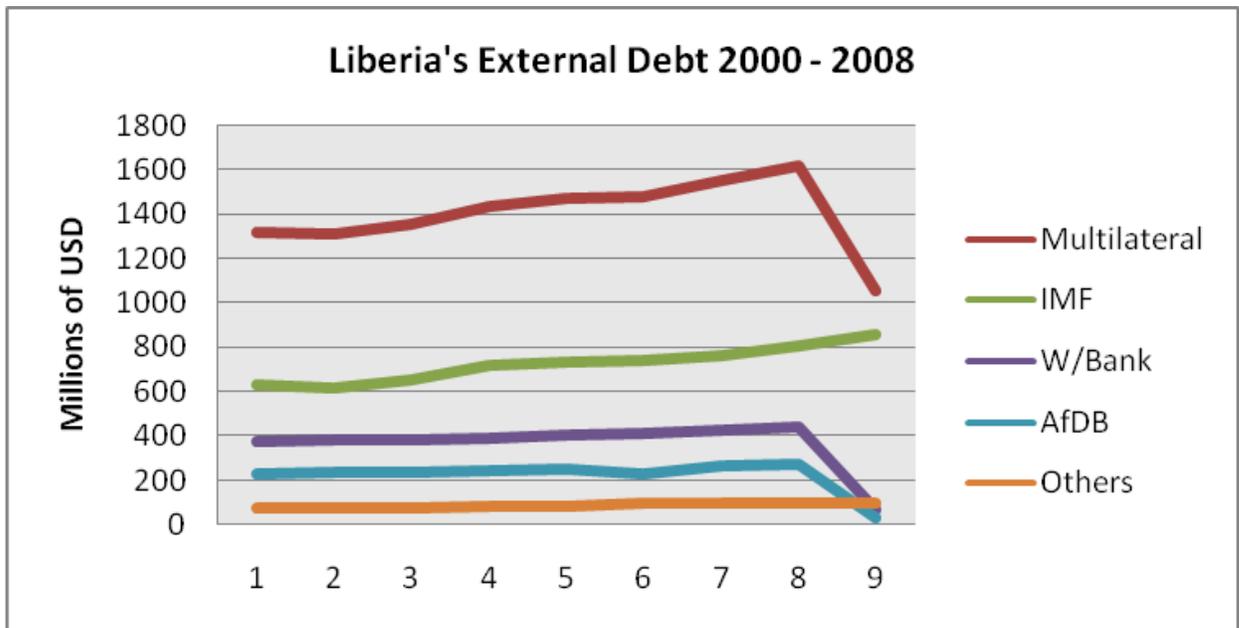
- ***Agriculture.*** Chinese assistance could help Liberian farmers better use large areas of uninhabited land, plentiful rainfall and a large pool of unskilled labour. Rice and vegetable production and commercial farms could become alternatives to subsistence farming. China might also provide technology to Liberia's largely illiterate farmers and develop value-added small industries, such as rice and sugar cane mills.
- ***Financial system.*** China could promote a stable, sound and market-based financial system to support efficient use of resources needed to foster sustainable economic growth and poverty reduction.
- ***Petroleum.*** Oil could attract long-term Chinese investment. Hong Kong Tong Tai Petroleum International Corporation, Ltd. is now bidding for offshore blocks to explore for petroleum.
- ***Infrastructure.*** Chinese companies—including CHICO, a road-building company already working in Liberia—could help reconstruct Liberia's damaged infrastructure, starting with community and inter-city roads.
- ***Housing.*** Building low-cost housing could house the poor and create jobs. Hainan Century, a Chinese company, is now working with local builders and the National Housing Authority to build a 1000-unit low-cost housing estate in the Monrovia suburb, en route to completing a project ten times as large.
- ***Post and telecommunications.*** China could help rehabilitate the damaged post and telecommunications sector, especially restoring the landline network.
- ***Electricity.*** Under its mineral development agreement with Liberia, China Union will generate and transmit electricity, installing electric generating capacity to meet its reasonable needs and selling the excess to the government—which has the right of first refusal—or third parties. To meet this obligation, China Union may rehabilitate the Mount Coffee hydro power plant.
- ***Education.*** China is constructing educational facilities but could also provide needed teacher training—perhaps through scholarships to study in China.
- ***Health.*** In addition to building health facilities, China should train staff to operate them, meeting a demand for quality health care—a vital national goal.

## Debt

### ***Liberia's debt***

At the start of civil war in 1989, Liberia stopped servicing its domestic and international debt. Although the post-war government has taken steps to manage domestic debt, multinational and bilateral aid sources are the most significant holders of Liberia's debt. Analysts conclude that international debt grew from 2000 to 2009 because of increases in arrearages, interest, late fees and penalties (figure 4.1).

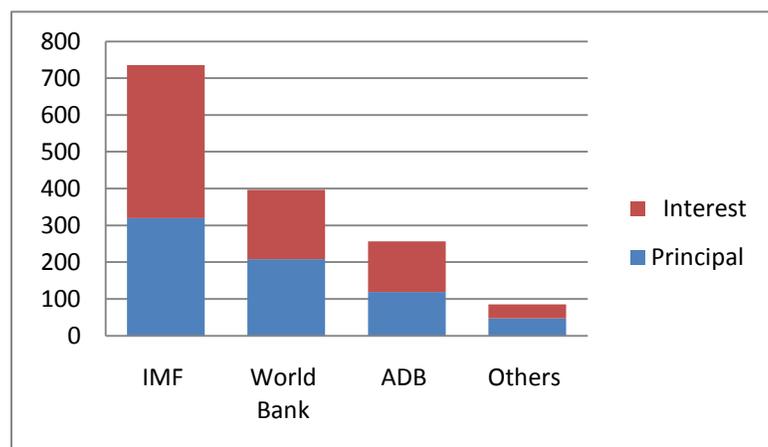
**Figure 4.1 Liberia's external debt, 2000–2008**



Source: Central Bank of Liberia.

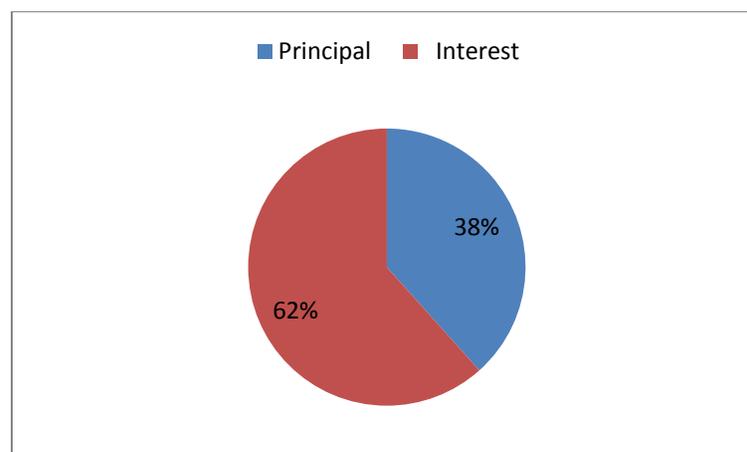
The Liberian government reported \$4.7 billion in accumulated delinquent international obligations by June 2007 (Republic of Liberia 2008), more than 40% from interest and fees (figure 4.2). By 2007 Liberia's international debt comprised 38% principal and 62% interest (figure 4.3). Liberia's chief creditors—77% of its multilateral debt—are the International Monetary Fund and the World Bank.

**Figure 4.2 Accumulated interest and principal on multilateral debt, 2007 (\$ millions)**



Source: Central Bank of Liberia.

**Figure 4.3 Principal and interest composition of Liberia’s multilateral debt, 2007 (%)**



*Source:* Central Bank of Liberia.

In June 2008 the Liberian government announced it was ‘pursuing a debt resolution strategy based primarily on the [Highly Indebted Poor Countries] HIPC Initiative’ (Republic of Liberia 2008). Debt forgiveness began with the HIPC initiative, starting with the Bretton Woods organizations and moving to commercial lenders. Liberia’s government still has restraints on its ability to acquire new loan obligations.

#### ***Liberia’s debts to China***

When the government of Liberia published its debt management strategy, China’s share of the debt was 1.3% or \$16 million (table 4.4). China agreed to forgive 100% of this obligation and has forgiven \$10 million to date. China’s lending to Liberia—currently only 1% of Liberia’s bilateral debt—has always been fairly small, dwarfed by loans from Western Europe and the United States. Some analysts argue that China lags severely—compared to Germany and France—in both providing and forgiving debt to assist Liberian national development. Given the reluctance of European Union countries to provide debt and other forms of assistance at 1960 to 1980s levels, China’s aid is greatly needed.

**Table 4.4 Liberia’s bilateral debt obligations (\$ millions)**

Lender	Value of debt obligation (\$ millions)	Percent of total debt
United States	425	34%
Germany	410	33%
France	157	13%
Japan	125	10%
Italy	68	5%
United Kingdom	49	4%
China	16	1%
TOTAL	1,250	100%

*Source:* Debt Management Strategy, June 2007.

Chinese firms now work on road construction projects—with World Bank and Liberian government funding—an area previously dominated by Italian construction companies that abandoned these projects during the Liberia’s crisis years. Strategies like this—using Chinese-originated debt effectively and strategically—may help China participate in Liberia’s reconstruction more extensively.

There is an imperative for Liberia to engage China constructively in an integrated dialog (with discussions encompassing the linkages among the Trade, FDI and ETC dimensions) focused on its plans for national economic transformation. Discussions on ETC alone, without the links to how ETC helps enhance Chinese FDI and expand trade between the two countries, will probably be sub-optimal. In any case this integrated approach mirrors the Chinese approach to Africa.

## 5. Stakeholder Perceptions

This study interviewed more than 80 stakeholders representing a broad spectrum of experience with China-Liberia economic engagements, including government officials, Liberian leaders, officials and representatives of trade and business associations, labour organizations, political party representatives, heads of major Chinese companies operating in Liberia and operators of small Liberian businesses who travel to China or interact domestically on a regular basis with Chinese nationals. An open-ended questionnaire guided the interviews on a variety of topics, including levels and nature of interaction with Chinese officials and nationals. Respondents were asked to identify lessons from their interactions as well as the key drivers of growth in China-Liberia relations. Their responses raise issues and concerns qualitative in nature.

Conversations with stakeholders revealed insights into six important topics in China-Liberia relations: visioning, job creation and skills transfer, capital transfers, capacity imbalances, interrelationship with priorities of the PRS and China versus traditional sources of aid and investment. Surprisingly, most Liberian stakeholders reported little substantive interaction with officials or businesses from China, suggesting that their perceptions of China's role were based on anecdote, leading perhaps to these misperceptions.

***Visioning.*** Stakeholders, including government ministers, saw the need for a strategic vision for future China-Liberia relations, understandable given the long years of severed contact. The moment is opportune for Liberia to make a concerted push toward a greater Chinese involvement in its future plans, especially given some of the blockbuster deals that have been negotiated in the recent past, including more than \$15 billion in iron ore mining concessions and the renegotiation of the Arcelor Mittal Steel Mineral Development Agreement (MDA), Firestone Concession agreement.

***Job creation.*** Stakeholders commented extensively on the need to ensure that the engagement with China resulted in a significant expansion of actual jobs available to Liberians. Embedded within that aspiration was also the need to build up Liberia's statistic-gathering capacities to enable such determinations to be made, and to be able to build on the success stories that may exist.

The expectation of an expanded engagement with Chinese entities has brought to the fore the need for educating both parties on issues of labour law, unionization, and the importance of language training. There is a great deal of upside to tackling these issues immediately.

Another issue was the need to ensure that Liberians were not crowded out of informal sector opportunities, nor out of the 26 kinds of businesses reserved for them under the Liberianization Law. A more proactive strategy for communicating this would ensure that Chinese FDI was targeted at high value-added areas.

Stakeholders reflected a level of anxiety that accompanies economic insecurity, with complaints about unfair Chinese business practices surfacing frequently. An emphasis on job creation via Chinese FDI would help quell these anxieties.

***Skill and capital transfers.*** A key benefit sought from the engagement has been the substantial transfer of skills from Chinese enterprises to Liberians. Realization of this goal within the context of the major Chinese FDI investments currently being made is possible. Stakeholders enjoined the Liberian government to focus on this aspect of the engagement, and to ensure that the objectives set out in the investment agreements were met.

***Capacity imbalances.*** Stakeholders saw a need to build up Liberian capacity to negotiate with—or otherwise effectively engage—China or other large international business partners, and reduce reliance on foreign experts. This observation comes on the heels of groundbreaking negotiations on billion-dollar deals. Stakeholders believe that Liberian capacity in this area will make the country more effective in these negotiations and will capture the intellectual property needed to enhance the country’s posture in future deals.

***Interrelationships with Poverty Reduction Strategy (PRS).*** Stakeholders recognize that China has supported many areas of the PRS and believe that this support needs to grow if it is to play an effective role in accelerating the goals of the PRS. To that end, stakeholders enjoin the government of Liberia to come up with a strategic framework to engage the Chinese authorities in dialog focused on this issue. It will be important for Liberia to play a proactive role in the identification of strategic imperatives and to negotiate a programmatic basis for action.

***China versus traditional sources of aid and investment.*** Some Liberian officials believe that traditional aid partners use administrative processes that are too time-consuming, alleging that a key hydroelectric rehabilitation project has been delayed by the slow pace of the U.S. review process. These points, even if they are valid, need to be considered in the context of an aid matrix that can be either biased towards programs or projects.. It has been noted that the Chinese tend to offer project-oriented aid, while the traditional partners have in the recent past focused more on programs. Choosing between one approach and the other is a false choice; both need to coexist. Within both approaches there is the possibility of improving both strategy and execution. The Liberian government is better off having multiple options.

## 6. Lessons Learned

The data and opinions gathered for this study teach some key lessons about China-Liberia economic engagements:

- Agribusiness has not been a major recipient of Chinese aid or investment, though China has the capacity to help Liberia realize its food security goals.
- Changing established patterns of trade and investment will require a deliberate effort at the highest policy levels in both countries.
- FDI from China could increase liquidity in the Liberian banking system. More information about cash circulating outside the banking system would make Chinese FDI more focused, effective and far-reaching.
- Liberia needs to encourage Chinese partnerships with Liberian small and medium enterprises (SMEs), allowing SMEs to fulfil their potential to generate employment.
- By some indications, foreign nationals, including the Chinese, are encroaching on Liberian set-aside trading areas.
- To enjoy sustainable long-term benefits from the large capital flowing into mineral development, Liberia needs policy to make its business environment more transparent and strengthen government oversight.
- Liberians can learn and benefit from Chinese businesspersons - if programs that facilitate this exchange are created.
- Africa needs to create measures and benchmarks that ensure China's renewed engagement is more productive and successful than Africa's engagement with its traditional partners.

## 7. Conclusions and Recommendations

The histories of Liberia and China over the past 30 years suggest that there is much Liberia can learn from China about stimulating economic growth, planning appropriate government budgets and delivering services. The emerging China-Liberia economic engagement offers Liberia an opportunity to emulate and adapt lessons from China appropriate to its national goals.

There are many non-exclusive options, such as ‘strategic partner’ or ‘development partner’ or ‘financier of last resort’ that could define the role of China in Liberia. Liberia needs to create an integrated vision of its engagement with the world that clearly defines and optimizes China’s role.

To transform Liberia, the engagement with China has to achieve goals that conform to Poverty Reduction Strategy (PRS) objectives: to continue growth by exploiting natural resources in enclaves and exporting commodities and to strengthen governance and the rule of law. Meeting these challenges must be part of a strategic policy to diversify the economy and reduce poverty. Finally, Liberia has to conduct frequent reviews of the PRS to ensure that it is constantly aligned with national aspirations and opportunities.

A great deal of research exists that points to the need to focus on moving beyond merchant capital as a driving force of national development, which, according to some authorities, has other metrics beyond ‘growth’ as its objectives. A more comprehensive approach would also attempt to court the small- and medium-sized opportunities that comparative international studies indicate would have more impact on employment.

Liberia might also rethink the current reliance on bilateral aid and debt alone, which rules out well-structured explorations of private international loans and domestic capital markets capable of contributing to Liberian development. China has demonstrated limited capacity to provide ETC in Liberia, but Chinese quasi-private debt might be available for large-scale infrastructure projects. Liberia needs to further investigate these possibilities.

### Recommendations

#### Integration:

- Set a goal of developing long-term integrated (FDI+TRADE+ETC) approach to leveraging Chinese engagement to transforming Liberia.
  - Develop clear transformation metrics and goals.
  - Exploit Chinese integrated approach as basis of dialog with China.

#### Trade:

- **Increase value-added component of Liberian exports to China by:**
  - Diversifying scope and scale of Liberian exports to China
  - Providing incentives to shift from consumption good imports to importation of production-oriented goods

- Intensifying efforts to become embedded in Chinese global value chains for both goods and services

**FDI:**

- **Encourage China to become a strategic investor by:**
  - Developing a special strategic framework focused on China, with clear objectives, opportunities and challenges
  - Providing meaningful competitive and sustainable advantages to Chinese businesses
  - Intensifying efforts to become embedded in Chinese global value chains via SEZ build-out and development of linkages

**ETC:**

- **Set an aggressive goal of increasing Chinese ETC by:**
  - Developing an integrated programmatic plan that demonstrates linkages between favourable Trade and FDI
  - Ensuring that Chinese ETC is negotiated and delivered at the highest levels, making it a strategic issue
  - Ensuring that ETC is harmonized with DAC aid
  - Ensuring that Chinese ETC loans do not result in macroeconomic instability

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## Appendix A: Methodology

### Methodology

We obtained quantitative data from Liberian governmental and international statistical databases and qualitative perspectives from interviews with stakeholders about the activities that defined Liberia-China engagement during the past decade.

Our main internal sources of data were the Central Bank of Liberia, the ministries of Foreign Affairs, Commerce & Industry and Finance, the Liberia Institute of Statistics and Geo-Information Services (LISGIS) and the National Investment Commission (NIC). We interviewed Liberian government officials and representatives of the Chinese Embassy near Monrovia, civil society organizations and trade union associations. The main external sources were China's Ministry of Commerce, the World Bank, the International Monetary Fund, the U.S. China Business Council, OECD, and the UNCTAD databases and publications.

The report's quantitative data, subject to the caveats noted in the next section, are best understood in the context of the qualitative information gathered through desk research and interviews with key stakeholders. The project researchers identified, procured and reviewed official Liberia-China documents and documents obtained from other sources and validated locally against external databases. They used a detailed questionnaire to guide the stakeholder interviews (see appendix C). Interviewers also questioned individual stakeholders about specific issues previously identified as within their expertise. Finally, the study team organized, reviewed and analyzed the quantitative and qualitative data to produce this report.

### Research challenges imposed by data limitations

Access to reliable statistics in developing countries is generally a challenge, and post-war Liberia is more challenging than most. For example, the Central Bank of Liberia has not compiled balance of payments and external sector statistics since 1987—a 22-year gap. Prior to the 1989-2003 civil war, the Ministry of Planning and Economic Affairs, the National Bank of Liberia (renamed Central Bank of Liberia) and the Ministry of Finance regularly published fairly reliable trade and government finance statistics. But in the post-civil war era, Liberia has published incomplete external trade data—no complete time series data on trade, aid and FDI were published for 2000 to 2007. When it is available, the aggregation of the official data conceals rather than reveals.

For the data that were available, no two sources agreed. Data presented from the Chinese perspective did not match data presented from the Liberia perspective. Staff at the various government agencies had to manually compile—with time constraints—some information in this report from import and export records at Liberian government institutions—significant calculation errors are likely. The challenges in generating data for this study highlight the extent of institutional collapse within the Liberian government. Without key statistics, a rigorous analysis of critical strategic issues such as commodity composition, trade and payment balances and direction of trade was not possible. For the most part, this study relied on non-Liberian data sources.

China's own internal challenges as it transitions from a developing country to a significant presence in the global economy added a layer of complexity to the research. For example,

China foreign assistance is difficult to quantify and its trade and FDI strategies are difficult to define outside of the generic 'soft diplomacy: friendship and need for raw materials' rubric. China appears to administer aid and investment in a more ad hoc fashion than traditional donors, without a centralized leadership or regularized funding mechanisms (Lum and others 2009).

## Appendix B: Laws and Treaties

Liberia's Poverty Reduction Strategy operates in a framework of national laws and international treaties meant to regulate domestic and foreign businesses. National laws include:

- Investment Incentives Code of 1973. *Source:* Liberian Code of Laws Revised, 1976 edition. Title 8. Also in International Bureau of Fiscal Documentation ATS, suppl. No. 87, August 1993.
- Industrial Free-Zones Law of 1975. *Source:* Liberian Code of Laws Revised, 1976 edition. Title 8.
- General Business Law of 1975 as amended in 1993. *Source:* Liberian Code of Laws Revised, 1976 edition. Title 15.
- Associations Law of 1976. Effective 3 January 1977. *Source:* Liberian Code of Laws Revised, 1976 edition. Title 6.
- Patent, Copyright and Trademark Law of 31 May 1972; effective on 12 August 1972. *Source:* Copyright Laws and Treaties of the World, vol. I., Liberian Supplement, 1987-1988.

International treaties and multilateral and regional instruments include:

- Paris Convention for the Protection of Industrial Property of 1883 (Revised at Brussels in 1900, Washington in 1911, The Hague in 1925, London in 1934, Lisbon in 1958 and Stockholm in 1967, and as amended in 1979). Signed in 1994.
- Convention on the Settlement of Investment Disputes between States and Nationals of other States of 1965. Entered into force on 14 October 1966.
- Convention Establishing the Multilateral Investment Guarantee Agency of 1985, entered into force on 12 April 1988 (In the process of fulfilling membership requirements).
- Fourth ACP - EEC Convention (Lomé IV) of 1989, entered into force on 1 March 1990.
- Revised Treaty of the Economic Community of West African States (ECOWAS) 1993.

## **Appendix C: Questionnaire on China-Liberia Economic Engagement**

### **General questions**

- What has been your level of interaction with the Chinese?
  - What are the positive aspects of their relationship with your ministry/corporation/organization?
  - Have you had negative experiences? What were they/was it?
  - What lessons have you learnt from your dealings with the Chinese?
- The Sirleaf Administration has identified the following priority areas under the Poverty Reduction Strategy (PRS). Do you see China playing a role in any of these areas?
- To revitalize the food and agriculture sectors to contribute to shared, inclusive and sustainable economic growth and development; provide food security and nutrition; increase employment and income; and measurably reduce poverty.
  - To develop the forestry sector as a source of higher incomes for the rural population, ensuring that the benefits are shared equitably; and to put in place adequate environmental and other regulatory safeguards to ensure sustainability.
  - To rapidly expand mining as an engine of economic growth and social development; to ensure that the benefits from mining activities are widely shared; to diversify the mining sector into new and downstream activities; and to improve support to local miners.
  - To develop a comprehensive national land tenure and land use system that will provide equitable access to land and security of tenure, so as to facilitate inclusive, sustained growth and development, ensure peace and security and provide management of the environment.
  - To create a strong enabling environment for private sector investment and exports in nontraditional activities.
  - To promote a stable, sound and market-based financial system that supports efficient mobilization and allocation of resources to foster sustainable economic growth and poverty reduction.
  - To promote productive employment that will reduce poverty, ensure peace and stability and enhance the overall well-being of the Liberian population.
- How do you see China playing a role in revitalizing the food and agriculture sectors to contribute to shared, inclusive and sustainable economic growth and development; provide food security and nutrition; increase employment and income; and measurably reduce poverty?
  - How do you see China playing a role in developing the forestry sector as a source of higher incomes for the rural population, ensuring that the benefits are shared equitably; and putting in place adequate environmental and other regulatory safeguards to ensure sustainability?
  - How do you see China playing a role in rapidly expanding mining as an engine of economic growth and social development to ensure that the benefits from mining activities are widely shared, to diversify the mining sector into new and downstream activities, and to improve support to local miners?

- How do you see China playing a role in developing a comprehensive national land tenure and land use system that will provide equitable access to land and security of tenure to facilitate inclusive, sustained growth and development, ensure peace and security and provide management of the environment?
- How do you see China playing a role in creating a strong enabling environment for private sector investment and exports in nontraditional activities?
- How do you see China playing a role in promoting a stable, sound and market-based financial system that supports efficient mobilization and allocation of resources to foster sustainable economic growth and poverty reduction?
- How do you see China playing a role in promoting productive employment that will reduce poverty, ensure peace and stability and enhance the overall well-being of the Liberian population?
- As you are aware, our economy is comprised largely of three sectors—i) agriculture and fisheries, ii) forestry, and iii) services. Two other sectors, i) mining and panning and ii) manufacturing, contribute slightly less than 10 percent to our GDP. If you were to guide future Chinese investments in Liberia, where would you position them? Or where would you like to see more Chinese investments? Why?
- In some quarters, observers have noted that with the presence of the Chinese there is a risk of crowding out locals in small and medium enterprises and in the mining sector. Do you share that view? Why? Why not?
- There are also Liberians who have noted that the Chinese are now crowding out locals from petite trading, an aspect of the retail sector that until now had been the exclusive domain of Liberians, indicating that a number of Chinese are now street vendors in Monrovia and other major urban centres. Do you share that view? Why? Why not?
- Compared to China's global trade, Liberia's market is small. How can Liberia position itself strategically to create more win-win business situations with China?
- Liberia's investment incentive code is designed to attract foreign investment projects. Underpinning the code is the assumption that in exchange for tax and duty free incentives on equipment, jobs will be created, profits re-invested, and development in Liberia. Do you think this would create a win-win situation for Liberia and Chinese investors? Why? Why not?
- Would you like to see more Chinese direct investment in Liberia? If not, why not? If yes, what policy changes, if any, would you recommend to create the environment that will help attract more Chinese direct investment?
- How can we increase our benefits from this relationship with the Chinese?
- What does the placement of a new and imposing embassy structure in Monrovia imply in terms of our future engagement with China?
- Some experts indicate that the Chinese intend to solve/alleviate its critical domestic issues—demand for resources, overpopulation and pollution. Taking this as a premise for China's involvement in Liberia, what policy measures would you recommend to ensure that short-term benefits to Liberia, as a result of Chinese investment, do not result in a national nightmare?
- Liberia is a post-conflict nation desperately in need of investment. What policies and plans would you recommend to ensure that the long term interest of the country is not sacrificed for the purpose of attracting investment immediately?

- What sectors of the economy should be considered priority areas for business with China? Why?
- What can Liberians learn from Chinese culture and their way of doing business?
- The largest investment project so far in Liberia is the Mineral Development Agreement (MDA) with China Union for the revitalization of Bong Mines. Any thoughts on that agreement?
- Liberia has attracted a \$2.3 billion investment through China Union. How would you describe the government's approach to Chinese investments in Liberia? Is there an approach? Who leads the approach?
- Is there a model to replicate how China Union was attracted to Liberia? What are the lessons learned from China Union's engagement? Do you think the MDA provides a good model for future relationships with Chinese investors? Why? Why not?
- From what you have read or heard, are there areas where the MDA with China Union can be improved?
- Before Liberia's fifteen years of conflict, these MDAs and concession agreements were the main thrust of our efforts to attract foreign direct investment. Do you think they benefited Liberia? How?
- If you had an opportunity to recommend policy shifts from the current approach in negotiating MDAs and other major agreements, what would you recommend?
- Can Liberia engage China in an advantageous or strategic way, given the expertise, international stature and economic differences of the two countries?
- Where do you see Liberia's weaknesses in its present economic engagement with China?
- Where do you see Liberia's strengths in its present economic engagement with China?
- Where do you see Liberia's relationship with China going?
- What have been some of the advantages, if any, of Liberia's economic engagement with China?
- Does the government have an approach on how it handles the importation of unskilled Chinese into Liberia? For example, the Chinese are involved in street selling. How does the government plan to address this?
- Is there a view in government that provides an advantage to Chinese companies in the infrastructure sector?
- Is there any evidence in government that there is a desire to create a strategy with China on a country-to-country level?
- What drives a particular investment policy? Is there a coherent investment strategy for the government of Liberia to achieve its goals?
- Does Liberia have a strategy for attracting investment in Liberia? Is it articulated?
- Who are the leaders in formulating investment policies? For example, what is the process? Describe the process from the beginning to how it ends up as a policy.
- Does Liberia have a strategy for attracting aid for Liberia? Is it articulated?
- Who are the leaders in formulating aid strategies/policies? For example, what is the process? Describe the process from the beginning to how it ends up as a strategy/policy.

- Given the extremely large debt burden of the government of Liberia, does Liberia have a debt management strategy? If so, what is the strategy?
- Who/what has been most responsible for shaping the nature of China's economic involvement in Liberia?
- What measures, if any, has Liberia adopted to ensure that its engagement with China does not replicate its engagement with western investors under the Open Door Policy that resulted in years of 'growth without development'?
- Is there any government policy that promotes value added processes with regard to foreign-source investments generally or investments from China in particular?

### **Questions specific to the Ministry of Agriculture**

- Has the agriculture sector been a key area of China's economic engagement in Liberia over the past decade (2000 to 2009)?
- Has there been any growth in China's engagement in the agriculture sector?
- Over the last 10 years, has any law been enacted, or has there been any treaty, accord or other agreement between China and Liberia signed that relates to agriculture or the Ministry of Agriculture?
- What are the past, current and proposed Chinese investments in Liberia with which your Ministry is involved or hopes to be involved?
- Given Liberia's strategy for economic transformation and its effort in attracting and retaining investments, in which areas should China contribute to enhance Liberia's competitiveness in export to China and the transfer of technology in the agricultural sector?
- Is there any policy to utilize the Chinese expertise in agriculture to assist subsistence farmers in Liberia make the transition to commercial farming and the monetary economy?
- Is there any policy to ensure that China engagement helps Liberia become self-sufficient in rice production, in particular, and to enhance Liberia's food security generally?
- As a result of Chinese economic engagement in Liberia, are there any opportunities for local entrepreneurs to participate in investments, either as upstream suppliers of inputs or as downstream processors of agricultural products?
- Is Liberia's agriculture policy designed to achieve food security, employment in the agriculture sector or export of cash crops?
- Is there any government policy that promotes value-added processes with regard to Chinese investments in the agriculture sector?
- What are the goals for growth in areas of agriculture with China over the next decade?
- How is China's engagement in the agriculture sector expected to impact Liberia's Poverty Reduction Strategy?
- Are there policies/plans in place to make Liberia's economic engagement with China even more beneficial in the agriculture sector?
- Are there any trade policies/plans to attract more investments in agriculture into Liberia, specifically from China? What are they?

- How can Liberia better align investment by China in the agriculture sector with its strategy for economic transformation?
- Is China involved with capacity-building for Liberians in the agriculture sector—training and assisting Liberian farmers to grow and manage larger farms? If yes, how?
- Is China more engaged in the agriculture sector than any other country?
- Will China’s investment in agriculture improve infrastructure within the nearby communities and help bring about social development? For example, farm to market roads.
- Does ECOWAS Protocol or Mano River Union Agreement impact Liberia’s investment policies in the agriculture sector? (For example, would investment incentives offered for a proposed investment take into consideration Liberia’s competitiveness in the regional investment environment?)
- How can the Ministry of Agriculture better position itself to take advantage of the engagement between the People’s Republic of China and the Republic of Liberia?
- As a post-conflict nation, is there any investment policy that tends to partner Liberians with Chinese investors in the agriculture sector?

#### **Questions specific to the Ministry of Labour**

- Over the period 2000 to 2009, has there been any legislation, treaty, accord or any other agreement that regulates or otherwise deals with the relationship between the People’s Republic of China and the Republic of Liberia, which relates to the work of the Ministry of Labour?
- Given the different political systems of the two countries, liberal democracy and communism, does the difference effect Liberians working with Chinese companies? If so, how?
- Would Liberia’s economic transformation be better accomplished by encouraging China to undertake import-substitute industries, export-oriented industries, or labour-intensive investments, which would create employment for the many unskilled Liberian workers?
- The Labour laws of Liberia provide that non-Liberians should be granted permission to work only if there is no Liberian available to perform the same job (Section 1507). Is that provision of the law being enforced with regards to the Chinese? Are Chinese nationals treated differently than nationals of western countries?
- Does economic engagement with China impact Liberian businesses differently than engagement with our traditional trading partners (EU and United States of America)? If so, how?
- The General Business Law embodies the Liberianization Policy, as amended in 1998, which reserves 26 businesses for Liberians. Would you say that the Liberianization Policy is in line with Liberia’s strategy for economic transformation? Would such set asides for Liberians hamper small-scale investments from China?
- Can Liberian businesses effectively compete with Chinese traders in Liberia?
- Are the Chinese currently engaging in any business or project that you believe Liberians should have been given the opportunity to undertake?
- Does the Ministry of Labour consider Chinese technology more appropriate/relevant for Liberia’s economic transformation? Is there any specific

policy or incentive enabling Liberian businesses to take advantage of the EU's Everything But Arms (EBA) policy and/or the U.S. Africa Growth Opportunity Act (AGOA)?

- Has any Chinese company operating in Liberia been unionized?
- From the perspective of the Ministry of Labour, is it different dealing with the Chinese when it comes to enforcing provisions of the labour laws such as minimum wage, employment preference for Liberians, dismissal of workers and unionizing workers, among others, than dealing with western companies?
- Are the Chinese involved in the construction of any infrastructure for the Ministry of Labour?
- Are benefits likely to accrue to the Ministry of Labour as a result of the Liberia-China relationship, if any?
- Have there been any exchange visits between Ministry of Labour officials and the Chinese?
- How many Chinese, other than diplomats, are working in Liberia?
- Are all Chinese workers required to obtain work permits and resident permits prior to working in Liberia?
- Does the Ministry of Labour issue work permits or other licenses for Chinese nationals to engage in petite trade?
- What is the number of Chinese to whom the Ministry has issued work permits in categories—regular, gratis and any other?
- Are Chinese who enter Liberia for one purpose allowed to change their status and obtain employment or, if employed, secure different employment?
- How many Chinese working in Liberia were employed locally, if any? Or were all employed locally?
- Does the Ministry of Labour have any policy/plan to ensure that Chinese workers are repatriated to China upon completion of the project for which they were allowed entry into Liberia?
- Is there any coordination between the Ministry of Labour, Ministry of Foreign Affairs and Bureau of Immigration regarding the issuance of resident visas, work permits and resident permits?

### **Questions specific to the National Investment Commission**

- What drives a particular investment policy?
- Is there a thread that ties Chinese investment in Liberia to Liberia's Poverty Reduction Strategy?
- China Union recently invested \$2.6 billion in Liberia. Is there a model to replicate how Liberia attracted this type of major investment?
- How would you describe the government of Liberia's approach to Chinese investment in Liberia? Is there an approach? Who leads that approach?
- Does the government of Liberia have an approach to how it handles the unskilled Chinese workers selling in the market places on the streets of Liberia?
- What have been the opportunities for local entrepreneurs to participate in investments, either as upstream suppliers of inputs or as downstream processors of products, to increase the value added that is retained locally from the investment?

- What are the goals for growth in area of investment over the next decade?
- Are there policies in place to make our engagement with China even more beneficial?
- Does ECOWAS Protocol or Mano River Union Agreement impact Liberia's investment policies? (For example, would investment incentives offered for a proposed investment take into consideration Liberia's competitiveness in the regional investment environment?)
- How has the global economic downturn affected investment in Liberia? Has it affected investments from China differently than investments from western countries?
- Are there any investment policies/plans to attract more investments into Liberia, specifically from China?
- Are investment incentives industry-wide or project-specific? (For example, would the NIC offer incentives for any investor in the agriculture sector giving a minimum investment, or is incentive determined on a case-by-case basis, regardless of the amount of the investment?) Do the government of Liberia's investment incentives impact investment from China differently than investment from other countries?
- Is there any Chinese project for which investment incentives have been awarded?

#### **Questions specific to the Ministry of Commerce and Industry**

- What are the goals for growth in areas of trade with China over the next decade?
- Are there trade policies in place to make Liberia's engagement with China even more beneficial?
- How has the global economic downturn affected trade in Liberia? Has it affected trade with China differently than investments from western countries?
- Has China been accorded a most-favoured nation status?
- How can Liberia better align potential trade with China with its strategy for economic transformation?
- Does the government of Liberia trade policy allow Chinese nationals to engage in retail business in Liberia?
- The General Business Law embodies the Liberianization Policy, as amended in 1998, which reserves 26 businesses for Liberians. Would you say that the Liberianization Policy is in line with Liberia's strategy for economic transformation? Would such set asides for Liberians hamper small-scale investments from China?

#### **Questions specific to the Ministry of Lands, Mines and Energy**

- What are past, current and proposed Chinese investments in Liberia with which the Ministry of Lands and Mines is involved or hopes to be involved?
- Is there any government policy that promotes value-added processes with regard to foreign-source investments generally or investments from China in particular?
- What are the goals for growth in areas of mining with China over the next decade?
- Are there policies/plans in place to make Liberia's economic engagement with China even more beneficial in the area of mining?
- Are there any policies/strategies to attract more investments in mining into Liberia, specifically from China? What are they?
- Is China involved with capacity-building for Liberians in the mining sector?

- Will China's investment in the mining industry improve infrastructure within the nearby communities and help bring about social development?
- Is there a strategy that has emerged from dealing with China Union that could be used going forward? What are the lessons learned?
- What policies should Liberia adopt to ensure transparency in the mining industry with regard to the Chinese investment in the mineral sector?

#### **Questions specific to the Ministry of Youths and Sports**

- Over the period 2000 to 2009, has there been any legislation, treaty, accord or any other agreement that regulates or otherwise deals with the relationship between the People's Republic of China and the Republic of Liberia, which relates to the work of your Ministry?
- What has been the nature of interaction between the Ministry of Youth and Sports and the People's Republic of China? Have there been exchange visits between officials of your Ministry and your counterparts in China? If yes, at what level?
- The S.K.D. Sports Complex was recently renovated by the Chinese government. Was the cost of renovation a gift to the people of Liberia or was it a loan?
- Have there been other youth and/or sporting facilities renovated or constructed in Liberia by the Chinese over the last 10 years?
- To what extent are Liberian contractors involved in the renovation/construction of youth and sporting facilities by the People's Republic of China?
- Are the Chinese involved in the management and/or operation of the S.K.D Sports Complex or any other youth or sporting facility in Liberia? Is there any undertaking by the Chinese to maintain the facilities following renovation/construction? Alternatively, do the Chinese train Liberians to maintain the facilities?
- Other than the renovation/construction of youth and sporting facilities, what other benefits are likely to accrue to the youth and sports community as a result of the Liberia-China relationship?
- Are the Chinese involved with youth activities other than sporting, such as youth agriculture projects, art and craft?
- Have there been any cultural exchange visits between Liberian youth and Chinese youth?

#### **Questions specific to the Ministry of State, Development and Reconstruction**

- What have been the key areas of China's engagement in Liberia over the past decade (2000 to 2009)?
- In your opinion, what have been the key drivers of this growth?
- Who have been the key decision makers in shaping the nature of China's economic involvement in Liberia?
- What have been some of the advantages of Liberia's engagement with China?
- What are some of the challenges and constraints of Liberia's engagement with China?
- What are the goals for growth in areas of trade, investment, aid and debt over the next decade?
- What role, if any, is China expected to play in Liberia's Poverty Reduction Strategy?

- Are there plans to engage China even more in accomplishing Liberia's reconstruction and development goals?
- Are there policies in place to make Liberia's engagement with China even more beneficial?
- What has been the impact of China in Liberia's initial growth acceleration as shown in the PRS?

#### **Questions specific to Liberian small businesses**

- What has been your interaction with Chinese or Chinese businesses?
- Do you sell goods from China? If so, where do you buy your goods? Do you travel to China to purchase your goods, or do you buy them locally?
- If you travel to China to purchase your goods, how frequently do you go to China?
- Approximately how much do you spend to purchase goods when you travel to China?
- Do you think Liberian small businesses can compete with Chinese small businesses?
- Are the Chinese currently engaging in any business or project that you believe Liberians should have been given the opportunity to undertake?
- What are some of the advantages, if any, of the China and Liberia relationship?
- How do you feel about the Chinese being involved in petit businesses such as selling ice, used clothes, and etc. on the streets of Monrovia?
- Have you had any problems in dealing with the Chinese?
- The labour laws of Liberia provide that non-Liberians should be granted permission to work only if there is no Liberian available to perform the same job. Do you believe that provision of the law is enforced when it comes to China? Are China nationals treated differently than nationals of western countries?

#### **Questions specific to the private sector**

- Do you think that the Chinese are engaging in any business or project that you believe Liberians should have been given the opportunity to undertake?
- The General Business Law embodies the Liberianization Policy, as amended in 1998, which reserves 26 businesses for Liberians. Would you say that the Liberianization Policy is in line with Liberia's strategy for economic transformation? Would such set asides for Liberians hamper small-scale investments from China?
- What measures, if any, has Liberia adopted to ensure that its engagement with China does not replicate its engagement with western investors under the Open Door Policy that resulted in years of 'growth without development'?
- Would Liberia's economic transformation be better accomplished by encouraging China to undertake import-substitute industries, export-oriented industries, or labour-intensive investments, which would create employment for the many unskilled Liberian workers?
- What are some of the advantages, if any, of Liberia's economic engagement with China?
- What are some of the challenges and constraints of Liberia's engagement with China?

- The labour laws of Liberia provide that non-Liberians should be granted permission to work only if there is no qualified Liberian available to perform the same job. Do you believe that provision of the law is enforced when it comes to China? Are China nationals treated differently than nationals of western countries?
- Do you think that Liberia's economic engagement with China impacts Liberian businesses differently than engagement with Liberia's traditional trading partners (EU and United States of America)? If so, how?
- The General Business Law embodies the Liberianization Policy, as amended in 1998, which reserves 26 businesses for Liberians. Would you say that the Liberianization Policy is in line with Liberia's strategy for economic transformation? Would such set asides for Liberians hamper small-scale investments from China?
- Are you aware of any government of Liberia policy to promote small- and medium-size investments which specifically target Liberian investors?
- Do you think the global economic downturn has affected Liberians investing in Liberia differently than Chinese investing in Liberia?
- Can Liberian businesses effectively compete with Chinese traders in Liberia?
- Are the Chinese currently engaging in any business or project that you believe Liberians should have been given the opportunity to undertake?
- Does the Liberian Business Association consider Chinese technology more appropriate/relevant for Liberia's economic transformation? Are you aware of any specific policy or incentive enabling Liberian businesses to take advantage of EBA and/or Africa Growth Opportunity Act (AGOA)?

#### **Questions specific to major Chinese companies doing business in Liberia**

- What are some of the advantages, if any, of doing business in Liberia?
- What are some of the challenges and constraints, if any, of doing business in Liberia?
- Is your company a Chinese company; where was the company incorporated?
- Does your company have any Liberian shareholder?
- From where were the services of your company contracted—China, Liberia or elsewhere?
- How long does your company expect to work in Liberia?
- Does your company have a contract(s) with the Government of Liberia?
- What are projects that your company has undertaken, is currently undertaking or hopes to be involved with in the future?
- What are the past, current and proposed Chinese investments in Liberia with which your company is involved or hopes to be involved?
- We understand that the Ministry of Public Works and Ministry of Lands, Mines and Energy are the implementing agents of the Liberian government for the work in which your company is involved, but which other ministries or agencies of the government of Liberia, if any, has your business been involved with or is involved with?
- What is the size of your company's workforce? How many Liberians are employed?
- Are there Liberian subcontractors (not employees) working with your company on any project?

- Did your company employ any Chinese national locally, or were all Chinese employees brought into the country by your company?
- Are the non-Liberian workers of your company required to obtain work permits and resident permits?
- Does your company have any plan to repatriate its Chinese employees to China upon completion of the project for which they were employed?
- Is your company engaged in the training of Liberian workers? Does your company promote technology transfer?
- Is your company accorded any incentive from the government of Liberia, such as import tax exemption (duty-free privileges), tax holidays or other business incentives?
- Is the income of your company taxed by the Liberian government, the Chinese government or both?

#### **Questions specific to Chinese officials**

- Is there any trade agreement between the People's Republic of China and the Republic of Liberia?
- Is any of the legal framework of trade between China and Liberia documented?
- May we have a list of Chinese companies investing in Liberia and the contact information? In which sectors are these companies investing? For example, infrastructure (roads, public buildings, health, transport, energy), power generation or private (mining, manufacturing).
- Is there a taxation treaty between Liberia and China? Is the Liberia-generated income of a Chinese person taxed by the taxing authority of China?
- Is there any agreement for aid between the People's Republic of China and Republic of Liberia?
- Is there a grant component of aid given to Liberia?
- How much debt (total amount) has been contracted between the People's Republic of China and the government of Liberia since January 2000 through 2008?
- Does the Chinese debt policy to Liberia target any specific sector?
- Of this debt, are there any suppliers' credit, public and/or private debt?

## **Appendix D: List of Persons Interviewed**

### **Office of the President**

1. Natty B. Davis, Minister of State, Development and Reconstruction
2. Edward B. McClain, Minister of State for Presidential Affairs
3. Roland Giddings, Program Specialist, Development and Reconstruction

### **The Honorable House of Senate**

4. Nanborlor F. Singbeh, Sr., Secretary of the Liberian Senate
5. Genevieve Massaquoi, Assistant Secretary

### **The Honorable House of Representatives**

6. James R. Kaba, Chief Clerk

### **Ministry of Foreign Affairs**

7. Johnson Gwaikolo, Deputy Minister
8. Emmanuel Dingh, Afro-Asia Desk

### **Ministry of Lands, Mines and Energy**

9. Eugene Shannon, Minister
10. Ernest C.B. Jones Jr., Deputy Minister for Operations

### **Ministry of Agriculture**

11. Boakai Sirleaf, Acting Minister

### **Ministry of Commerce and Industry**

12. Miata Beysolow, Minister
13. Abu Kamara, Director, Domestic Trade

### **Ministry of Health**

14. S. Tomorlah Varpilah, Deputy Minister, Planning, Research and Development

### **Ministry of Planning & Economic Affairs**

15. Stanley Kamara, Development Economist

### **Ministry of Internal Affairs**

16. Ambulai B. Johnson, Jr., Minister

### **Ministry of Labour**

17. John F. Josiah, Deputy Minister of Administration

### **Ministry of Youth and Sports**

18. Etmonia Tarpeh, Minister

### **National Investment Commission**

19. Richard V. Tolbert, Economic Advisor to the President and Chairman, National Investment Commission
20. Pete Norman, Executive Director

**Central Bank of Liberia**

21. Mills Jones, Executive Governor
22. Richard Dolley, Head, Research, Policy and Planning Department
23. Theophilus O. Bettie, Advisor, Research, Policy and Planning Department

**Liberia Institute of Statistics and Geo-Information Services**

24. T. Edward Liberty, Director-General
25. Dennis Thomas, Researcher

**Liberia Institute of Public Administration**

26. Harold J. Monger, Director-General

**Liberia Chamber of Commerce**

27. Freddie Taylor, President
28. Massa Lansannah, Secretary-General
29. Alfred Harris, Social Dialogue Director

**Liberia Business Association**

30. Samuel Mitchell, President
31. Nasi T. Broh, Administrator
32. Alvin Macay, Project Officer

**Labour organizations**

33. Moses P. Barrow, Jr., President, Liberia Labor Congress
34. Edward Grant, Chairman, Board of Trustees, Liberia Labor Congress
35. Elitha T. Manning, 1st Vice President, Liberia Labor Congress and President, Fisheries Section, United Seamen Union.
36. Bayu Wallace, National Youth Chairman, Liberia Labor Congress
37. C. Alfred Thomas, Director for Grievance, Liberia Labor Congress and Secretary-General, Liberia United Seamen Union
38. Hannah McCauley, Youth Director, Liberia Labor Congress
39. Ophelia Carpenter, Women Desk Office, Liberia Labor Congress
40. James C. Cummings, Deputy Secretary General, Operations, Liberia Labor Congress
41. Jerry R. Duplaye, Deputy Secretary General, Administration and Acting Secretary-General, Liberia Labor Congress
42. J. Nyemma Natt, 2nd Vice President, Liberia Labor Congress
43. Anthony Tarweh, President, National Trade Union of Public Service

**Chinese Embassy**

44. Gou Haodong, Economic Counselor

**Civil society organizations**

45. Augustine Toe, Executive Director, Catholic Justice and Peace Commission
46. Alfred Brownell, President, Green Advocates Liberia

**Academic institutions**

47. Alpha Bah, Chairman, Confucius Institute, University of Liberia

**Political parties**

48. Israel Akinsanya, Chairman, Liberty Party
49. Henry B. Fahnbulleh, Secretary-General, Unity Party
50. Ben Fofani, Assistant Secretary-General, Unity Party
51. Geraldine Sheriff, Chairman, Congress for Democratic Change
52. Michael Nayou, Chairman, National Democratic Party of Liberia

**Major Chinese companies**

53. Hu Bingwei, Project Manager, China Henan International Cooperation Group Co., Ltd.
54. Ken Shen, Project Manager, CHICO

**Others**

- Many Liberian businesspersons who travel to China to buy goods to sell in Liberia
- Several Liberian business proprietors
- Numerous Liberians
- Several market women
- Several “wheelbarrow” sellers

**Appendix E: Persons Interviewed  
and Sent Written Questionnaire**

<b>Date of interview</b>	<b>Person</b>	<b>Interviewer</b>	<b>Date questionnaire sent</b>	<b>Date responses to questionnaire received by Barclay Inc.</b>
April 22, 2009	Johnson Gwaikolo, Deputy Minister, <i>Ministry of Foreign Affairs</i>	Estelle Brumskine	May 1, 2009	Not received
April 22, 2009	Samuel Mitchell, President, Nasi T. Broh, Administrator, <i>Liberia Business Association</i>	Estelle Brumskine	April 29, 2009	Not received.
April 29, 2009	Harold J. Monger, Director-General, <i>Liberia Institute of Public Administration</i>	Estelle Brumskine and Augustine Jarrett	April 30, 2009	Not received
May 6, 2009	Natty B. Davis, Minister of State, <i>Ministry of State, Development and Reconstruction</i>	Estelle Brumskine and Augustine Jarrett	May 6, 2009	Not received
April 28, 2009	Edward B. McClain, <i>Minister of State for Presidential Affairs</i>	Estelle Brumskine and Augustine Jarrett	May 4, 2009	Not received
April 17, 2009	Freddie Taylor, President, Massa Lansannah, Secretary-General, <i>Liberia Chamber of Commerce</i>	Estelle Brumskine	May 4, 2009	Not received
April 30, 2009	Pete Norman, Executive Director, <i>National Investment Commission</i>	Estelle Brumskine and Augustine Jarrett	May 1, 2009	Not received
April 22, 2009	Etmonia Tarpeh, Minister, <i>Ministry of Youth and Sports</i>	Estelle Brumskine	May 4, 2009	Not received
April 29, 2009	John F. Josiah, Deputy Minister of	Estelle Brumskine and	May 3, 2009	Not received

	Administration, <i>Ministry of Labour</i>	Augustine Jarrett		
May 7, 2009	Ambulai B. Johnson, Jr., Minister, <i>Ministry of Internal Affairs</i>	Estelle Brumskine and Augustine Jarrett	May 7, 2009	Not received
May 8, 2009	S. Tomorlah Varpilah, <i>Ministry of Health and Social Welfare</i>	Estelle Brumskine	May 8, 2009	Not received
April 22, 2009	Miata Beysolow, Minister, <i>Ministry of Commerce</i>	Estelle Brumskine	May 3, 2009	May 13, 2009
May 13, 2009	Stanley Kamara, Development Economist, <i>Ministry of Planning and Economic Affairs</i>	Estelle Brumskine and Augustine Jarrett	May 13, 2009	Not received.
May 1, 2009	Ernest C.B. Jones Jr., Deputy Minister for Operations, <i>Ministry of Lands, Mines and Energy</i>	Estelle Brumskine and Augustine Jarrett	May 1, 2009	Not received

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### Appendix F: Liberia's External Public Debt (\$ millions)

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total debt</b>	<b>2,517</b>	<b>2,456</b>	<b>2,609</b>	<b>2,861</b>	<b>2,992</b>	<b>3,311</b>	<b>3,732</b>	<b>4,893</b>	<b>1,754</b>
Multilateral	1,315	1,312	1,353	1,437	1,472	1,481	1,553	1,619	1,052
• IMF	630	615	654	718	735	738	762	809	858
• W/Bank	379	388	386	392	403	417	431	443	70
• AfDB	226	232	233	242	247	230	264	271	28
• Others	80	77	77	85	87	96	96	96	98
Financial institutions	474	432	488	560	612	758	904	1,341	20
Suppliers credits	40	40	40	40	42	46	46	346	
Bilateral	688	672	728	824	866	1,026	1,229	1,587	682
• USA	299	304	309	325	341	404	390	394	
• Germany	119	139	154	205	215	255	321	387	40
• Japan	109	55	81	80	84	99	114	128	158
• China	11	11	11	11	11	11	16	16	5
• Others	150	163	173	203	215	257	388	652	479

*Source:* Central Bank of Liberia.

**Appendix G: Aid to Liberia in Relation to the Poverty Reduction Strategy (\$ millions as of August 2008)**

<b>Poverty Reduction Strategy pillar 1: Peace and security</b>			
<b>Project</b>	<b>Amount promised</b>	<b>Amount disbursed</b>	<b>Balance</b>
Donation of military materials (vehicles, walkie-talkie and transmitting station, generators, computers and other office equipment)	1.0	1.0	0
Training military and security officers in China	1.2	1.2	0
Renovation and expansion of Tubman Barrack in Gbarnga, Bong County (Completed 2008)	4.0	4.0	to be increased
<b>Subtotal—pillar 1: Peace and security</b>	<b>6.2</b>	<b>6.2</b>	<b>0</b>
<b>Poverty Reduction Strategy pillar 2: Economic revitalization</b>			
<b>Project</b>	<b>Amount promised</b>	<b>Amount disbursed</b>	<b>Balance</b>
Initial mineral resources survey in promising areas	0.1	0.1	0
Cash donation as budget support (May 2006)	1.0	1.0	0
Cash donation as budget support (February 2007)	1.5	1.5	0
Debt cancellation (for debt matured before the end of 2005)	11.6	11.6	0
<b>Subtotal—pillar 2: Economic revitalization</b>	<b>14.2</b>	<b>14.2</b>	<b>0</b>

<b>Poverty Reduction Strategy pillar 3: Governance and the rule of law</b>			
<b>China has not provided assistance for projects in this area.</b>			
<b>Poverty Reduction Strategy pillar 4: Infrastructure and basic services</b>			
<b>Project</b>	<b>Amount promised</b>	<b>Amount disbursed</b>	<b>Balance</b>
Interior finishing for the Foreign Ministry office building (completed March 13, 2006)	1.3	1.3	0
Renovation of SKD Stadium (completed July 21, 2007)	8.5	8.5	0
Donation of 630,000 farming tools	1.0	1.0	0
Donation of anti-malaria drugs (110,000.00 doses)	0.3	0.3	0
Donation of office materials	0.04	0.04	0
Donation of training materials for the Ministry of Gender and Development	0.03	0.03	0
80 scholarships provided to Liberian students	3.8	2.8	1.0
Seminars and technical training in China for about 500 Liberian officials and technicians	5.0	4.3	0.7
Donation of school uniforms (July 23, 2007)	0.1	0.1	0
Medical team for JFK Medical Center	1.0	1.0	0
Construction of residence building for the Chinese medical team at JFK Medical Center	0.9	0.9	0
Agricultural team in BWI	0.8	0.8	0
Bamboo and rattan weaving training Course in SKD	0.4	0.4	0
China-Liberia Malaria Prevention and Treatment Center	0.4	0.4	0
Renovation and equipping of LBS Headquarter station and 6 substations, (Completed 2008)	4.1	3.7	0.4
Construction of school buildings on the Fendall campus of the University of Liberia (to be completed by April 2010)	21.5	10.8	10.8
Renovation and equipping of three University of Liberia laboratories for civil engineering, soil testing and computer science	0.5	0	0.5
Construction of three rural schools (Completed 2009)	2.2	1.5	0.7
Construction of a hospital in Tappita and provision of medical equipment (to	10.3	0.6	9.7

be completed by year-end 2009)			
Construction of the agricultural technology demonstration center in CARI (to be completed by year-end 2009)	5.9	3.2	2.6
<b>Subtotal—pillar 4: Infrastructure and basic services</b>	<b>68.1</b>	<b>41.7</b>	<b>26.4</b>
<b>TOTAL AID</b>	<b>88.5</b>	<b>62.1</b>	<b>26.4</b>

## Appendix H: Agreements and Visits between China and Liberia

### Major visits to China by Liberian officials

- **June 1978.** President Tolbert became the first Liberian president to visit China and also the first Liberian president to visit any communist country.
- **May 1982.** Samuel K. Doe, chairman of the People Redemption Council and Head of State of Liberia.
- **November 1986.** Foreign Minister J. Bernard Blamo.
- **October 1995.** The First Deputy Speaker of the Transitional Legislative Assembly.
- **December 1996.** Alahiji Kromah, vice chairman of the Council of State.
- **December 2003.** Foreign Minister Thomas Yaya Nimely and Commerce Minister Samuel Wlue, attending the Second Ministerial Conference of the Forum on China-Africa Cooperation in Addis Ababa and meeting with Chinese Foreign Minister Li Zhaoxing.
- **August 2004.** Foreign Minister Nimely leading a delegation comprising the commerce minister, agriculture minister and the foreign affairs advisor to Chairman Bryant.
- **September 2004.** Justice Minister Kabineh Ja'neh, attending the 17th International Congress of Penal Law.
- **March 2005.** Defense Minister Daniel Chea, heading a Liberian military delegation.
- **March 2006.** Upon invitation of the Chinese Government/Communist Party, a delegation of five political parties—Unity Party, Congress for Democratic Change, Liberty Party, National Patriotic Party and the Coalition for Transformation of Liberia.
- **May, September and October 2006.** Gender Minister Voba Gayflor, Defense Minister Brownie Samukai and Justice Minister Francis Morris, during May, September and October respectively.
- **November 2006.** President Pro-tempore of the Senate Isaac Nyenabo, heading a Liberian parliamentary delegation.
- **October 2006.** President Ellen Johnson Sirleaf state visit.

### Major visits to Liberia by Chinese officials

- **December 1984.** Vice Premier Tian Jiyun.
- **August 1994.** Deputy Foreign Minister Tian Zengpei.
- **November 2003.** China's Assistant Foreign Minister Lu Guozeng.
- **May 2005.** Ambassador Li Qiangmin, special envoy of the Chinese foreign minister.
- **January 2006.** Chinese Foreign Minister Li Zhaoxing, as special envoy of President Hu Jintao, attending the inauguration of President Ellen Johnson Sirleaf.
- **March 2006.** Deputy Commerce Minister Wei Jianguo.
- **June 2006.** Ma Wenpu, vice minister of the International Department of the Chinese Communist Party.
- **February 1, 2007.** President Hu Jintao state visit—the first visit to Liberia by a Chinese head of state—reciprocating President Ellen Johnson Sirleaf's state visit to China in October 2006.

### Important agreements between China and Liberia

- **February 17, 1977, *Communiqué on the Establishment of Diplomatic Relations.*** Signed by the government of the People's Republic of China and the government of the Republic of Liberia.
- **August 10, 1993, *Communiqué on the Resumption of Diplomatic Relations.*** Signed by the government of the People's Republic of China and the Interim Government of National Unity of Liberia.
- **2003, *Communiqué on the Resumption of Diplomatic Relations.*** Signed by the government of the People's Republic of China and the National Transitional Government of Liberia.
- **August 19, 2004, *aid agreement.*** To further enhance friendly relations and promote economic and technical cooperation between the two countries, the government of the Republic of Liberia and the government of the People's Republic of China agreed: Upon the needs of the government of the Republic of Liberia, the government of the People's Republic of China shall provide the government of the Republic of Liberia with gratuitous assistance of RMB 20 million, to be used to cover expenses of projects agreed upon by the two governments.

- **August 19, 2005, legislative resolution.** The National Transitional Legislative Assembly of Liberia adopted UN Resolution No. 2758, October 25, 1971, recognizing the government of the People's Republic of China as the sole legitimate government representing the whole of China.
- **May 1, 2008, aid agreement.** China agreed to construct one comprehensive hospital with 100 beds and provide necessary medical equipment.
- **December 17, 2008, technical assistance agreement.** China agreed to send 12 youth volunteers from China to Liberia, to provide services in the public institutions designated by the Liberian government in the fields of table tennis, martial arts, gymnastics and volleyball coaching, Chinese language teaching, computer technology, medical treatment and agriculture.
- **October 22, 2008, aid agreement.** To further enhance friendly relations and promote economic and technical cooperation between the two countries, China agreed to provide, upon the needs of the government of the Republic of Liberia, gratuitous assistance of RMB 60 million, to cover the expenses of project(s) agreed upon by the two governments.
- **December 29, 2008, aid agreement.** To further enhance friendly relations and promote economic and technical cooperation between the two countries, China agreed to provide, upon the needs of the government of the Republic of Liberia, gratuitous assistance of RMB 50 million, to be used to cover the expenses of project(s) agreed upon by the two governments.
- **February 17, 2009, technical assistance agreement.** China agreed to send seven technicians to Liberia for two years to provide technical advice on operating and maintaining the SKD Stadium facilities and the elevator—provided by China—of the office building of the Ministry of Foreign Affairs, and to conduct technical training for Liberian personnel. China also agreed to supply some necessary tools and spare parts.

## **Appendix I: Discussion of Additional General Liberian Economic Initiatives**

Many variables beyond the scope of this study—the current global economic crisis, for one—will influence the outcome of Liberia’s drive for economic development and in some cases directly affect its relationship with China, but some recommendations are possible. Several recommendations described below are meant to transform the Liberian aid and investment environment beyond—while benefitting—the engagement with China. Because the timing of policy changes is important, we have organized recommendations into short and long-term strategies. We also provide a table summarizing recommendations by topic.

### **Short-term measures**

- Review existing projects sponsored by the World Bank and incorporate key findings into the framework of laws and policies driving trade. In parallel, conduct a comprehensive trade policy review to identify international best practices. These actions will put Liberia on a sounder footing regarding imports and exports, specifically for registration and documentation, pre-shipment inspection, tariffs and other duties and taxes, government procurement, standards and technical requirements, export promotion and the optimal use of SEZs.
- Conduct an investment policy review and develop best practices on general investment measures and incentive structures, exclusivity linked to FDI, positioning of public investment funds (and/or public-supported private sector funds), property ownership, public assets and investments, accession to related international agreements and alternative commercial dispute resolution.
- Reduce, via administrative adjustment or executive order, the minimum investment level Liberian nationals need to qualify for incentives from \$100,000 to \$25,000.
- Require investors to put investible funds in the domestic banking system—either through prior deposit of funding for FDI or equity for local/diaspora investors—to qualify for investment incentives. Simplify and shorten the investment approval process, linking it to approval of residency permits.
- Introduce a post-investment audit system to determine when concessions become operational.
- To address chronic human capital shortages, augment current policies for attracting diaspora talent with special tax waivers on imported personal effects and basic equipment for Liberian repatriates interested in starting their own businesses and entering business partnerships with foreign investors.
- Establish a non-profit Liberia-China Business Council, with adequate levels of institutional support, to identify issues arising from the Liberia-China relationship. The Business Council should also promote trade and FDI flows, crafting win-win business solutions between small and medium investors in China and Liberia.
- Because good economic data is crucial for formulating a realistic national development agenda, the government should invest in upgrading and ‘modernizing’ reliable and efficient information storage and retrieval systems for collecting and disseminating data on aid and investment.
- In all FDI negotiations, prioritize technology transfer to help Liberia become a knowledge-based economy. Guide investors toward value-added production for

- export to gradually expand the number of agricultural and agro-processing industries, such as sawn timber.
- Expand relations with China Union to ensure that its proposed \$2.6 billion investment catalyzes major spin-off effects in and beyond the immediate concession area, triggering significant and sustained private-sector development.
  - Craft a strategy for using FDI to catalyze cross-sector economic activities, encouraging downstream links in the domestic supply chain between large, medium and small enterprise investments.

### **Long-term measures**

- Expand industry incentives in priority sectors to include importing categories of capital equipment needed for long-term development.
- Strengthen protections and investment incentives for small local and diaspora investors.
- Discourage speculative and unreliable investment contracts and labour inflows.
- Use the trade policy and investment policy reviews to design an economic growth plan complementing the PRS and intervening in critical sectors to improve food production, expand certain cash crops and improve access to credits in the agricultural sector and among small and medium enterprises.
- Improve the educational system at all levels.
- Encourage equity participation in Liberia's public corporations in a framework of divesting nonperforming public assets. Learning from China, restrict certain categories of equity ownership to Liberians in the form of non-tradable inalienable shares.
- Use the expanding engagement with China, including inflows of significant investment capital, to position Liberia as a competitive and preferential location for access to the Economic Community of West African States (ECOWAS) market and to take advantage of the U.S. African Growth and Opportunity Act (AGOA) and the European Everything But Arms (EBA) initiative.

## Summary of recommendations by topic

Topic	Recommendations
Visioning	<ul style="list-style-type: none"> <li>• Undertake, with urgency, a comprehensive trade policy review and an investment policy review.</li> <li>• Design an economic growth plan that is separate from the PRS.</li> <li>• Install modern, reliable and efficient information storage and retrieval systems in the appropriate agencies to collect and disseminate vital information on aid and investment.</li> </ul>
Job creation	<ul style="list-style-type: none"> <li>• Offer industry-wide tax and duty incentives in priority sectors for importing key categories of capital equipment, instead of the current project-based incentives.</li> <li>• Augment the current policy of attracting diaspora talent—through work contracts with public entities—with special tax waivers on imported personal effects and basic equipment for Liberian repatriates interested in starting their own business ventures or entering partnerships with foreign investors.</li> <li>• Link the investment approval process to approval of residency permits.</li> <li>• Protect small local/diaspora investors, opening more investment opportunities for them and discouraging speculative and unreliable investment contracts and labour inflows.</li> </ul>
Skill and capital transfers	<ul style="list-style-type: none"> <li>• Consider an administrative adjustment or executive order to reduce the minimum investment for Liberian nationals to obtain incentives from \$100,000 to \$25,000.</li> <li>• Require investors to put investible funds in the domestic banking system (prior deposit of funding from abroad for FDI or equity for local/diaspora investors) and simplify and shorten the approval process.</li> <li>• Introduce a post-investment audit system.</li> <li>• Engage China to position Liberia as a competitive and preferential location for access to the ECOWAS market, as well as to take advantage of the American AGOA and the European EBA initiative.</li> </ul>

Issues	Recommendations
Capacity imbalances	<ul style="list-style-type: none"> <li>• Establish a nonprofit Liberia-China Business Council, with adequate levels of support, to identify issues arising from the Liberia-China relationship. The council should also promote trade and FDI flows, crafting win-win business solutions between small and medium investors in China and Liberia.</li> <li>• Improve the educational system at all levels.</li> </ul>
Interrelationships with the PRS	<ul style="list-style-type: none"> <li>• Further engage China Union, ensuring its proposed \$2.6 billion investment will help catalyze significant and sustained private-sector development.</li> <li>• Use FDI to catalyze cross-sector economic activities, encouraging downstream linkages in the supply chain between large, medium and small enterprise investments. One possible way to achieve these links is by giving priority to small and medium local suppliers in public procurement and large mineral development agreements.</li> </ul>
China versus traditional aid and investment	<ul style="list-style-type: none"> <li>• In all FDI negotiations, prioritize technology transfer to help Liberia become a knowledge-based economy. Develop a strategy to gradually expand the number of value-added agricultural and agro-processing industries, such as sawn timber.</li> </ul>