

## NIGERIA CHINA TRADE RELATIONS: THE IMPLICATIONS ON THE ECONOMIC DEVELOPMENT OF THE TWO COUNTRIES.

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BY

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### ABSTRACT

*This study examined how Nigeria-China relations have influenced the inflow of foreign aid and direct foreign investment in Nigeria. The population of this study consisted of secondary data with respect to records of transactions from annual reports between the two countries found in the Ministry of Foreign Affairs and other bureau of statistics. The study adopted an exploratory and survey design to assess the Nigeria-China relations. The data used for this study was obtained from the annual Reports of the two countries found in the Ministry of Foreign Affairs and bureau of statistics ranging from 2001 to 2008. The sample of the transactions was selected using a convenience sampling technique. The data collection procedure was systematically done. The researcher used descriptive and inferential statistics to analyse data for both the research questions and hypotheses. Such statistical techniques include bar chart and regression analysis. All the hypotheses were tested at 0.05 level of significance. The statistical package for social science (SPSS) was used to generate the results. From the results of the data analysis, it was observed that there is significant impact of economic diplomacy on the inflow of foreign aid and foreign direct investment to Nigeria from China. It was concluded that Nigeria and China have very good business relations in various aspect. One of the recommendations was that Nigeria and China bilateral trade agreements and relations should be honored and effective strategies put in place that will solidify this relationship.*

**KEY WORDS: Relations, Economic Diplomacy, Foreign Aid and Direct Foreign Investment, China, Nigeria,**

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### Introduction

Nigeria, the most populous country in Africa, with vast reserves of oil and gas, needs China's financial and technical assistance in the development of its infrastructure. China too needs Nigeria's oil and gas to fuel its growing industry. In addition, Nigeria is potentially, the largest market for China's industrial products in Africa. Nigeria's imports from China account for over a third of its total trade with West Africa. According to Utomi (1990), economic relations between Nigeria and China date back to 1960 when the two countries signed the Joint Communiqué on the Establishment of Diplomatic Relations and since then trade relations between the two countries have grown in the last decade from the limited and intermittent contact to an increasingly complex and expensive business engagement. Following China's economic growth in the 1980s, Nigerian leaders began to look forward to a more serious economic engagement with China (Bukaremba, 1998).

The relationship between Nigeria and China was cooperative and cordial, especially between 1960 and 1980. Prior to this time, Nigeria as a country was

basically pro-western thus, had little or nothing diplomatically to do then with china. Nigeria's first contact with China took place in 1960 when a Chinese delegation, on the invitation of the Nigerian government, attended Nigeria's independence celebrations. The delegation brought a message from Chinese leaders congratulating Nigeria on the victory won by the Nigerian people in their struggle against colonialism. In February, 1961, Nigeria finally established diplomatic ties with China more than a decade after independence. Both countries opened embassies in each others capital within the year. The Chinese government has described this relationship as a "win-win" situation (Agubamah, 2014). The period between 1961 and early 2000 witnessed minimal diplomatic exchanges, low bilateral trade relations, a near absence of Chinese Foreign Direct Investments inflow to Nigeria. Nigeria at the time adopted a broadly pro-western policy with traditional development and trade partners mostly of European and American origin (Edakoh, 2000). Since the dawn of the new millennium and century in 2000 A.D, relations between China and Nigeria, and indeed Africa has been on an aggressive upward trend characterized by unprecedented renewed positive and mutually beneficial cooperation arrangements, to the concern of western countries across Europe and North America (Edakoh, 2000).

### Statement of the Problem

Nigeria's traditional development partners are mainly from Europe and the Americas (U.S. A. and Canada). These groups have dominated the flow of trade, investment (in terms of foreign direct investment-FDI) and grants and financial as well as technical aid to the country. These economic relationships are governed by various bilateral and regional agreements that exist between these countries and Nigeria. Although Nigeria and these countries have come a long way in their relationship, it is contestable if such has in any significant way assisted the country in its quest for development. The relationship appears to be exploitative at least from the trend in the structure and pattern of FDI inflow to the country. This is based on the fact that oil and gas sector dominates the country's exports to the tune of about 80% and FDI inflows to the oil and gas sector accounted for about 70% (Ogunkola, Bankole and Adewuyi, 2000).

Although China-Nigeria relationship dates back to 1961 (more than three decades), recent developments call for a careful and detailed analysis of this relationship and its potential impact on the economies. The growing relationship between China and Nigeria is induced by the fact that the two countries have economic complementarities. On one hand, a major development challenge in Nigeria is infrastructure deficiency, with huge investment need. Therefore, in the light of the above, the academic problem this study seeks to examine is the Nigeria-China relations.

### Objectives of the Study

The main objective of this study is to explore Nigeria China relations. Specifically, the study has been designed to achieve the following detailed objectives:

- i. To determine the implications of Nigeria's economic diplomacy for Chinese oil interest in Nigeria.
- ii. To ascertain the impact of economic diplomacy on the inflow of foreign aid and foreign direct investment to Nigeria from China.

### Research Question

The following research questions will be answered.

- i. What are the implications of Nigeria's economic diplomacy for Chinese oil interest in Nigeria?  
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- ii. What is the impact of economic diplomacy on the inflow of foreign aid and foreign direct investment to Nigeria from China?

### Hypotheses/Assumptions

The following null hypotheses will be tested:

- i. There is remarkable implication of Nigeria's economic diplomacy for Chinese oil interest in Nigeria.
- ii. There is remarkable impact of economic diplomacy on the inflow of foreign aid and foreign direct investment to Nigeria from China.

## Literature Review

### The Concept of Trade

According to Akrani (11011), trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. The most common medium of exchange for these transactions is money, but trade may also be executed with the exchange of goods or services between both parties, referred to as a barter, or payment with virtual currency, the most popular of which is bitcoin. In financial markets, trading refers to the buying and selling of securities, such as the purchase of stock on the floor of the **New York Stock Exchange (NYSE, 1101C)**.

Trade is essential for satisfaction of human wants. Trade is conducted not only for the sake of earning profit; it also provides service to the consumers. Trade is an important social activity because the society needs uninterrupted supply of goods forever increasing and ever changing but never ending human wants. Trade has taken birth with the beginning of human life and shall continue as long as human life exists on the earth. It enhances the standard of living of consumers. Thus one can say that trade is a very important social activity. However, Trade can be divided into two types;

- i. Internal or home or domestic trade.
- ii. External or foreign or international trade.

Internal trade is also known as home trade. It is conducted within the political and geographical boundaries of a country. It can be at local level, regional level or national level. This is also subdivided into **Wholesale Trade** and **Retail Trade**. **Wholesale Trade** involves buying in large quantities from producers or manufacturers and selling in lots to retailers for resale to consumers. The wholesaler is a link between manufacturer and retailer. A wholesaler occupies prominent position since manufacturers as well as retailers both are dependent upon him. Wholesaler acts as an intermediary between producers and retailers while retail trade involves buying in smaller lots from the wholesalers and selling in very small quantities to the consumers for personal use. The retailer is the last link in the chain of distribution. He establishes a link between wholesalers and consumers. There are also small as well as large retailers. Small scale retailers include hawkers, peddlers, general shops, etc. While large retailers include mega shops such as supermarkets, malls etc. (Akrani, 11011).

External trade also known as **Foreign trade**: It refers to buying and selling between two or more countries. For instance, If **Mr. X** who is a trader from **Kaduna** sells his goods to **Mr. Y** another trader from **New York** then this is an example of foreign trade. External trade can be further sub-divided into three types which are:

- i. Export trade.
- ii. Import trade and
- iii. Entrepot trade

**Export Trade**: This is when a trader from home country sells his goods to a trader located in another country, it is called export trade. For e.g. a trader from **Nigeria** sells his goods to a trader located in **China**.

**Import Trade**: This is when a trader in home country obtains or purchase goods from a trader located in another country, it is called import trade. For e.g. a trader from **Nigeria** purchase goods from a trader located in **China**.

**Entrepot Trade**: When goods are imported from one country and then re-exported after doing some processing, it is called entrepot trade. In brief, it can be also called as re-export of processed imported goods. For e.g. a **Nigerian** trader (from **Nigeria**) purchase some raw material or spare parts from a **Japanese** trader (from **Japan**), then assembles it i.e. convert into finished goods and then re-export to an **American** trader (in **U.S.A**) (Akrani, 11011).

### Bilateral Trade Agreements Between Nigeria and China

Ogunkola (11000) asserts that in order to create a safe environment for trade and investments to flourish favourably, there was a high need for both countries to enter into and sign official agreements on trade, economic and technical cooperation.

scientific and technical cooperation as well as an agreement on investment protection. The two countries set up a joint economic and trade commission. It is important to note that the recent developments in China and Nigeria relationship are not unconnected with the renewed ties between the two giants. Although, China and Nigeria established diplomatic ties in 1960, the last decade has witnessed unprecedented renewed positive and mutually beneficial developments. Indeed, between 1999 and 2006, diplomatic visits at the highest level were recorded. Ogunkola (2006) posits that "it was two visits in each direction and various visits at other levels. All these visits, no doubt, are precursors to developments in other facets of the relationship". Bilateral agreements were entered into in the process, some of which are listed below:

### Selected Agreements between Nigeria and China from 2001 to 2006

Types of Agreements	Years
Agreement on trade, investment promotion and protection	2001
Agreement for the avoidance of double Taxation and Prevention of fiscal evasion with respect to Tax and Income	2001
Agreement on Consular Affairs	2001
Agreement on cooperation on strengthening Management of narcotic Drugs, psychotropic substances and diversion of precursor chemical	2001
Agreement on tourist cooperation	2001
Strategic partnership Agreement	2001
A memorandum of understanding on investment cooperation between the federal ministry of commerce of Nigeria and ministry of commerce of China	2001
Economic cooperation Agreement between Nigeria and Xinguang International Group of China	2001

Source: Ogunkola (2006) China-Nigeria Economic Relations. Revised Report submitted to the African Economic Research Consortium (AERC), February. Retrieved from [http://www.aercafrica.org/documents/China-Africa relation/Nigeria pdf](http://www.aercafrica.org/documents/China-Africa%20relation/Nigeria.pdf).

Bilateral trade reached US\$11 billion in 2006 up from \$1.1 billion in 2000 (Sparks, 2006). During Chinese President Hu Jintao's visit in 2006, China secured four oil drilling licenses and agreed to invest \$1 billion in oil and infrastructure development projects in Nigeria, and both nations agreed to a four-point plan to improve bilateral relations - a key component of which was to expand trade and investments in agriculture, telecommunications, energy and infrastructure development (Sparks, 2006). Furthermore, China agreed to buy a controlling stake in the Kaduna oil refinery that would produce 100,000 barrels per day (10,000 m<sup>3</sup>/d) (Ogunsanwo, 2006). Nigeria also promised to give preference to Chinese oil firms for contracts for oil exploration in the Niger Delta and Chad Basin. In 2006, China also agreed to grant a loan of \$1 billion to Nigeria to help it upgrade and modernize its railway networks. In 2006, Nigeria agreed to supply PetroChina with 100,000 barrels per day (10,000 m<sup>3</sup>/d) of oil for \$1 billion. Munyama (2006) asserts that in 2006, the CNOOC purchased a share for \$1.1 billion in an oil exploration block owned by a former defence minister. China has also pledged to invest \$100 million to build the Lekki free trade zone near Lagos.

### Nigeria-China Trade Relations

China's interest in Africa is not new. In the 1950s and 1960s, China's interest centred on building ideological solidarity with other underdeveloped nations to advance Chinese-style of communism and repel Western 'imperialism' (Ogunsanwo, 1963). During the Cold War, Chinese interests evolved into more pragmatic pursuits such as trade, investment and energy. In recent years, China has identified the African

continent as an area of significant economic and strategic interest (Taylor 1100c; Melber 1100c). America and its allies and friends have since discovered that their vision of a prosperous Africa governed by democracies that respect human rights and the rule of law, as well as embrace free markets, is being challenged by the escalating Chinese influence in Africa.

In recent years, with rapid economic development of both China and Africa, the interaction between the two sides, which used to centre on political spheres, is featuring cooperation in various areas including the economic field. Building upon historical experiences, the two sides have translated the political gains into economic advantage with increasing Chinese investments of capital and technology in Africa, which help unlock the Africa's vast resources and potentials (Musa 1100c). China is rapidly becoming one of Africa's main sources of investment. By the end of 1100x, China had established more than 100 enterprises in Africa involving a total commitment of US\$1 billion; it had signed investment agreements with 110 African countries and its engineering projects covered construction, petrochemical, power, culture, education, health and food processing sectors (Ogunsanwo 1100c).

China's interests in Nigeria and Africa at large are two folds: First is diplomatic and second economic. The Chinese people will not forget that it was due to strong support of vast number of developing countries including Africa that China successfully regained its lawful seat in the United Nation Security Council in 1101. Nigeria was in the forefront of the support for China right from the beginning. Nigeria voted in the United Nations General Assembly in support of China's admission to the United Nations. That was Nigeria's debut at the United Nations General Assembly with Mallam Aminu Kano representing Nigeria. The Second is Nigeria's oil and gas which China desperately needs to sustain its 10 per cent annual economic growth. Africa now supplies 11x per cent of China's oil import. China is more acceptable in Africa partly because it is viewed with more credibility than Western Nations with their imperialist legacies (Akinjide, 1100x) As noted, China's main interest in economic front lines is securing supply lines for oil and minerals. China has only 11.111 per cent of the world's oil reserves and even less of gas (1%). Meanwhile, it consumes 110 million barrels per day, which is the second largest consumption after the United States. China thus relies on Africa for about one third of its oil supplies. China has no doubt, identified Nigeria as an important strategic partner not only for economic growth but also in its quest to establish itself as a major global power. Nigeria-China Relations has impacted positively on the economy via importation of capital, provision of infrastructure, and employment generation.

In the awakening of China- Nigeria relations, a diplomatic tie that favored exchanged formal visits between both countries, leaders and representatives, and the signing of diplomatic relations between both countries was the glue that kept both countries close (Ogunsanwo, 1100d; Methembu- Salter, 1100m). But after a long friendly relation, both countries decided to take the partnership forward. Ogunsanwo (1100d) notes that in 11011, Adebayo Adedeji, Nigerian Commissioner for Economic Reconstruction and Development at that time, went to Beijing to step up the relation by signing agreements on economic and technical cooperation that included trade. It was from this agreement that the trade relations evolved, because it allowed the entry of unlimited Chinese goods in the country.

### Nigeria Economic Diplomacy

Economic Diplomacy is an acronym deduced from two distinct words, Economic and Diplomacy. It is a phrase adopted by political scientists to indicate or emphasize the policy thrust of a nation's foreign policy. According to Asobie (110011), diplomacy is the management of international relations by negotiation. It refers to the process of bargaining among states in order to narrow areas of disagreement, resolve conflicts or reach accommodation on issues over which agreement cannot, otherwise, be reached. Bargaining itself could be either explicit or tacit (ie. disguised). Explicit when it takes a peaceful process. When it is tacit, diplomacy could take the form of fighting (war) aimed at establishing leverage over an opponent in

negotiations. While foreign policy is the substantive aspect of external relations, diplomacy is the procedural aspect.

Economic Diplomacy is the promotion of export trade, investment and increased financial assistance from friendly countries. Ogwu and Olukoshi (1991) further defined economic diplomacy in three ways, as the management of international relation in such a manner as to place accent on the economic dimension of a country's external relations. It has to do with the various diplomatic strategies which a country employs in its bid to maximize the mobilization of external material and financial resources for economic development. Secondly, they see economic diplomacy as the application of economic instruments in negotiation and bargaining with other countries. Thirdly and perhaps more importantly, they defined economic diplomacy as a set of strategies and tactics formulated and applied for the achievement of a fundamental restructuring of the existing international economic order.

Nigeria's views and objectives of economic diplomacy is captured in Nwachukwu's address in 1981 to Nigerian ambassadors where he stated as follows: your achievements would be measured more or less by the number of investors who visit from your country of accreditation or tonnage of Nigeria's produce and articles sold as a result of your efforts. He further described economic diplomacy as the task of using foreign policy, to achieve Nigeria's economic development and economic goals. Many reiterated their abiding belief in the role of the private entrepreneur as a catalyst for economic growth and sustained development. He recommended the development of a two way mechanism by which the Nigerian entrepreneur would, on the one hand, attract foreign capital and set up joint-ventures in Nigeria and on the other, invest in other countries, particularly in sectors in which Nigeria lacks comparative advantage (MFA, 1981). The philosophy of economic diplomacy is an effort to integrate the workings of all ministries and parastatals, even individuals in the pursuit of economic development through bilateral and multilateral agreements. It was necessitated by the deep-seated and seemingly intractable economic crisis.

Since 1980 when the Nigerian government of General Ibrahim Babangida officially announced its commitment to Economic Diplomacy as a "new" focus of its foreign policy, a great deal of discussion has been generated within the country on this new posture (Ogwu and Olukoshi, 1991). The adoption by the Nigerian state of International Monetary Fund (IMF) and World Bank sponsored Structural Adjustment Programme (SAP) in 1981 was to serve as a key complementary factor motivating the official emphasis on economic diplomacy in the period from 1980 onwards. The adoption of SAP really underlined the commitment of the Babangida administration to an emerging international system characterized by the increasing influence of monetarist economic ideas, the growing power of the IMF, the World Bank, the London and Paris Clubs, and the Group Seven (G-7) now increased to Eight (G-8) countries under the hegemony of the United States of America (Ogwu and Olukoshi, 1991). In considering the main tenets of Nigeria's economic diplomacy in the way it was enunciated by Ike Nwachukwu in 1981, there was no doubt that from the onset, the government considered economic diplomacy to be organically interconnected to the goal of the structural adjustment programme of the state.

According to Nwachukwu (1981), in a period of economic crisis and structural adjustment "it is the responsibility of our foreign policy apparatus to advance the course of our national economic recovery". Such goals of structural adjustment as export promotion, the encouragement of foreign investment inflow to the economy, and the rescheduling of Nigeria's external debt are objectives which, in Nwachukwu's view could and should be built into the foreign policy agenda and strategy of the country. It is argued that employing foreign policy for the purpose of achieving domestic well-being will, according to the authors of Nigeria's programme of economic diplomacy, not only entail the re-ordering of the country's priorities in the international system but also careful friendship and goodwill of the leading Western Countries.

## Methods

### **Research Design**

The exploratory design was conducted as initial step to clearly define the nature of the problem. The survey research was later used and it helped allow the researcher to look for fresh ideas and insight which helped in explaining what is seen and how certain valuables interrelate.

### **The Study Area**

The study area was **Nigeria**.

### **The Population of the Study**

The population of the study has to do with secondary data with respect to records of transactions from annual reports between the two countries found in the **Ministry of Foreign Affairs** and other bureau of statistics.

### **Sampling Procedure and Sample Size**

The data used for this study was obtained from the annual **Reports** of the two countries found in the **Ministry of Foreign Affairs** and bureau of statistics ranging from 1001 to 1000. The sample of the transactions was selected using a convenience sampling technique.

### **Sources of Data**

The data of the research are of one kind, i.e. secondary data as given below:

### **Method of Data Collection**

The data for the two independent variables that reflect the characteristics of the **Nigeria's** economic diplomacy, inflow of foreign aid and foreign direct investment to **Nigeria** from **China** and volume of **Trade**, between the two countries. The data collection procedure was systematically done. Cross checking and verifying by research assistants during the comprehensive collection process to minimize omissions and errors.

### **Conclusion**

Based on the findings of the research work, it was therefore concluded that **Nigeria** and **China** have very good business relations in various aspect. It is also true that there is significant impact of economic diplomacy on the inflow of foreign aid and foreign direct investment to **Nigeria** from **China**.

### **Recommendations**

Based on the findings of the study, the following recommendations are deemed necessary:

- i. **Nigeria** and **China** bilateral trade agreements and relations should be honoured and effective strategies put in place that will solidify the relationship.
- ii. **China's** industrialization drive and massive inflow of **FDI** into the country should be encouraged as it leads to a fast growing manufacturing economy.

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