The Emergence and Development of Sino-Nigeria Economic Relations: An Analysis

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Abstract

The paper examines the emergence and development of bilateral trade and investment between Nigeria and China and analyses the level and volumes of imports and exports between the two states. By adopting the secondary methodology of library research, findings show that, the volume of trade has virtually increased between the two partners and albeit, it is lopsided, the two benefit from the bilateral relations. The paper concludes that, Nigeria’s imports from China are more diversified than the exports as a result of monoculturalism and lack of industrialization. The paper recommends establishing a joint bilateral commission for the two states and monitoring of the importation and exportation of fake and substandard goods.

Keywords: China; Nigeria; Emergence; Development; Bilateral; Relations

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Introduction

Nigeria's quest for development which has spanned some decades is yet to deliver on the goal of poverty reduction, despite various plans, programmes, and projects. Analysis of performance on poverty reduction strategy necessarily examines issues in growth and equity simply because growth may be recorded without impacting on the poor (Adewuyi, 2009). Indeed it is not impossible for growth to have occurred at the expense of equity. Analysis of growth drivers on one hand has identified several factors including macroeconomic environment, political and social environment and investment gap. Some policies are required to attract foreign direct investment and to direct such investment into appropriate sectors (N'Zue, 2009).

As a resource-rich country, Nigeria's economic performance has been unfortunately driven by the oil and gas sector to the extent that even progress recorded towards genuine economic development prior to the discovery of oil in commercial quantity has been virtually eroded. In recent time (2000-2005), the GDP growth was about 5.7% and the growth in the non-oil sector which contributed about 5.9% of the GDP. However, the sector dominates the supply of foreign exchange and given that the political economy of the country vested this important resource in the hand of the government it also contributes a large chunk of government revenue. The decline in the agricultural sector performance has been dramatic since the discovery of oil. The manufacturing sector has not performed even better. A few statistics illustrate the poor performance of the non-oil sector. The share of non-oil sector decreased from about 94% in 1970 to about 52% in 2004. The decrease affected all the sectors (agriculture, industry, and services) but in different magnitude. Agricultural GDP declined from about 41% to about 17% over the same period. The decline in the services sector was from about 45% to about 27% during the period under review. Nigeria's non-oil sector is inefficiently servicing the domestic market as non-oil export is negligible about 1% of the GDP in 2005 (Kiggundu, 2008).

Theoretical Framework

The British anthropologist A.R. Radcliffe-Brown explored the theoretical implications of functionalism as a relationship between a social institution and the "necessary conditions of existence" of a social system. He saw the function of a unit as the contribution it makes to the maintenance of a social structure—i.e., the set of relationships among social units (Stein, 2007). In an attempt to develop a more dynamic analysis of social systems, the American sociologist Talcott Parsons introduced a structural–functional approach that employs the concept of function as a link between relatively stable structural categories. Any process or set of conditions that does not contribute to the maintenance or development of the system is said to be dysfunctional. In particular, there is a focus on the conditions of stability, integration, and effectiveness of the system (Whalley, 2008).

Economic transactions that are made between countries, among the items commonly traded are consumer goods such as television sets and clothing, capital goods such as machinery and raw materials and food. Other transactions involve services, such as travel services and payments for foreign patents (service industry). International trade transactions are facilitated by international financial payments, in which the private banking system and the central banks of the trading nations play important roles. International trade and the accompanying financial transactions are generally conducted for the purpose of providing a nation with commodities it lacks in exchange for those that it produces in abundance; such transactions, functioning with other economic policies, tend to improve a nation's standard of living. Much of the modern history of international relations concerns efforts to promote freer trade between nations. This article provides a historical overview of the structure of international trade and of the leading institutions that were developed to promote such trade (Whalley, 2008).

Social life overwhelmingly regulates the behaviour of humans, largely because humans lack the instincts that guide most animal behaviour. Humans therefore depend on social institutions and organizations to inform their decisions and actions. Given the important role organizations play in influencing human action, it is sociology's task to discover how organizations affect the behaviour of persons, how they are established, how organizations interact with one another, how they decay, and, ultimately, how they disappear. Among the
most basic organizational structures are economic, religious, educational, and political institutions, as well as more specialized institutions such as the family, the community, the military, peer groups, clubs, and volunteer associations (N’Zue, 2009).

**Literature Review**

China’s growth and its capacity to move in thirty years from under-development and extreme poverty to an emerging global power and one of the largest exporters of manufactured goods has attracted the attention of many developing countries. China has served as a development model for Africa and an alternative source of trade and finance from Africa’s traditional development partners. The impact of China on Nigerian economy has been diverse, depending in part on the sectoral composition of each country’s production. Overall, China’s increased engagement with Nigeria could generate important gains for African economies. However, analysis is required to quantify the advantages and disadvantages, and to design the policies necessary to maximize the development impact of China. One overriding consideration is that reaping the full benefits from Chinese trade and investment will require substantial improvements in governance in Nigerian economy (Alden, 2007).

**Corporation Arrangements**

Recent developments in China and Nigeria relationship are not unconnected with the renewed ties between the two giants. Although, China and Nigeria established diplomatic tie in 1972, 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: two visits in each direction and various visits at other levels. All these visits, no doubt, are precursors to 2 Chinese leaders who visited Nigeria are as follows: Vice Premier Geng Biao (October 1978), Vice Premier Huang Hua (November 1981), Vice Premier Tian Jiyun (November 1984), Vice Premier Wu Xueqian (March 1990), Vice Premier and Foreign Minister Qian Qichen (January 1995), State Councilor and Secretary General of the State Council Luo Gan (September 1996), Premier Li Peng (May 1997), Special Envoy of President Jiang Zeming, State Councilor Ismail Amat (May 1999), Foreign Minister Tang Jiaxuan (January 2000), President Jiang Zemin (April 2002), and Vice Chairman of the Standing Committee of the National People’s Congress Han Qide (December 2003). China’s foreign Minister, Li Zhaoxiong (January 2006), President Hu Jintao (April 2006) developments in other facets of the relationship. Bilateral agreements are entered into in the process some of which are (Alden, 2007; Adewuyi, 2009):

a. Agreement on Trade, Investment Promotion and Protection 2001  
b. Agreement for the avoidance of double Taxation and Prevention of Fiscal Evasion with respect to Tax and Income 2002  
c. Agreement on Consular Affairs 2002  
d. Agreement on Cooperation on Strengthening Management of narcotic Drugs, Psychotropic Substances and diversion of Precursor Chemical 2002  
e. Agreement on Tourist Cooperation 2002  
f. Strategic Partnership Agreement 2005  

On diplomatic relations, various exchanges of visits and signed agreements and many Memoranda of Understanding (MOUs) are indicative of the cordial relationship. Besides agreement on consular affairs and strategic partnership agreement featuring mutual political trust, mutual economic benefit and mutual support in international affairs have been signed. Various technical assistance in the military, education and health, and technology have been received from Nigeria. For example, an aid of 46 million Yuan to Nigeria for the purpose of purchases of anti-malaria medicines and for training of Nigerian health personnel on malaria control and prevention was granted by China. Scientific cooperation between the two countries is also experiencing a boom. The relationship in this area has witnessed the launching of NIGERCOMSTAT 1, Nigeria’s first communication satellite in early 2007. An MOU on the Provision of National Information Communication Technology Infrastructure Backbone between the Federal Ministry of Science and Technology and Huawei Technologies was signed. Increase in economic cooperation is noticed both in trade and investment both at
public and private levels. Renewed cultural cooperation also manifests in various areas. For example, some institutions of higher learning in Nigeria are collaborating with their Chinese counterparts in the area of Chinese culture, innovation, while cultural troupes and students are being exchanged (Alden, 2007; Adewuyi, 2009).

The cooperation arrangements between China and Nigeria on different fronts as briefly examined in the preceding paragraphs. Apart from providing alternatives to the traditional focus of government such arrangements opened a new vista for other stakeholders. The recent waves of diplomatic relations appear to a reasonable extent mutually beneficial. The Nigerian government was indeed on an aggressive campaign for FDI and Chinese government was also seeking for markets for inputs especially raw materials as well as markets for finished products. While the diplomatic relationship provides and generates general guidelines in terms of agreements, protocols and Memorandum of Understanding; the cost-benefit analysis of the cooperation arrangements Leaders of Nigeria who visited China are as follows: Head of State, Gen. Yakubu Gowon (September 1974), Vice-President Dr. Alex I. Ekwueme (March 1983), Chief of the Army Staff Gen. Ibrahim Babangida (September 1984), Chief of the Army Staff Gen. Sani Abacha (October 1989), Chief of the Defense Staff, General Abdulsalami Abubakar (July 1997), President Olusegun Obasanjo (April 1999, August 2001 and 2005), President of Senate Anyim (December 2001), Vice President Abubakar (July 2002), and Deputy Speaker Nwuche of the National Assembly (July 2002). Depending on several factors including the level of implementation, domestic rules, regulations and institutional arrangements, Nigeria stands to gain from technical assistance and scientific cooperation given China’s advancement in these areas. A well known fact is that Nigerian military have benefited from China’s technical assistance in form of military training and even supply of military hardware. Health personnel and different categories of patients patronizing public health providers are the main beneficiaries of technical assistance offered by China mainly in the roll-back malaria programme. Nigerian academia has also benefited from the cooperation arrangement between Nigeria and China especially in the area of exchange programmes and promotion of the different culture. Whalley (2008)

**Investment Relations**

Positive developments have been recently recorded in the net FDI as it has doubled from US$3 billion in 2003 to more than US$6 billion in 2005. The share of the oil and gas sector was about 75 percent. The developments in the non-oil FDI is also significant as this component increased from about $0.3 billion in 2003 to about $1.7 billion in 2005. Three related types of efforts explain the observed positive developments: change in FDI regime; second, privatization programme of the government; and third, the aggressive drive of government in attracting FDI into the country. The recent developments notwithstanding, there is a huge investment gap in the development of the Nigerian economy and the required investment can only be expected after the investment climate has improved. Our approach in this section is to review Chinese investment in Nigeria with a view to describing its size, composition and significance. Data permitting the analysis would cover the relative size of Chinese FDI compared to other sources of FDI and the composition of the Chinese FDI into Nigeria is fragmented. According to a source: China has set up over 30 solely owned companies or joint
ventures in Nigeria actively involved in construction, oil and gas, technology, services and education sectors of the Nigerian economy. Indeed the increased Chinese economic interests in Nigeria can be broadly classified into two: private and public. According to information obtained from the Nigerian Investment Promotion Commission (NIPC), Chinese private FDI is composed of agro-allied industry, manufacturing and communications sectors.

On one hand, some of these investments are joint venture mainly between Chinese and Nigerian investors. On the other hand, some are wholly foreign owned either wholly by the Chinese or in partnership with other foreign investors. Some of the Chinese investments have also benefited from investment incentives in the country such as pioneer status and expatriate quotas have been granted to some of these companies. Thus in 2005, the official record by Nigeria was $1.88 million FDI inflow from China. This seems to be at variance with the impression created in the media. Various explanations can be adduced for the seemingly paucity of observed figure: First, the upsurge in Chinese FDI inflow to Nigeria occurred only in the recent time i.e. between 2006 and 2008, a period that is not covered by the available data. Second, there is also the possibility that the promises and declarations captured by the media did not eventually materialize. A case in point is the sales of Kaduna Refinery that was announced in January 2006. It was meant to be a $2.3 billion worth of investment by the Chinese state controlled energy company, CNOOC. By March 2007, the government was considering a review of the deal. The "public" investment and economic activities of Chinese in Nigeria have also gained prominence in recent time. This is not unexpected given the high profile witnessed at the political level (see the introduction to this study). This type of investment spanned different areas of the Nigerian economy and prominent among them are those in oil and gas, construction especially building of infrastructure. Table 2.3 lists some of the Chinese investments and projects in Nigeria. There is the need to distinguish between investment, loan and contracts. This, however, requires further insight to data. Currently available data do not offer sufficient information (World Bank Research Observer, 2007).

Further probing of the deal to refurbish the Nigerian railways by the Chinese reveals that it has a soft loan component. FDI has a host of advantages including augmentation of domestic capital; transfer of technology, knowledge and skills; promotion of competition and innovation; and enhancing export performance. These must be weighed against other issues such as anti-competitive and restrictive business practices; tax avoidance and abusive transfer pricing; volatile flows of investment and related payments deleterious for balance of payments; transfer of polluting activities and technologies; and excessive influence on economic affairs with possible negative effects on industrial development and national security (Lardy, 2002).

Some Chinese Investments and Projects in Nigeria

China National Overseas Oil Company Limited (CNOOC) has 45% stake in OPL 246 in Offshore deepwater oil field $2.7 billion Controlling shares in Kaduna Refinery, Modernization of Nigeria’s one-track rail to standard gauge rail (Note: China has loaned Nigeria $2.5 billion to finance the refurbishment of the railway system $8.3 billion (1st phase). Financial support to Reliance Telecommunications Ltd. (RelTel) by China’s Development Bank facilitated by Huawei Technologies $20 million Huawei equipment agreement with GV Telecoms/Prestel $250 million.

Trade Relations

Composition and Significance of Exports to China

Nigeria’s exports to China are spread over many and varied products which have been classified according to the Standard International Trade Classification Revision 3 (SITC Rev. 3) These products include food, animals, crude materials, oils, chemical products, and manufactured products. Though the source of data did not show data on Nigeria’s exports to China in 1995, data were recorded for 2000 and 2005. In 2000, four broad commodities were exported totaling US$307.3 million, with the main export commodity being Mineral fuel and lubricants which represented US$273.7 million. The next important export in 2000 was crude materials
excluding food and fuel which totalled US$33.3 million. The remaining two broad commodities exported to China were quite insignificant with values between US$0.1 million and US$0.2 million.

Thus, in terms of Nigeria's exports to China, Mineral fuel and lubricants ranked first, followed by crude materials excluding food and fuel. Beverages and live animal's exports rank third, CNOOC is one of the four big oil companies created when China's oil industry was restructured seven years ago (Business Day Africa, 2006: 8) while manufactured goods rank fourth. In terms of significance of Nigeria's exports to China relative to the world, Nigeria exported more crude materials excluding food and fuel to China as this constituted 61.1%. Mineral Fuel and lubricants which constituted the main exports of Nigeria to China in 2000 was a paltry 1.4% of Nigeria's total world exports. In effect, out of US$20.3 billion total Nigeria's exports, only 1.5% was exported to China. Nigeria's exports position was more impressive in 2005. The country's exports more than doubled the value in 2000; this accounted for by all the products, from US$20.3 billion in 2000 to US$44.4 billion in 2005 (World Bank Research Observer, 2005).

In contrast, though exports to China increased to US$26.9 million in 2005, the increase was not as much as that of Nigeria's total exports. The composition of exports to China in 2005 was not very different from that of 2000 but experienced some repositioning of certain broad products. Thus, mineral fuel and lubricants still ranked first followed in ranking by crude materials excluding food and fuel. However, manufactured goods, which ranked last in 2000, displaced food and live animals while two broad products; chemicals, and miscellaneous manufactures, featured in 2005. Also, exports of crude materials excluding food and fuel reduced between 2000 and 2005. The proportion of Nigeria's exports destined for China reduced in 2005 even when the absolute value showed an increase. Nigeria's export to China in 2005 was 1.2% of its total exports which represented a reduction compared to 2000. The export destinations appeared to have been more fairly diversified in 2005, as areas where exports to China was dominant, such as crude materials excluding food and fuel, became insignificant while China gained positions in such other areas as food and live animals, chemicals, manufactured goods and miscellaneous manufactures. In other words, even though Nigeria's exports to China relative to the rest of the world dwindled in 2005, Nigeria exported more varieties of products to China compared to earlier periods. In effect, producers and exporters of those broad categories of products whose exports increased between 2000 and 2005 are better off as they earned additional incomes. These include producers and exporters of food and live animals, mineral fuel/lubricants, chemicals, manufactured goods, and miscellaneous manufactures. Nigerian producers and exporters of crude materials excluding food and fuel lost export market share in China and thus were worse off in 2005 World Bank Research Observer, Vol. 23, No. 1, pp. 1-30).

Composition and Significance of Imports from China

Nigeria's total imports increased from US$5.3 billion in 1996 through US$5.8 billion in 2000 to US$17.7 billion in 2005. The dramatic increase of Nigeria's total imports between 2000 and 2005 was also reflected in the country's imports from China which rose phenomenally from as little as US$252 million in 2000 to US$2.3 billion in 2005. Nigeria imports almost all of the broad categories of products from China. In 2005, imports of machinery and transport equipment ranked first followed by manufactured goods, miscellaneous manufactures, chemicals and food and live animals. In trend terms, the composition of Nigeria's imports has changed quite a bit. In 1996 for example, chemical products imports ranked second only to machinery and transport equipment while in 2000, manufactured products replaced chemicals in second place. Machinery and transport equipment imports thus ranked highest in all the reference years. This picture altered when China's share of Nigeria's total import is considered. While that share rose successively from 1996 to 2005 from 3.5% to 13%, not all broad categories of goods imported from China maintained such consistent increase. This is especially the case of mineral fuels/lubricants, and animal/vegetable oil/fat/wax. Furthermore, when the broad categories are considered, Nigeria imported more of miscellaneous manufactures from China relative to the rest of the world. This rose from 7.8% in 1996 to 30.6% in 2005. China's share of Nigeria's imports also rose consecutively in food and live animals, as well as beverages and tobacco (both minimally); crude materials excluding food and fuel, manufactured goods, machinery and transport equipment, and
miscellaneous manufactures (all four substantially). Thus, in terms of stakeholders’ analysis, countries which hitherto exported these products to Nigeria have lost their market share in Nigeria to China as Nigeria increasingly look towards China for the importation of these products (World Bank Research Observer, 2005).

**Aid and other relations**

Economic relations between Nigeria and China date back to 1971 when the two countries signed the Joint Communiqué on the Establishment of Diplomatic Relations. Currently, China requires Nigeria’s oil to fuel its economic expansion while Nigeria seeks Chinese expertise, finance, technology and industrial goods as well as market for its non-oil export. Some technical and financial assistance have been rendered by the two countries to support each other. For instance, during the visit of China President (President Hu Jintao) to Nigeria in April 2006, Nigeria and China signed four Agreements and three Memoranda of understanding (MOUs) on a range of programmes to enhance their economic ties. Available data show that some of the technical and financial assistance provided by China to Nigeria in recent times are in the areas of health, education, communication and infrastructural development. In the area of health, China supported Nigeria’s Rollback malaria programme with anti-malarial drugs and treated mosquito nets worth about N400 million in 2002 (World Bank Research Observer, 2005).

In an attempt to further support the programme in 2006, China signed an MOU with government to supply antimalaria drugs worth N83.6 million. In the area of education, China signed an MOU in 2006 with the Nigerian government to provide about N670 million for the training of 50 Nigerian officials and medical personnel on comprehensive malaria prevention and control. Further, some educational institutions in Nigeria have established linkages with China with a view to showcasing the Chinese culture, landscape and innovations. For instance, in collaboration with the Chinese Embassy, Abuja, the Federal Polytechnic, Offa organised an exhibition on Chinese Culture and Landscape to advance the cultural bond between the two countries. Similarly, China is working with the Nnamdi Azikiwe University, Awka to provide Chinese language teaching to Nigerian students. Under this scheme, the Chinese government is to fully sponsor the training of the university’s staff to study Mandarin in China up to master’s and Doctorate Degrees levels. This scheme is also characterized by frequent exchanges of cultural troupes and students. In 2006, a memorandum of understanding on the provision of National Information Communication Technology Infrastructure Backbone was signed between the Federal Ministry of Science and Technology and Hawai Technologies. In order to support infrastructural development in Nigeria, China through its Export Import Bank entered into a financing agreement (of N8.36 billion concessionary export grants) with Nigeria.

**Summary, conclusion and Recommendations**

The China-Nigeria relations as shown in the proceeding sections covered different facets of the Nigerian economy. The recent resurgence in the relationship has been attributed to improve and deliberate mutual efforts at the highest political levels. Chinese FDI inflows to Nigeria have been on the increase in recent years. A ten-fold increase in the flow of Chinese into Nigeria between 1999 and 2006 was recorded. Compare to other sources of FDI inflows to Nigeria, Chinese FDI inflows are in the range of about 0.13% of the total inflow of FDI in 2006. The investments from China are in manufacturing, oil and gas, telecommunication, building and construction. Thus, while some of the Chinese investments and activities in the country are directed at addressing critical gap in the provision of basic infrastructure, these are not comparable to the level at which Chinese are seeking Nigeria’s oil and gas and other raw materials. In the area of trade relations, similar recent upsurge was captured by the available data and pieces of information. Nigeria’s export to China is dominated by crude oil to the tune of about 95%. In terms of relative share of market, China constitutes only about 1.5% of the value of Nigeria’s exports in 2000 and 2005. It should also be noted accordingly that Nigeria’s import from China is more diversified than the exports.
Three product groups: electrical machinery equipment; vehicles and nuclear reactors, boilers machinery and mechanical appliances jointly accounted for over 50% of Nigeria’s imports from China. The observed structure of trade pattern is inconsistent with the Nigeria's quest to export manufactured or processed products. The need to diversify export products may be an uphill task given China's preference for raw materials and fuel and gas. More worrisome is skewed balance of payments position which has consistently been in favour of China. This suggests the need to examine the structure of tariff and non-tariff barriers facing Nigeria’s exports to China. Perhaps more importantly is an analysis of constraints facing producers and exporters in responding fully to market openings. Although the brief analysis presented in this report points to a similar trend in the general trade and investment patterns with the traditional trade partners there is a strong need to critically examine in details Nigeria-China relationship. The review presented in this paper is general and based on incomplete information. An investigation of some of the issues raised probably by conducting a census of Chinese interest in Nigeria is capable of shedding lighter.

**Recommendations:**

International trade and investment between China and Nigeria are ties which are generally conducted for the purpose of providing each other with commodities in exchange for those that it produces in abundance; it will be further enhanced if the following mechanisms are put in place:

- China should establish consular offices in the six geo-political zones of Nigeria to facilitate trade.
- Nigeria should ensure improvement in the quality of goods and services that come into Nigeria from China.
- The two sides should be able to establish and maintain functional and effective bi-national commission.
- Nigerian and Chinese business men should also respect the rules governing international trade by not producing and importing fake and substandard goods.
- Despite the volume of trade between the two countries, there is no Chinese bank in Nigeria. The currency swap agreement should be implemented.

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