

# Economic Implications of Nigeria-China Trade Relationships: The way forward


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## Abstract

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*China and Nigeria have been major bilateral trading partners in recent times. While primary products dominate Nigeria's trade with China, China's export to Nigeria is dominated by manufactured goods. This dissimilarity in the structure of exports has kept reinforcing the bilateral trade relationship between both countries. Meanwhile, Nigeria is China's largest export market in sub-Saharan Africa, while China is one of Nigeria's largest export markets worldwide. Specifically, Nigeria has a comparative advantage in fuels and basic materials, whereas China has a comparative advantage in manufactured goods, capital goods, consumer goods, intermediate goods, and mechanical and electrical goods. Furthermore, China's ties to Nigeria are tenuous, whereas Nigeria's ties to China are strong. This suggests that Nigeria is more dependent on China's exports and, China is less dependent on Nigeria's exports. There is also an important disparity in the structure of China and Nigeria's export trade; however, it is established that the trade relationship is mutually beneficial and complements each other's export trade. However, trade rivalry between the two nations will not only significantly reduce their respective bilateral export trade but also undermine their mutual benefits from trade. Therefore, cooperation and complementary trade policies are in both countries' best interests.*



The 'One Belt One Road' (OBOR) initiative was initiated by the ruling party in China under the leadership of President Xi Jinping in 2013. The initiative comprises two major programs: the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The Silk Road Economic Belt connects three major routes: China to Europe, the Persian Gulf, the Mediterranean and the Indian Ocean, while the 21st Century Maritime Silk Road is based on waterways among member countries of the OBOR initiative. The One Belt denotes the "Silk Road Economic Belt", a revival of the old land-based Silk Road, which connected China to central Asia, the Middle East and Europe. It is also known as the Modern Silk Road. The One Road denotes the "21st Century Maritime Silk Road", which planned to connect Asia, Africa, the Middle East and Europe. This is also known as the Maritime Silk Road. Meanwhile, the essence of the One Belt One Road initiative is promoting policy coordination, connectivity of infrastructure and facilities, unimpeded trade, financial integration, and closer people-to-people ties through extensive consultation, joint contribution, and shared benefits, with the goal of bringing benefits to all.

Nigeria, a member of the OBOR initiative, has engaged in considerable trade transactions with China since joining in 2018. In fact, Nigeria has been the largest destination of China's exports in recent times, while China is one of the largest importers of Nigerian products. For instance, in 2018, China's total exports to Sub-Saharan Africa and Nigeria were about 74.5 billion US dollars and 13.5 billion US dollars, respectively. This implies that Nigeria accounts for about 17.9 percent of China's total exports to Sub-Saharan Africa in 2018. In the same vein, in 2020, China's total export to Nigeria was about 16.7 billion US dollars, accounting for about 20.3 percent of China's total exports to Sub-Saharan Africa. Over the years, China's export to Nigeria has steadily risen.

Meanwhile, China is one of Nigeria's largest export destinations in the world. For instance, in 2019, Nigeria's exports to China were worth about 1.6 billion US dollars, accounting for about 3.1 percent of Nigeria's total exports to the world. Likewise, in 2020, Nigeria's exports to China accounted for 5.1 percent of its total exports to the world. This implies that Nigeria and China export dissimilar goods to the international market. Furthermore, in recent times, there has been an upward trend in the volume of Nigerian exports to China.

### ***China Export to Nigeria***

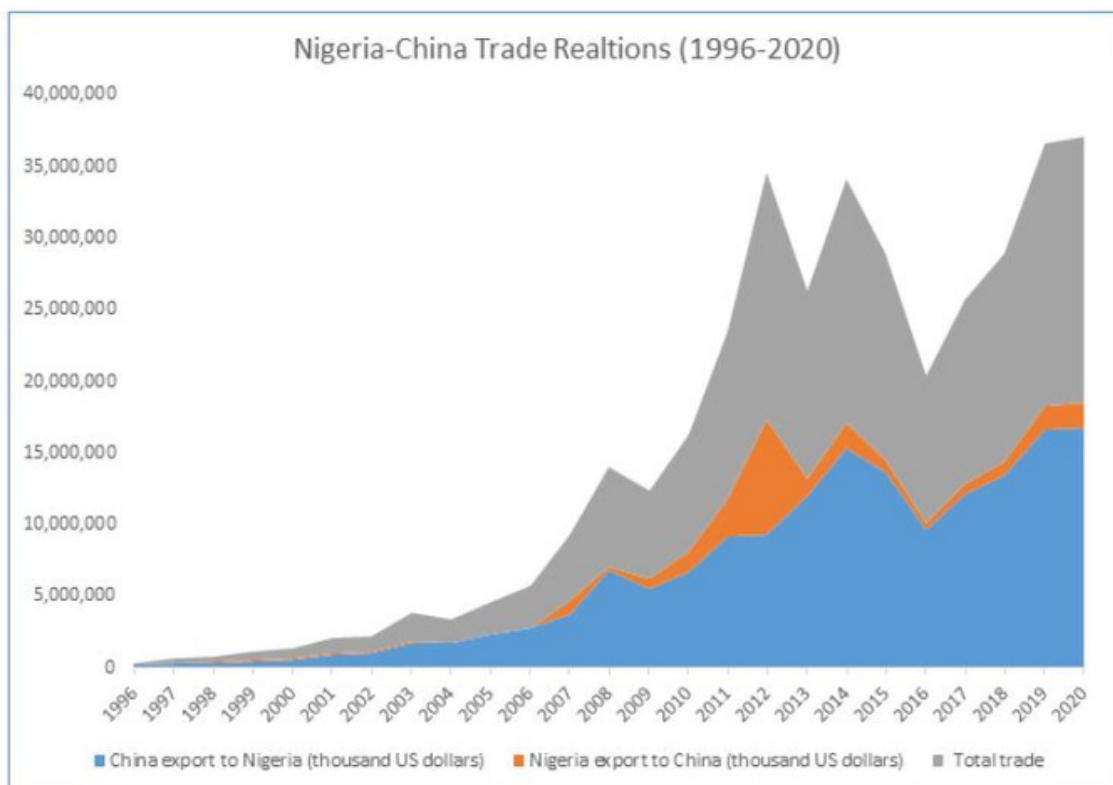
Nigeria is China's largest export destination in Sub-Saharan Africa. In 2018, China's total exports to Sub-Saharan Africa and Nigeria were about 74.5 billion US dollars and 13.5 billion US dollars, respectively. This implies that Nigeria accounts for about 17.9 percent of China's total exports to Sub-Saharan Africa in 2018. In the same vein, in 2020, China's total export to Nigeria was about 16.7 billion US dollars, accounting for about 20.3 percent of China's total exports to Sub-Saharan Africa. Over the years, China's export to Nigeria has steadily risen. For instance, between 2000 and 2005, China's exports to Nigeria grew by an average of 34.5 percent; between 2017 and 2020, China's export to Nigeria grew by an average of 14.9 percent. This clearly shows that Nigeria, indeed, is a very prominent export destination for China.

### ***Nigeria Export to China***

Meanwhile, China is one of Nigeria's most prominent export destinations in the world. For instance, in 2019, Nigeria's exports to China were worth about 1.6 billion US dollar, accounting for about 3.1 percent of Nigeria's total exports to the world.

Likewise, in 2020, Nigeria's exports to China accounted for 5.1 percent of its total exports to the world. This implies that Nigeria and China export dissimilar goods to the international market. Furthermore, in recent times, there has been an upward trend in the volume of Nigeria's exports to China. In 2017, Nigeria's exports to China were 721.2 million US dollars and later rose to 1.03 billion US dollars in 2018, implying a 44.16 percent increase.

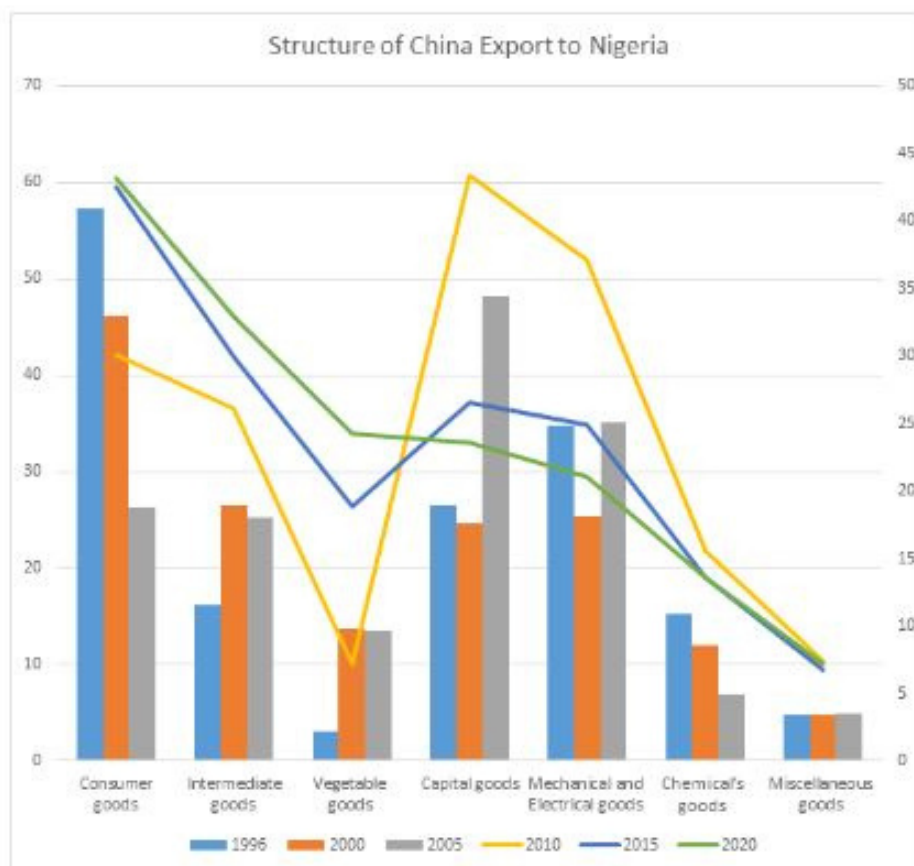
Nigeria's exports to China further increased by about 60 percent from 2018 to 2019. This clearly shows that Nigeria and China can both benefit from trade if they cooperate because they seem to be complementary trading partners. However, further analysis is done to x-ray the trade structure between Nigeria and China and to establish whether both countries are either competitive or complementary trading partners.

**FIGURE 1: NIGERIA-CHINA TRADE RELATIONS (1996-2020)****FIGURE 2: CHANGING PATTERN OF NIGERIA-CHINA TRADE RELATIONS (1996-2020)**



China's exports to Nigeria seem dominated by finished and intermediate goods. Specifically, the major products that make up the bulk of China's exports to Nigeria are capital goods, consumer goods, chemical products, vegetables, miscellaneous goods, mechanical and electrical goods and intermediate products. This reveals that the major commodities China exports to Nigeria are not in their raw form, implying there has been value addition before exportation. In 2015, China exported consumer goods worth 5.8 billion dollars to Nigeria, accounting for 42.4 percent of China's exports to Nigeria. In addition, Nigeria's exports of intermediate goods, vegetables, capital goods, mechanical and Electrical goods, chemical goods and miscellaneous goods were 4.1 billion US dollars, 2.5 billion US dollars, 3.6 billion US dollars, 3.4 billion US dollars, 1.8 billion US dollars and 928 million US dollars respectively, accounting for 30 percent, 18.8 percent, 26.6 percent, 24.9 percent, 13.6 percent and 6.7 percent of China's export to Nigeria. Furthermore, in 2020, China's export of consumer goods was worth 7.2 billion US dollars, suggesting a 24 percent increase compared with 2010.

Meanwhile, China's exports of other commodities such as intermediate goods, vegetables, capital goods, mechanical and electrical goods, chemical products and miscellaneous goods were 5.5 billion US dollars, 4 billion US dollars, 3.9 billion US dollars, 3.5 billion US dollars, 2.2 billion US dollars, 1.2 billion US dollars respectively, accounting for 32.9 percent, 24.2 percent, 23.5 percent, 21.01 percent, 13.5 percent and 7.2 percent. This suggests that in recent times, as seen from 2010 to 2020, on average, there has been a significant rise in the worth of exports of consumer goods, intermediate goods, vegetables, capital goods, mechanical and electrical goods, chemical products and miscellaneous goods from China to Nigeria.

**FIGURE 3: STRUCTURE OF CHINA EXPORT TO NIGERIA**

The structure of the exports from China to Nigeria is quite different from those of exports from Nigeria to China. In 2010, Nigeria exported capital goods worth 17.3 million US dollars, accounting for 1.2 percent of Nigeria's total exports to China for that year. Furthermore, Nigeria also exported consumer goods, intermediate goods, raw materials and fuels worth 79.1 million US dollars, 645.7 million US dollars, 686.4 million US dollars, and 696.6 million US dollars, respectively, accounting for 5.4 percent, 44.8 percent, 47.6 percent, and 48.34 percent of Nigeria's export to China.

Afterwards, Nigeria's capital goods export to China significantly fell to 1.4 million US dollars in 2015. Likewise, Nigeria's exports of other products to China, such as consumer goods, intermediate goods, raw materials and fuels, also decreased. Specifically, in 2015, Nigeria's exports of consumer goods, intermediate goods, raw materials and fuels to China fell to 274.3 million US dollars, 37.7 million US dollars, 476.7 million US dollars, and 651.5 million US dollars, respectively.

In 2020, there was an increase in the worth of capital goods, consumer goods, raw materials and fuels to 31.4 million US dollars, 558.1 million US dollars, 1.1 billion US dollars, and 1.5 billion US dollars, respectively. However, there was a decrease in Nigeria's intermediate exports to China from 37.7 million US dollars in 2015 to 31.06 million US dollars in 2020, representing a decline in the percentage of Nigeria's intermediate goods exports to China in total exports to China from 4.7 percent to 1.4 percent. Based on the foregoing, it is obvious that fuel and raw materials dominate Nigeria's exports to China.

This implies that Nigeria exports goods to China in their crude form while China exports goods with value addition to Nigeria. Therefore, since both countries seem to export dissimilar goods and are major trading partners to each other, both countries are likely to benefit from trade if they cooperate. However, further analysis has to be done to examine whether both countries have a comparative advantage in the products they export and not just an absolute advantage.



FIGURE 4: STRUCTURE OF NIGERIA EXPORT TO CHINA

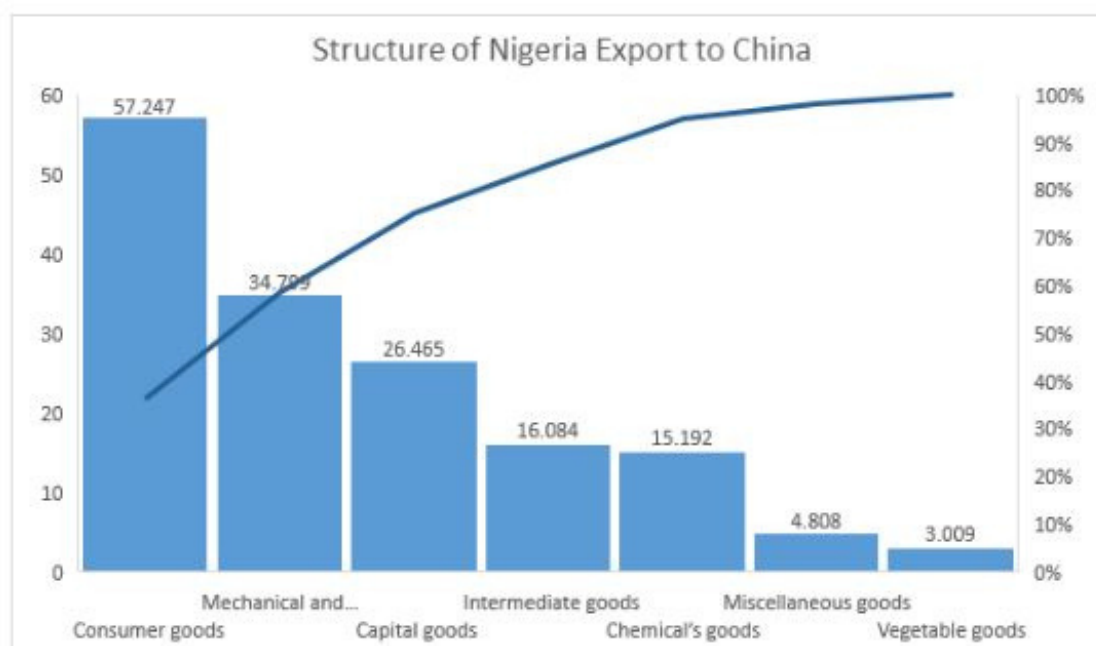
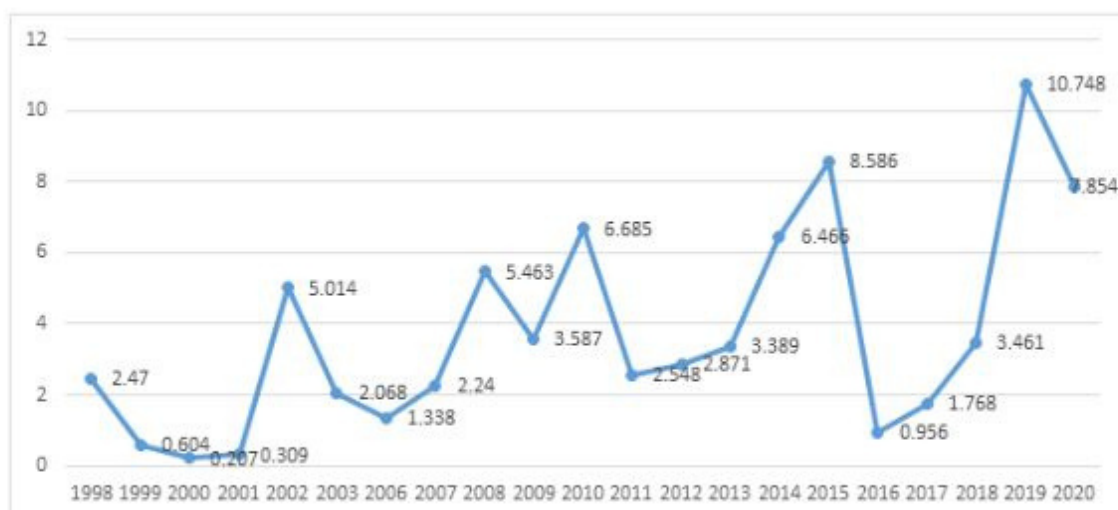


FIGURE 5: CHINA-NIGERIA EXPORT SIMILARITY INDEX



Nigeria's GDP positively influences Nigeria's exports to China. Furthermore, a change in Nigeria's integration with China significantly changes exports of Nigeria to China in the same direction. Meanwhile, trade cost exhibits a negative and significant relationship with Nigeria's exports to China. This implies that a decrease in trade costs will facilitate the exports of goods from Nigeria to China. Comparatively, China's export to Nigeria has a negative and significant relationship with (trade cost). This implies that as the trade cost between Nigeria and China increases, China's export to Nigeria decrease and vice versa. Furthermore, other things being equal, the GDP of Nigeria positively and significantly influences China's exports to Nigeria. Meanwhile, the more integrated China and Nigeria are in terms of trade, the more the exports of China to Nigeria and vice versa. In the same vein, it exhibits a positive and significant relationship with China's exports to Nigeria. This implies that the road and belt initiative accelerates the rate of trade complementarity between China and Nigeria and thus facilitates China's exports to Nigeria.

Furthermore, distance (trade cost) has a negative and significant long-run relationship with Nigeria's exports to China. This implies that as trade cost increase between Nigeria and China, Nigeria's exports to China decreases and vice versa. Furthermore, Nigeria and China's GDP does not significantly influence Nigeria's exports to China in the long run. Moreover, China's export to Nigeria has a negative and significant relationship with distance (trade cost), implying that as the trade cost between Nigeria and China increases, China's exports to Nigeria decreases and vice versa. Further, the GDP of Nigeria positively and significantly influences China's exports to Nigeria, while the GDP of China does not significantly influence China's exports to Nigeria. This implies that the road and belt agreement facilitates trade complementarity between Nigeria and China. The initiative also does not encourage competition between Nigeria and China. This implies that Nigeria and China can benefit from trade if they cooperate rather than compete. This clearly shows the benefits of the road and belt initiative to both Nigeria and China.

## Conclusion

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It is evident that Nigeria is China's largest export destination in Sub-Saharan Africa, and China is one of the largest destinations for Nigeria's exports. Furthermore, the major products China exports to Nigeria are Capital goods, Consumer goods, Manufacturing, Chemicals, Mechanical and Electrical goods, Vegetables and Intermediate goods. Meanwhile, the major products of Nigeria's exports to China are fuel and raw materials. Therefore, it can be deduced that Nigeria exports products in its crude form to China, but China exports manufactured/finished goods to Nigeria. Further, China has a relative comparative advantage in exporting manufactured/finished goods, while Nigeria has a relative comparative advantage in exporting fuels and raw materials. Therefore, if both countries cooperate, they will both gain from trade.

This position is further reinforced by the fact that China's and Nigeria's exports are dissimilar in structure and, thus, are not competing in the international market. The study further analysed the effects of trade complementarity and competitiveness on the Export trade of China and Nigeria, respectively. It revealed that an increase in trade cooperation and integration between Nigeria and China will lead to an increase in the exports of China and Nigeria, respectively. In contrast, a decrease in trade competition between Nigeria and China will increase the exports of China and Nigeria respectively.

## Policy Options

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- Since Nigeria's export is dominated by primary products because it has a comparative advantage in that Nigeria should generate maximum revenue from exporting primary products and then channel the funds generated to critical sectors of the economy, such as manufacturing and agriculture.
- Nigeria should adopt trade policies that encourage exports of primary products, such as reducing tariffs and removing customs delays. This will help to maximise the amount generated from trade because more commodities will be exported.
- Nigeria should utilise revenue from fuels and raw materials to add value to certain primary products by transforming them into intermediate products. These intermediate products can also be exported to certain countries as inputs, especially in this era of global value chains.

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