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Nigeria-China Trade Relations: Implication on the Nigerian Domestic Economy

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Abstract
The study assesses the increased trade relations between Nigeria and China with a view to providing information on its implication on the Nigerian domestic economy through the assessment of the perceptions of local manufacturers and entrepreneurs and current trade statistics between the two countries. Data were collected from both primary and secondary sources. Primary data were sourced through the administration of questionnaire on 400 randomly selected respondents. The results showed a trade imbalance in favour of China, however, Nigeria stands to gain from the China's model of growth and manufacturing expertise. The study concluded that the Nigerian government should encourage massive direct investment and the location of production facilities in Nigeria by the Chinese firms rather than trade relations to correct the imbalance and provide more jobs for Nigerians.
Keywords: Nigeria, China, Trade, Manufacturing

1. Introduction

Globalization has been defined as the process through which goods and services, capital, people, information and ideas flow across borders and lead to greater integration of economics and societies (Agenor, 2004). It seeks to remove all national barriers to the free movement of international capital and this process is accelerated and facilitated by the supersonic transformation in information technology (Tandon, 1998). It deals with the increasing breakdown of trade barriers and the increasing integration of world market; this is evident from its push of free-market economics, liberal democracy, good governance, gender equality and environmental sustainability among other holistic values; (Akindele, Gidado and Olaopa, 2002). Globalization has been seen in both positive and negative light while it enhances the volume of international trade and investment, which is a reflection of the global pattern of specialization in production (Akindele et al), it has the potential of wiping out industrial enterprise in Nigeria, the questions are: are we prepared to face the realities of this global phenomenon, what do we do? (Ohuabunwa, 1999).

As global integration of economics progresses and grows more intense, it causes rising efficiency of resource and input utilization in the world economy as countries and regions specialize in line with their comparative advantage and produce goods and services at their lowest opportunity costs (Das, 2007). This gospel has been preached relentlessly by the instruments of globalization namely the International Monetary Fund (IMF), World Bank, World Trade Organisation (WTO) and the G8. The rules and regulations of these agencies have forced many developing countries to adopt free trade policies and liberalization.

Consequently, in the last several decades, there have been ambitious efforts in much of the developing world to liberalize trade and streamline protectionist tariff regimes (Zafar, 2005). Standard trade theory suggests that trade liberalization leads to a more efficient allocation of resources, enhanced productivity, and higher economic growth (Zafar, 2005). Hammouda (2004) in his research conducted on behalf of the Economic Commission for Africa states inter alia:

"… the unanimous agreement on the beneficial effects on growth and development of trade liberalization goes back to the emergence of the Washington consensus in the early 1980s which emerged in response to the economic crisis affecting most developing countries at the time, triggered by the debt crisis. The Washington consensus sought to tackle that problem through Structural Adjustment Programmes (SAPs) with support from IMF and World Bank to help developing countries restore major macroeconomic balances, ….., the decision to liberalize external trade was part of that broad set of reforms aimed at restoring major macroeconomic balances, promoting growth and improving the global integration of developing countries".

Trade liberalization in and of itself has not yet been un-ambiguously and universally linked to subsequent economic growth, despite the vast literature looking at this link, numerous empirical studies have not found the evidence conclusive (Ahmed & Suardi, 2009, Dennis, 2006; Rodriguez & Rodrik, 2001; Tussie & Aguo, 2007) but rather the impact of trade liberalization are less clear-cut with little or no positive effect on growth performance in Africa (Ahmed & Suardi, 2009). Academic studies have shown that the main impact of liberalization on trade flows is to increase the demand for export, that is, following trade liberalization, countries tend to buy more than they sell every year and as a result, their trade balance worsens; as import increases, demand in the country for locally produced goods falls, because people are buying imported goods instead, essentially, local producers are priced out of their markets by new, cheaper, better –marketed goods. Melamed (2005) posited that the losses sustained by Sub-Sahara African countries as a result of two decades of trade liberalization under World Bank/IMF economic programmes far exceed the 40 billion dollar worth of debt relief offered by the G8 summit. Trade liberalization has cost Sub-Sahara African 272 billion dollars over 20 years. Recent evidence from the United Nations shows that countries which liberalized their trade most tended to suffer from increases in poverty. There has been an increased trade relation between Nigeria and China which has raised a number of genuine concerns among policy makers and the business community; the study therefore examines the implication of the trade relations between the two countries on the domestic economy in Nigeria. The specific objectives are to: document the current trade relations statistics between Nigeria and China; assess the perceptions of local manufacturing firms and entrepreneurs on the trade relations between Nigeria and China; and discuss the lessons that can be learned by Nigeria from China's emergence as a world super-power.

2. Review of Literature

2.1 China's emergence as a world super-power

Until 1980, China was grouped with the poorest countries in the world. The rise of China from a poor, stagnant country to a major economic power in the last three decades has been described as the greatest economic success stories in modern times. Prior to 1979, China maintained a centrally planned, or command, economy where a large share of the country's economic output was directed and controlled by the state, which set production goals, controlled prices and allocated resources throughout most of the economy. In an attempt to support rapid industrialization, the central government undertook large – scale investments in physical and human capital. By 1978, nearly three- fourths of industrial production was produced by centrally controlled state – owned enterprises subject to centrally planned output targets. Private enterprises and foreign investment were nearly nonexistent. A central goal of the Chinese government was to make China's economy relatively self – sufficient. Foreign trade was generally limited to obtaining only those goods that could not be made in China. Beginning in 1979, the Chinese government launched several economic reforms which included inter alia, price and ownership subsidies for farmers, establishment of special economic zones for the purpose of attracting foreign direct investment, importing high – technology products into China, decentralization of economic policymaking. Since the introduction of these economic reforms, China has grown from a poor country to a major economic power in the world and as the world's second largest economy with the potentials of being the largest within a decade from now. China's rule as the world super-power has been attributed to the following: (i) High Savings and Investment**:** China had a large accumulation of capital and vast improvements in productivity. Improved productivity increased growth and generated funds used for investment. The country also had large pool of domestic savings to draw from to finance investment. Savings as a percentage of GDP has risen above 52%; (ii) Foreign Direct Investment**:** China's trade and investment reforms led to a surge in foreign direct investment (FDI), which had been a major source of China's capital growth; (iii) Productivity Increase**:** Productivity gains have been a major cause of China's rapid economic growth since reforms were implemented. According to Goldman Sachs, the productivity gains were the result of China's extremely low starting point of economic development when reforms began and a profound evolution of government policies that have gradually but consistently reduced inefficiencies in the system; (iv) Increasing inputs of human and physical capital (for instance, investment in plant and equipment, education, infrastructure) and/or labour (i.e., growth in the labour force); (v) China invested heavily in their own proprietary national skills and this helped in developing high technology industrial sectors; and (vi) The country adopted an outward-oriented strategy which started with the utilization of their most abundant resource, unskilled labour, to produce labour-intensive manufactured products for exports because they had comparative advantage in them.

2.2 Nigeria – China Trade 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 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 (Utomi, 2007). The volume of trade between Nigeria and China grew at low levels until rapid growth turned China in 1993 from a net exporter of crude oil to the second-largest importer of crude oil in the world (Utomi, 2007). The trade volume between the two countries grew by nearly 300 percent since 2004 and reached the peak of $7.2 billion in 2008. The trade volume between the two countries in 2009 reached $ 7.3 billion and $7.7 billion in 2010 respectively. With that level of trade, Nigeria is now the second biggest China trade partner in Africa, after South Africa. A surge in Nigeria imports of Chinese goods relative to Nigeria exports to China has resulted in a trade deficit with China and this is expected to grow significantly due to increased trade relations until Nigeria can offer its industrial producers home-grown alternatives of the same quality at competitive prices.

Global institutions such as World Trade Organization (WTO), IMF and World Bank have contributed in no small measure to the destruction of local manufacturing sector by requiring Nigeria to liberalize trade; freeze wages, devalue currency, remove public subsidy and other austerity measures which have resulted in greater under-utilization of productive capacity. Nigeria's increasing dependence on imported capital and consumer goods and services has left the domestic economy sectors comatose. Nigerian markets are target for substandard products and because of stiff competition from these products, local manufacturing firms have withered away.

3. Research Methodology

The study consisted of a literature review supported by an empirical study. A literature review was conducted to determine what research had been conducted on Nigeria – China trade relations. The empirical study consisted of a questionnaire that was designed to assess the perceptions of stakeholders on the implication of the trade relations between the two countries on the domestic economy of Nigeria. The stakeholders consisted of local manufacturers/entrepreneurs drawn from prominent three locations where China made- goods are sold and these are China town, Idumota market and Alaba International market in Lagos. Staff of the Chambers of Commerce and Industry were also included as part of the respondents. The research was conducted among 342 respondents out of 400 randomly chosen participants giving a response rate of 85.5%. A descriptive analysis approach was adopted in the analysis of the data. The study adopted with little modification the "global competitiveness 2009-2010" model and data as the basis of comparison between Nigeria and China. The bases of measurement are as follows:

(i) Institutional Framework: These include legal and administrative framework (within which individuals, firms and government interact to generate income and wealth in the economy), government attitudes toward markets and the efficiency of its operation and proper management of public finances. The indices measured are: ease of doing business; wastefulness of government spending; transparency of government policy making; and diversion of public funds.

(ii) Infrastructure: These include effective mode of transport (road, railway, port and air) to enable entrepreneurs get their goods and services to the market in a secure and timely manner, uninterrupted electricity supplies for business activities. The indices measured are: quality of overall infrastructure, roads, railroad, port and electricity supply.

(iii) Education: These include the quantity and quality of basic education received by the population, quality higher education and training which is required in today's globalised economy for workers to adapt rapidly to changing environment. The indices measured are: quality of primary and educational system, primary, secondary and tertiary enrollment, education expenditure, and internet access in schools, local availability of research and extent of staff training.

(iv) Technological readiness: This measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries. The indices measured are: availability of latest technologies, firm-level technology absorption and law relating to Information and Communication Technology (ICT).

(v) Innovation: This is the development of cutting-edge products and processes to maintain a competitive edge and the indices measured are: capacity for innovation, quality of scientific research institutions, companies spending on research and development (R&D), universities-industry collaboration on R&D, government procurement of advanced technological products, and the availability of scientists and engineers.

4. Analysis of Findings

4.1 Current bilateral trade transactions between Nigeria and China

Table 1 presents the bilateral trade statistics between Nigeria and China while there has been an increase in trade over the years under consideration, there was a trade imbalance in favour of China because it exports more products than what it imports, unlike Nigeria, which relies more on the importation of goods for domestic consumption. Chinese exports represented 87.5% of the bilateral trade total in 2010. This suggests the need to examine the structure of tariff and non tariff barriers facing Nigeria's exports to China and the constraints being faced by Nigerian entrepreneurs in responding to international trade opportunities

4.2 Comparison of Trade Indicators & Statistics between Nigeria & China

Under Institutional framework, global ranking points to a weak institutional environment in Nigeria with a ranking of 125th, 120th, 79th, and 119th position in respect of "Ease of doing business, wastefulness of government spending, transparency of government policies and diversion of public fund" respectively out of 133 countries as against China's of 39th, 35th, 32nd and 55th in the same order. Nigeria ranking on infrastructural development indices is very poor and attention needs to be diverted in the development of critical infrastructures like electricity, port, roads and railway. Nigeria needs to improve its funding on basic and tertiary education more than it presently does for sustainable development of its manpower.

Nigeria fared well in technology readiness as it ranked averagely on indices such as availability of latest technology and firm-level technology absorption which however have not translated to high-technology and competitively priced products on the international market. Nigeria was also not found wanting in her capacity for innovation and companies continued spending on research and development, there is however a disconnect between universities and the industry. This is evidenced by the country's 87th position in ranking as against China's 23rd, government procurement of advanced technical products and the quality of scientific research institutions are abysmal and need to be focused on.

4.3 Perceptions of stakeholders on the effect of Nigeria – China trade relations on the Nigerian Economy

Tables 3 present the perceptions of stakeholders on the effect of the increased trade relations on the Nigerians economy. 89% of the respondents believed the trade relations will have a positive effect on the Nigerian economy. On further analysis, 99% of the respondents believed the greatest challenge faced by the Nigerian economy is in respect of the sub-standard nature of the Chinese goods being imported into the country. In terms of the lack of competitiveness of Nigerian goods with China made- goods, power failure, shortage of affordable credit to procure input and multiple taxation ranked first, second and third respectively as the factors responsible for the un-competitiveness of the Nigerian products. All the respondents agreed that local manufacturing firms must be protected through tariff and subsidies against the invasion of sub-standard, subsidized foreign products.

5. Conclusion and Recommendation

5.1 Conclusion

There is a trade imbalance between Nigeria and China in favour of the Chinese due to its high rate of export to Nigeria with little import from Nigeria. China emerged as the world super-power as a result of its protectionist measures in critical sectors of the economy like healthcare, insurance, manufacturing and financial institution. The trade imbalance notwithstanding, Nigeria stands to gain a lot from China's model of growth, investment and manufacturing expertise. Nigerian government should impose tariff on China's goods in order to allow a level – playing ground with the Nigerian manufacturers.

5.2 Recommendations

Nigerian government should encourage massive direct investment by Chinese companies in Nigeria which is capable of correcting the serious trade imbalance and provide more jobs for Nigerian than trade relations.

China should be encouraged to set up production facilities in Nigeria which in turn will create more jobs for Nigerians, contribute to the development of GDP and the economy. Nigerian government should learn from China in term of building human and physical infrastructure, granting manufacturers access to cheap credits and technologically advanced production system. Multiple forms of taxation should be abolished. Nigerian government should adopt strong anti-dumping policies against sub-standard goods from foreign companies.

The trade relations should seek to implore China to build the export capacity of Nigerians by building Nigeria competitiveness in global markets through the provision of technical assistance and transfer of expertise. The government should protect local industry because real economic growth can only be sustained with a vibrant manufacturing sector than a vibrant trading environment. Nigerian government needs to diversify its economy because oil and gas accounts for more than 90% of its export. Commodity (oil and gas) driven growth cannot generate many jobs hence the need to expand its non-oil revenue which presently account for less than 10% of revenue.

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APPENDIX

Table 1: Current Bilateral Trade Statistics between Nigeria & China

Year	Trade	China's export to Nigeria	China's import from Nigeria (Nigeria export)
	(USD'millions)	(USD'millions)	(USD'millions)
2000	860	563.9	292.9
2001	1,144.6	917.2	227.4
2002	1,168.4	1,047.1	121.3
2003	1,859.2	1,787.5	71.7
2004	2,181.9	1,719.3	462.6
2005	2,832.4	2,305.3	527.1
2006	3,133.5	2,855.7	280.0
2007	4,337.7	3,800.2	537.5
2008	7,268.0	6,758.1	509.9
2009	6,373	5,476.0	897.0
2010	7,700	6,737.5	962.5

Source: China custom, World trade data.

Table 2: Nigeria & China Trade Statistics

		China	Nigeria
(1)	**Institutional Environment:**		
	- Ease of doing business	39	125
	- Wastefulness of government spending	35	120
	- Transparency of government policy making	32	79
	- Diversion of public funds	55	119
(2)	**Infrastructure**: Quality of		
	- Overall infrastructure	66	126
	- Roads	50	112
	- Railroad	27	104
	- Port	61	122
	- Electricity supplies	61	131
(3)	**Education:**		
	- Quality of primary education	32	109
	- Primary enrollment	6	126
	- Secondary enrollment	89	119
	- Tertiary enrollment	80	105
	- Education expenditure	123	128
	- Quality of education system	32	48
	- Internet access in schools	23	91
	- Extent of staff training	50	88
	- Local availability of research and training services	47	72
(4)	**Technology readiness:**		
	- Availability of latest technologies	87	85
	- Firm level technology absorption	47	74
	- Law relating to ICT	48	77
(5)	**Innovation:**		
	- Capacity for innovation	22	47
	- Quality of scientific research institutes	35	115
	- Companies' spending on R&D	23	40
	- Universities-Industry collaboration on R&D	23	87
	- Government procurement of advanced technological products	13	115
	- Availability of scientists and engineers	36	41

Source: The global competitiveness report 2009-2010

Table 3: Increased trade relations with China will boost Nigerian Economy in line with vision 20:2020

	Frequency	Percentage	Cumulative
Strongly Agree	302	88.30	88.30
Agree	1	0.30	88.60
Indifferent	14	4.10	92.70
Disagree	21	6.14	98.84
Strongly Disagree	4	1.16	100.00
TOTAL	**342**	**100**	

Source: Field survey, 2011

Table 4 Challenges faced by local manufacturers consequent on Nigeria- China Trade Relations

	Frequency	Percentage	Cumulative
Sub-standard products	339	99.12	99.12
Cheapness of China product	3	0.88	100
TOTAL	**342**	**100**	

Table 5: Competitiveness of Nigerian goods with China-made-goods

	Ranking	**Frequency**	**%**
Power failure	1st	130	38
Shortage of affordable credit to procure input	2nd	89	26
Multiple taxation and imposition of levy	3rd	44	13%
High cost of raw materials	4th	38	11%
Lack of access to technologically advanced production methods	5th	2	6%
Governments inconsistent and wrong policies	6th	14	4%
Importation of cheaper alternatives	7th	6	2%
		342	**100**

Table 6: Protection of locally made goods in the form of tariffs and subsidies against foreign subsidized goods

	Frequency	**Percentage**	**Cumulative**
Strongly Agree	328	95.91	95.91
Agree	14	4.09	100%
Indifferent	-		
Disagree	-		
Strongly Disagree	-		
TOTAL	**342**	**100**	