IMPACT OF CHINA-AFRICA TRADE RELATIONS: THE CASE OF NIGERIA

Final Report

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Abstract

This study examines the impact of China-Nigeria trade relations. Both macroeconomic and microeconomic analyses were carried out. Some interesting findings obtained from the study are discussed as in what follows. The intensity of China's export to Nigeria has been high over time, while the intensity of Nigeria's export to China has been somehow low and around 60.0 throughout the entire period, which implies that Nigeria has exported less than it should do to China. The results of the panel regression show that economic size of the two countries plays a major role in promoting trade relations between them. Results suggest that the level of tariffs in China promotes trade with Nigeria, while the level of tariffs in Nigeria hinders trade with China Simulation experiments particularly results on the outcome of the formation of an FTA between China and Nigeria (100% tariff cut) show that, although both countries will lose, Nigeria will lose more in terms of export of food and live animals; crude materials (inedible); and mineral fuels, lubrications and related products, while China will lose more in terms of export of chemical and manufactured products.

Survey results revealed that majority of the consumers surveyed in Nigeria used made-in-China product. The major reasons advanced by respondents (consumers) for consuming Chinese products are relative lower prices, product availability, quality, technology and packaging. We found that some commodities that are of China origin caused some discomforts to the Nigerian consumers. On the impact of the global financial crisis on the consumers, the consumers indicated that their consumption decreased as a result of the crisis.

The sampled importers revealed that they imported a number of commodities from foreign markets including China. Majority of the respondents declared that prices of commodities from China, EU and India have decreased. Analysis of the impact of competition from the various markets shows that majority of the respondents believed that competition from various markets particularly from China and India as well as USA and EU is destructive. Further, issues raised with the importers revealed that the competition from various markets particularly China had positive effect on their sales and profits.

Many of the producers reveal that Nigeria is a major market outlet for their products, while some of them also indicated foreign market outlets including China. A large proportion of the producers pointed out that competition from various markets (within and outside Nigeria) have been destructive to their activities. Based on the above findings, some recommendations were made to the various stakeholders including the government, consumers and manufacturers/exporters.

Key words: Trade relations, China, Nigeria, macroeconomic analysis, microeconomic analysis.

Word count: 27,860

I Introduction

I.1 Problem Statement

Traditionally, African countries have traded rigorously with the developed nations, especially the European Union (EU), Canada and the US. These economic relationships are governed by various bilateral and regional agreements that exist between these countries and Nigeria. Although, the relationships have gone a long way, the developmental impact is contestable.

However, due to the trade performance of some Asian countries that has enhance their income and improvement in technology, especially China and India, many African countries including Nigeria have began to diversify their markets to these countries. This emerging trade partners have created some incentives to trade with the continent through their foreign direct investment (FDI) and aid. China-Nigeria relationship dates back to some decades but recent developments call for a careful and detailed analysis of the potential impact so as not to end up like the previous ones. Besides, it is important to see whether the pattern of trade relations between the two countries is compatible with Nigeria's (industrial) development aspirations as packaged in the Nigeria Economic Empowerment and Development Strategy (NEEDS).

The recent boost in Nigeria-China trade relations is as a result of a number of factors. Among the most important factors is the recent phenomenon of increased income for both China (more sustained) and Nigeria. Also, there are economic complementarities between these countries. A dimension of this is the market opportunities which drive the relationship. Thus, while Nigerians (Consumers) are looking from cheap products from China, Chinese growing manufacturing firms are seeking market opportunities for their intermediate and final manufactured products from Nigeria. Also, the input sourcing and export promotion drive of the two nations is another dimension of the economic complementarities. As the growing Chinese firms are seeking raw materials (oil and other minerals, agricultural products, etc for inputs and generation of energy), Nigerian exporters are seeking market opportunities for their primary products. China's ability to provide the financial and technical assistance (at concessionary interest rate or /and with aid) to Nigeria which is in need of such is another critical factor. The recent repeated political visits by Nigerian government and the reciprocal visits by the Chinese

government which led to the signing of bilateral Trade Treaties and Memorandum of Understanding between the two nations have also strengthened the relationship.

Although before now, Nigeria has established bilateral trade relationship with China, but the magnitude of the trade was not as it is now. Available data from the World Bank (2007) show that in 2000, four broad commodities were exported totalling US$307.3 million, with the main export commodity being Mineral fuel and lubricants which represented US$273.7 million (90% of total exports) and 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. Nigeria's exports to China increased to US$526.9 million in 2005; the increase was more than 50%. The China's share of Nigeria's total exports fell from only 1.5% in 2000 to 0.79 in 2007.

In terms of imports, Nigeria's total imports increased from US$5.3 billion in 1996 through US$5.8billion in 2000 to US$17.7billion 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$252million in 2000 to US$2.3billion 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.
China's share of Nigeria's imports rose from 3.5% in 1996 to 13.44% in 2007. Nigeria's import from China is more diversified than its exports and Nigeria is a small player compared to other countries exporting to China.

Given the trade pattern, China had a trade surplus with Nigeria during the period 2003-07. The trade surplus rose by almost 91% in 2005 and 24% in 2007 for agricultural, while it rose by about 41, 45 and 27% in 2005, 2006 and 2007, respectively for non-agricultural. The total trade surplus of China against Nigeria was about $3.3 billion in 2007. On Product basis, China recorded trade deficits in a few products.

Among the economic consequences of the recent growing trade relations between the two countries are the fact that there is a rise in the price or terms of trade (TOT) of primary products of interest to Nigeria and a decline in the price or TOT of manufacturing products produced by China, which resulted into intense competition in the World market. The consequence of all these are the issues of gains/losses and gainers/losers.

The emerging issues/challenges therefore include the determination of the potential gains/losses from the trade relations; determination of the potential gainers/losers from the trade relations; how to actualise, maximise and internalise the gains from the trade relations; how to minimise the loses from the

trade relations and compensate the losers; how to utilise and sustained the gains from the relations; and how to promote industrialisation of Nigeria in the context of the trade relations. All these require a thorough and comprehensive and analysis which will inform articulation of policy responses. This study therefore seeks to address all these issues and challenges so as to come up with specific findings that will inform policy articulation to maximise the opportunities and responses to minimise the costs/challenges on the economy of Nigeria.

I.2 Objectives and Terms of Reference of the study

The objective of this study is to analyse the impact of trade relations between China and Nigeria with a view to articulating policy to maximise the benefits and minimise the costs. Specifically, this study examines the following specific terms of reference:

- Analysis of the country's economic structure and performance, paying particular attention to the role of trade with China;
- Analysis of the country's export growth, by sector and export destination, paying specific attention to the contribution of China in terms of export volume, export prices and export earnings;
- Analysis of the country's relative gains and losses generated by exports to China, paying particular attention to their sources (in terms of volume and price changes) and their sectoral distribution;
- Identification and analysis of the key export stakeholders, classified by key sectors, relative gains and losses, gainers and losers, and sources of their gains and losses;
- Analysis of the country's import structure and performance, by key sectors and import sources, with specific focus on the contribution of China in terms of import volume, and import prices;
- Analysis of the country's relative gains and losses generated by imports from China, paying particular attention to the sources (i.e. volume and price changes) and the sectoral distribution of these losses and gains;
- Identification and analysis of the key import stakeholders classified by key sectors, relative gains and losses, gainers and losers, and sources of their gains and losses;
- Analysis of the evolution of Chinese trade regime and trade policy, focusing on the key sectors of Chinese imports from and exports to the country, and with particular reference to the market access conditions of the country's exports to China;
- Analysis of the evolution of the country's trade regime and trade policy focusing on the key sectors of its imports from and exports to China, and with particular reference to the market access conditions of Chinese imports into the country;
- Analysis of any bilateral and/or regional trade agreements and/or special trade arrangements between the country, and China, with particular focus on their implications for the net gains/loses emanating from the trade relationships between China and the country;
- Identification and analysis of the opportunities which can be derived by the country from its trading relationship with China;

- Examine the implications of the global economic crises and regional integration on the relations
- Articulation and analysis of the policy responses which could enable the country maximize the benefits derivable from its trading relationship with China;
- Identification and analysis of the challenges facing the country from its trading relationship with China including the following:
    - The challenges of judicious utilization of the increased income especially the foreign exchange earnings to relax supply side constraints and diversify the economic base
    - The challenges of responding strategically to the price competition promoted by Chinese imports
    - The challenges of dealing with the risks of the structure of the country's exports to China perpetuating specialization in primary commodity production
    - The challenges of dealing with the risk of China's cheap import leading to de-industrialization, increased unemployment and discourage economic diversification
    - The challenges of handling the possibility that imports from China may be hazardous on account of low quality?
- Articulation and analysis of the policy responses which the country would need to minimize the net losses arising from its trading relationship with China;
- Articulation and analysis of the policy responses necessary to optimize trade relations with China if and when China acquires the attributes of an advanced industrialized economy and the associated changes in the features and pattern of its trade relations with the country.

I.3 Organisation of the Report

This report is organised into six sections. After this introductory section is section II, which is the background of the study. This section contains discussions on Nigeria-China trade in terms of magnitude, growth, structure and trend. It also contains Chinese trade policy towards Nigeria and Nigeria trade policy towards China. The institutional arrangements and content of the policies are discussed. Section III presents review of literature which covers theoretical literature on similar studies, methodological approaches and empirical analysis as well as findings. Section IV covers theoretical framework and methodology, which involves the choice of theoretical framework and methodology for macro and micro analyses and provision of justification for them. Section V entails empirical analysis and drawing of policy implications of findings. Section VI presents conclusions and policy recommendations. In this section, major findings from both macro and micro analyses are summarised and policy recommendations are discussed.

II Background: China's and Nigeria's Trade Performance

The trade relations between China and Nigeria have been driven by both internal and external factors. It is therefore important to look at some internal factors driven the relations. Among the internal factors are the performance in terms of growth of output and trade and availability of finance. There is therefore the need to discuss these various factors.

2.1 Nigeria's Economic Structure and Performance: The role of Trade with China

This aspect endeavours to discuss the role of trade with China in Nigeria's economic structure and performance. As a preamble, the growth performance of China and Nigeria in terms of total real output and per capita output is shown in Table 1. It is shown in the table that China's economy grew at a rate higher than that of Nigeria except in 1990. While China maintained positive growth in 1980 and 1985 as well as throughout the 1990-2005, its rate of growth of real output has been relatively sustainable at between over 7.0 and 10.0 per cent. In contrast, the rate of growth of real output in Nigeria has ranged between 1.0 and 5.5 per cent except for 2003 to 2005. The growth of per capita income in China has also been higher than that of Nigeria since the late 1980s and assumed impressive rates between 1995 and 2002 than those of the latter. The increased total and per capita income achieved in China should raise the level of trade, investment and aid relations between the two countries as part of its 'go global' policy.

Table 1: Growth Performance of China and Nigeria

Variable	Real GDP growth		Per capita GDP (US $)		Per capita GDP growth	
Year	Nigeria	China	Nigeria	China	Nigeria	China
1980	4.2	7.8	541.9	417.7	1.2	6.5
1985	9.7	13.5	522.9	837.4	6.7	12.0
1990	8.2	3.8	688.4	1326.2	5.1	2.3
1995	2.5	10.9	765.3	2514.4	-0.2	9.7
1996	4.3	10	792.7	2789.1	1.6	8.9
1997	2.7	9.3	807.0	3067.9	0.1	8.2
1998	1.9	7.8	811.0	3312.0	-0.6	6.8
1999	1.1	7.6	811.9	3581.2	-1.3	6.6
2000	5.4	8.4	853.9	3938.6	2.9	7.6
2001	3.1	8.3	880.9	4336.6	0.7	7.5
2002	1.5	9.1	889.8	4781.9	-0.7	8.4
2003	10.7	10	982.8	5333.8	8.3	9.3
2004	6	10.1	1045.9	5990.6	3.7	9.4
2005	6.9	10.2	1127.5	6757.3	4.7	9.5

Source: World Development Indicators, The World Bank, 2007 CD Rom

The extent of savings and investment and the saving-investment gap in both countries is analysed in Table 2. China certainly has higher savings rate than Nigeria except in 2000. In each year, China's saving rate almost doubles that of Nigeria, even though both countries experienced fairly unstable annual savings rate. It is not surprising that China also has higher gross investment rate as depicted by the gross investment-GDP ratio. However, Nigeria has a higher savings-investment gap suggesting that China's savings are more appropriately channelled into investment than Nigeria's.

Table 2: Savings and investment rates of China and Nigeria

Variable	Gross Domestic Saving-GDP ratio (%)		Gross investment-GDP ratio (%)		Savings-investment Gap-GDP ratio (%)	
Year	Nigeria	China	Nigeria	China	Nigeria	China
1980	31.4	35.0	21.4	29.3	10.0	5.7
1985	12.6	34.4	9.6	29.8	3.0	4.6
1990	29.4	39.9	14.5	26.0	14.8	13.9
1995	18.4	44.1	16.3	34.4	2.1	9.8
1996	34.9	42.5	14.2	33.8	20.7	8.7
1997	24.6	42.4	17.4	32.9	7.2	9.6
1998	19.6	41.4	24.1	33.8	-4.5	7.6
1999	19.1	39.6	23.4	34.0	-4.2	5.5
2000	42.3	37.5	20.3	34.1	22.1	3.4
2001	34.9	38.4	24.1	34.4	10.8	4.0
2002	25.5	40.4	26.2	36.3	-0.8	4.2
2003	32.1	43.4	23.9	39.4	8.2	4.0
2004	39.5	45.8	22.4	40.7	17.2	5.1
2005	38.8	49.0	20.9	42.3	17.9	6.7

Source: World Development Indicators, The World Bank, 2007 CD Rom

Table 3 indicates that the role of trade with China in Nigeria's economy is not yet very significant. As Nigeria's real GDP grew between 1995 and 2005, the country's export to China was not on a consistent rise as the growth of real output. In contrast, Nigeria's import from China grew consistently as Nigeria's growth of real output. Given that most of the imports from China are finished goods which competed with Nigeria's domestic manufacturing and the fact that imports constitute a leakage to the economy, the contribution of Nigeria's trade with China to Nigeria's economy could be described as ''contractionary'', as imports have negative

relationship with national income. Below, we analyse the trade deficits which Nigeria has experienced in its trade with China. This reinforces the conclusion here.

Table 3: Contribution of China's Trade to Nigeria's Economy

Variable	Real GDP growth		Per capita GDP (US $)		Per capita GDP growth		Nigeria Export to China (US $ million)	Nigeria Import from China (US $ million)
Year	Nigeria	China	Nigeria	China	Nigeria	China		
1995	2.5	10.9	765.3	2514.4	-0.2	9.7	0.2	3.5
2000	5.4	8.4	853.9	3938.6	2.9	7.6	1.5	4.3
2005	6.9	10.2	1127.5	6757.3	4.7	9.5	1.2	13

Source: World Development Indicators, The World Bank, 2007 CD ROM.

a. Nigeria's Imports: Aggregate, Sectoral, Sources and China's contribution

The global trade of China and Nigeria has dramatically grown since the 1980s. The trade orientation and performance of China and Nigeria is presented in Table 4 which shows that Nigeria is not only more trade-oriented than China in terms of imports as revealed by the import-GDP ratio, this import orientation is almost double that of China. However, in terms of import growth, China's imports took a new turn by growing at a sustainable 2-digits and higher rate particularly since 1999. In contrast, Nigeria's import growth has rather been unstable even when it also recorded double digit import growth most of the time since 1980, while it experienced import contraction at least five times in the last decade compared to only twice in the case of China.

While Table 4 shows Nigeria's and China's imports from all countries of the world, Table 5 indicates the import trade between Nigeria and China. The increase in Nigeria's total imports from about US$5.3 billion in 1996 to US$17.7billion in 2005 is also reflected in Nigeria's imports from China which increased from as low as US$252 million in 2000 to US$2.3 billion in 2005.

Table 4: Global Import Performance: Nigeria and China

	Import-GDP (%)		Import Growth (%)	
Year	Nigeria	China	Nigeria	China
1980	19.2	11.1	18.8	0.9
1985	12.4	14.1	-7.1	48.1
1990	28.8	15.7	11.1	-16.1
1995	42.2	20.9	11.4	7.5
1996	27.4	18.0	4.8	1.1
1997	37.8	17.3	12.9	11.1

1998	38.1	16.0	-3.3	3.1
1999	41.1	17.6	14.9	22.6
2000	32.2	20.9	-0.8	24.5
2001	32.5	20.5	8.9	10.8
2002	41.6	22.6	20.6	27.5
2003	41.5	27.4	10.2	24.8
2004	37.4	31.4	2.0	22.5
2005	35.2	31.9	21.3	11.4

Source: World Bank (2007), World Development Indicators.

Although, the country imports all the broad categories of products from China, some products are more significant in this import trade with China. For example, imports of machinery and transport equipment ranked first in 2005, followed by manufactured goods, miscellaneous manufactures, chemicals and food and live animals. The importance of products in the imports has also altered since 1996. For instance, chemical products imports which ranked second only to machinery and transport equipment in 1996 was replaced by manufactured products in 2000. Nonetheless, machinery and transport equipment imports maintained its foremost important position in the import relationship with China.

China has assumed quite an important source of Nigeria's imports since about a decade. China's share of Nigeria's total imports increased consistently from 3.5% in 1996 to 13% in 2005. Despite this general rise, some broad categories of goods imported from China did not record this consistent improvement; mineral fuels/lubricants and animal/ vegetable oil/fat/wax imports are a case in point. 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).

In terms of the proportion of Nigeria's imports supplied by China, this has increased over time and has become more diversified. The trend can be traced partly to the competitiveness of China's imports compared to Nigeria's traditional sources of imports; and partly by the Structural Adjustment Programme which not only encouraged increased liberalization of imports but also created an austerity environment that made importers focused more on cheaper sources such as China. In addition to these explanations, China's increased share of Nigeria's imports has been induced by increased sub-standard products from China encouraged by Nigerian businessmen who order lower quality product specifications.

Table 5: China's Share of Nigeria's Imports (US$ million)

		1996		2000		2005		1996	2000	2005
SITC R. 3	**Product Name**	**World**	**China**	**World**	**China**	**World**	**China**	**China's share of Nigeria's imports**		
0	Food & live animals	885.9	3.5	1098.0	12.7	2140.6	29.8	0.4	1.2	1.4
1	Beverages and tobacco	10.8	0.0	34.2	0.3	69.4	0.7	0.0	0.9	1.0
2	Crude mater.ex food/fuel	121.9	1.8	94.0	1.8	120.4	8.9	1.5	1.9	7.4
3	Mineral fuel/lubricants	70.9	0.0	100.8	0.3	2396.7	1.0	0.0	0.3	0.04
4	Animal/veg oil/fat/wax	37.2	0.0	23.3	0.05	64.4	0.04	0.1	0.2	0.1
5	Chemicals/products n.e.s	981.3	59.6	1176.5	46.3	2085.5	174.6	6.1	3.9	8.4
6	Manufactured goods	1031.5	30.7	1095.5	53.8	3297.8	566.0	3.0	4.9	17.2
7	Machinery/transp equipmt	1876.7	66.2	1955.1	98.1	6600.0	1229.7	3.5	5.0	18.6
8	Miscellaneous manuf arts	296.1	23.2	238.4	39.4	948.7	290.1	7.8	16.5	30.6
9	Commodities nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total Imports	5312.1	185.1	5815.8	252.7	17723.5	2300.8	3.5	4.3	13.0

Source: World Integrated Trade Solution (WITS) database, 2007

This was confirmed by a trade delegation of Chinese companies that visited Nigeria that Chinese firms do not generally produce sub-standard goods but do so at the instigation of Nigerian importers. Only 12% of products met three of the import requirements established by the Standards Organisation of Nigeria. A high proportion of the products met only one of the import requirements (48%), while 36% of products complied with two import requirements.[1]

[1] Ogunkola, E. O., A. Adewuyi, O. Oyeranti and A. Bankole, (2008), Nigeria-China Economic and Trade Relation, Final Report submitted to the Economic Management Team, The Presidency, Abuja, Nigeria.

The factors underlying the increasing and more diversified imports of Nigeria from China, relative to other countries as alluded to above, are mainly import price of the imported goods and import liberalization, since exchange rate depreciation tended to make imports from traditional sources more costly in addition to the high average tariffs that Nigeria maintained. This trend of Nigeria's imports from China is expected to increase in Nigeria's currently more liberalised regime brought about by the adoption of the Common External Tariffs in 2005. However, some moderation in imports from China is also expected if import rules relating to standards and quality are strengthened and enforced as well as if the trade diversion expected to begin with the signing of the economic partnership agreement (EPA) with the EU through the ECOWAS Commission materialises.

In order to get a grasp of the other features of Nigeria's imports from China, a top-30 list of imports was drawn up using the HS Chapter classification. First, it is discerned that the top 30 import commodities from China are all manufactured goods. Topping this list is knitted or crocheted fabric (HS 60) followed closely by bird skin, feathers, artificial flowers, human hair (HS 67) and vegetable textile fibre nes, paper yarn, woven fabric (HS 53) as well as articles of leather, animal gut, harness, travel goods (HS 42). Interestingly, 50% of the top 10 imports are textile materials of HS Chapter 50-63, while about 37 % of the top 30 imports from China belong to HS Chapter 50-63. This finding confirms China's dominance of the global textile trade and partly explains the misfortune of Nigeria's textile sector. Combining this finding with the fact that China's export to Nigeria has risen since 1995, the inability of Nigeria to curtail import surges of textile products from China with effective safeguard mechanism could have contributed to the demise of domestic production of textiles. Although, import prohibition has always been imposed on textiles, its implementation could not be fully monitored due to porous

borders, corruption and inadequate enforcement capacities of the Nigerian Customs Service. The lower part of the top 30 list features such products as toys, games, sport requisites (HS 95); tools, implements, cutlery etc (HS 82); furniture (HS 94); soaps, lubricants waxes, candles, modelling (HS 34); and electrical/electronic equipment (HS 85); these are labour-intensive, light manufactures which Nigeria was producing under the import substitution industrialisation strategy.

b. **Nigeria's gains and losses arising from Increased Imports from China**

Ideally, Nigerian consumers and government should gain from imports from China while Nigerian producers and workers should lose particularly if most of the imports are import-competing final products since this implies the market share of Nigerian producers would shrink and lead to excess capacity and shedding of workers. This is captured in aggregate by an analysis of the gainers and losers of Nigeria-China trade relation via the trade balance between Nigeria and China. Table 6 shows that Nigeria imports more agricultural (HS 01-24) and industrial (HS25-99) goods from China during 2003-2007. In the specific case of agricultural goods, Nigeria's deficits rose from $16.6 million in 2003 to $59 million in 2007. In the case of industrial products, Nigeria's trade deficits rose from $1.7 billion in 2003 to $3.2 billion in 2007, by almost 100%. After an initial reduction by only 8% in 2004, the trade surplus of China rose by almost 91% in 2005 for agricultural products and 24% in 2007. For the non-agricultural goods also, China's trade surplus rose by 27% in 2007 falling from about 40% increase in 2005 and 2006. The total trade surplus of China was $3.3billion in 2007.

Table 6: Trade Balance between China and Nigeria (2003-2007)($million)

	2003	2004	2005	2006	2007
Sub-total:HS 01-24 (US$'000)	16.6	15.3	29.1	47.8	59.1
Sub-total: HS 25-99 (US$'000)	1,697.7	1.240.1	1,747.1	2,526.6	3,199.6
Total Surplus/deficit HS 01-99	1,714.3	1,255.3	1,776.3	2,574.4	3,258.8
Growth: 1-24 (%)	-	-8.12	90.6	63.9	23.6
Growth: 25-99 (%)	-	-26.9	40.9	44.6	26.6

Source: International Trade Centre COMTRADE Database, 2008.

c. ***Nigeria's Exports: Aggregate, Sectoral, Destination and China's share***
(export volume, export prices and export earnings)

The export-GDP ratio and the growth of exports of China and Nigeria are indicated on Table 7. Nigeria's export-GDP ratio grew over the years, reinforcing the country's trade-orientation indicated by the import-GDP ratios. Again, the export-GDP ratio in many cases is almost double that of China. However, China's exports maintained a generally growing sustainable 2-digits rate particularly since 1999. As with her import growth, Nigeria's export growth was unstable with many cases on negative growth rates in contrast to the situation in China. The nature of Nigeria's export growth cannot be decoupled from its sole reliance on the export of crude oil, the international price of which has been quite unstable and the production of which has been subject of Nigeria's internal instability induced by resource control issues.

Table 7: Global Export Performance - Nigeria and China

Year	Export-GDP (%)		Export Growth (%)	
	Nigeria	China	Nigeria	China
1980	29.4	10.7	-9.5	8
1985	16.1	10	13.3	2
1990	43.4	19.2	8.8	5.2
1995	44.3	23.1	16.8	6.4
1996	48.1	20.1	11.8	-0.7
1997	45	21.7	1.2	22.9
1998	33.5	20.4	5.4	7.2
1999	36.9	20.4	-12.4	15.2
2000	54.3	23.3	16.4	30.6

2001	43.3	22.6	-3.9	9.6
2002	40.9	25.1	-10.9	29.4
2003	49.7	29.5	31.6	26.8
2004	54.6	33.9	3.1	28.4
2005	53.1	37.4	-1.8	24.2

The composition of Nigeria's exports to China is not as diverse as its imports from China, using the Standard International Trade Classification Revision 3 (SITC Rev. 3) shown on Table 8. It is observed that these products are spread over food, animals, crude materials, oils, chemical products, and manufactured products. Analysing data recorded for 2000 and 2005, four broad commodities totalling US$307.3 million were exported in 2000, this dominated by Mineral fuel and lubricants representing US$273.7 million. This was followed at a distant second by crude materials excluding food and fuel exports 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. Therefore, mineral fuel and lubricants ranked first on Nigeria's export list to China, followed by crude materials excluding food and fuel. Beverages and live animals exports rank third while manufactured goods rank fourth. In terms of significance of Nigeria's exports to China relative to the world, Nigeria's export to China remains negligible at 1.5% of the total US20.3billion. 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. However, Nigeria exported more crude materials excluding food and fuel to China than any other country as this constituted 61.1%.

In 2005, Nigeria's exports position was more impressive as the country's exports more than doubled the value in 2000 from US$20.3 billion to US$44.4billion. Nigeria's exports to China did not reflect the type of growth that its total exports exhibited even at US$526.9 million in 2005. Indeed, the composition of exports to China in 2005 was not significantly different from

that of 2000 but some certain broad products were repositioned. As a result, though mineral fuel and lubricants still ranked first followed by crude materials excluding food and fuel, manufactured goods, which ranked lowest in 2000, displaced food and live animals while two products; chemicals, and miscellaneous manufactures, featured in 2005. Also, the value of exports of crude materials excluding food and fuel reduced between 2000 and 2005. Similarly, 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 product 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, as Nigeria's exports to China relative to the rest of the world dwindled in 2005, it became more diversified.

Table 8: China's Share of Nigeria's Exports (US$ million)

		1995		2000		2005		1995	2000	2005
Rev. 3		**World**	**China**	**World**	**China**	**World**	**China**	**China's Share of Nigeria's Exports**		
0	Food & live animals	293.9	0.0	205.4	0.2	592.6	1.8	0.0	0.1	0.3
1	Beverages and tobacco	1.7	0.0	1.3	0.0	3.9	0.0	0.0	0.0	0.0
2	Crude mater.ex food/fuel	262.4	0.0	54.5	33.3	304.0	12.6	0.0	61.1	4.1
3	Mineral fuel/lubricants	11189.8	0.0	19950.5	273.7	43054.7	503.9	0.0	1.4	1.2
4	Animal/veg oil/fat/wax	0.1	0.0	2.6	0.0	1.0	0.0	0.0	0.0	0.0
5	Chemicals/products n.e.s	38.6	0.0	8.6	0.0	15.6	0.2	0.0	0.0	1.5
6	Manufactured goods	347.3	0.0	10.0	0.1	255.4	8.2	0.0	0.6	3.2
7	Machinery/transp equipmt	185.9	0.0	70.3	0.0	114.7	0.0	0.0	0.0	0.0
8	Miscellaneous manuf arts	15.7	0.0	9.1	0.0	26.9	0.2	0.0	0.0	0.6
9	Commodities nes	4.4	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
	Total Export	12339.7	0.0	20312.3	307.3	44369.6	526.9	0.0	1.5	1.2

Source: World Integrated Trade Solution (WITS) database, 2007

A more robust picture of Nigeria-China trade is discerned with HS nomenclature organised to obtain the top 30 export products using 2003-07 average values was attempted. Mineral fuels, oils and related products tops the list of first 30 exports of Nigeria to China followed at a distant second by ores, slag and ash, as well as raw hides and skins (other than furskins), and leather (HS 41). In effect, mineral products constitute the first two export products of Nigeria to China. Cotton (HS 52) came at a distant fourth followed by oil seed, oleagic fruits (HS 12) and copper and articles thereof (HS 74). The first 30 export products are a mixture of primary and non agricultural commodities. The last 10 commodities in the top 30 list contain as much agricultural and non-agricultural goods whose individual export values are less than US$50,000. After the 16th export product, the share of other products in total imports of China from Nigeria became quite negligible. However, this is an indication that Nigeria should endeavour to increase exports to China.

d. **Nigeria's gains and losses from exports to China**

Generally, producers and exporters of those broad categories of products whose exports increased between 2000 and 2005 are better off as they earned additional incomes from exporting to China, assuming export price of their products and the real exchange rate remained constant. To that extent, the producers and exporters of food and live animals, mineral fuel/lubricants, chemicals, manufactured goods, and miscellaneous manufactures are expected to experience increased income. However, Nigerian producers and exporters of crude materials excluding food and fuel lost export market share in China and thus were worse off in 2005. Given that the main component of Nigeria's exports to China is mineral and related products, most of the gains of Nigeria's exports to China go to the government and joint venture oil companies. The benefit derived by ordinary Nigerians is therefore indirect, and emanates from

the benefits that are generated by government spending on social and economic services in the country. There are, in addition, a few products in which China recorded trade deficits with Nigeria which constitute a gain to the latter. These are the goods on Table 9, namely of HS 05, 12, 13, 18, 26, 27, 41, and 47. The deficit was expectedly largest for mineral fuels, oils, distillation products etc (HS 27). The others are also basically primary commodities.

Table 9: China's Trade deficit with Nigeria Products and values ($000)

HS Chpt	Product Description	2003	2004	2005	2006	2007
'05	Products of animal origin, nes	-14	0	31	40	-22
'12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	-184	-4005	-1134	-4021	-3713
'13	Lac, gums, resins, vegetable saps and extracts nes	-83	-263	-388	-311	-81
'18	Cocoa and cocoa preparations	-182	-331	-1610	0	-936
'26	Ores, slag and ash	-6620	-5011	-7312	-10929	-18001
'27	Mineral fuels, oils, distillation products, etc	-51397	-442364	-502851	-239571	-488030
'41	Raw hides and skins (other than furskins) and leather	-568	-1050	-7454	-11264	-11301
'47	Pulp of wood, fibrous cellulosic material, waste etc	-48	-131	-140	-182	-435

Source: International Trade Centre COMTRADE Database, 2008.

The benefits could also be explained in terms of increased price of oil generated by the increased China's demand of oil generally, which by virtue of the size has the tendency to increase the world price of oil and hence the price obtainable by Nigeria for its oil.

2.2 Trade Policies in China and Nigeria

It should be stated from the onset that China and Nigeria do not have specific trade agreement/arrangement. However, it is important to discuss trade policy environment in the two countries so as to understand what operates in each nation.

China belongs to some bilateral/regional and multilateral trade organisations including the WTO. China supports Asia-Pacific Economic Cooperation (APEC)'s open regionalism goals and participates in the APEC Business Travel Card (ABTC) Scheme. China together with Japan,

and the Republic of Korea, relate with Association of Southeast Asian Nations (ASEAN) under the ASEAN+3 framework of cooperation. Under the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN, both parties agreed to negotiate the establishment of an ASEAN–China Free Trade Area (ACFTA) within ten years. China is a party to the Asia-Pacific Trade Agreement and under the agreement, in 2007, 1,652 tariff lines carry rates that are lower than the MFN rates; as a result, the overall average tariff applied to parties to the APTA is 9.1%, compared with an MFN rate of 9.7%.

Under the Closer Economic Partnership Arrangements (CEPAs) with the Special Administrative Regions (SARs) of Hong Kong and Macao, tariffs on merchandise imports originating in the SARs of Hong Kong and Macao have been totally removed. In July 2004, China and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) announced that they had signed a Framework Agreement on Economic, Trade, Investment and Technology Cooperation. In June 2004, China and Southern African Customs Union (SACU) issued a joint declaration, in which SACU granted market economy status to China. At the same time, FTA negotiations were launched. As of March 2008, unilateral preferential tariffs on certain products were offered by China to 39 least developed countries including those in Africa. However, since Nigeria is not part of LDCs, it does not benefit from this preference.

Import Policies in China

China's tariff rates on imports vary from bound MFN tariff rates, applied (standard or interim) MFN tariff rates, tariff-quota rates, to "agreement" tariff rates. Whenever goods from countries or customs territories appear in more than one of these categories, the applicable rate is the more favourable rate. Besides, there is an inward article duties which applies to articles exceeding a certain amount and enters the Customs Territory of China for personal use. All bound tariff lines and 99.3% of the applied tariff lines are ad valorem. The "standard" applied MFN tariffs must be adopted on an annual basis while the "interim" applied MFN tariffs may be introduced or amended by the Tariff Commission whenever it considers it necessary. The interim rates are lower than the standard rate and are mainly to encourage importation and reduce China's trade surplus. The structure of the China's bound MFN tariff and applied MFN tariff are

shown in Table 10 and Table 11 respectively. The simple average bound rate is 9.9% with 14.6% for agricultural products (HS), 9.1% for industrial products (HS), 15.3% for agricultural products (WTO definition), 9.0% for non-agricultural products (WTO) and 11.5% for textile and clothing.

Table 10: Structure of the China's Bound MFN Tariff as at 2007

Description	%
Bound tariff lines (% of all tariff lines)	100.0
Simple average bound rate	9.9
Agricultural products (HS 01-24)	14.6
Industrial products (HS 25-97)	9.1
WTO agricultural products	15.3
WTO non-agricultural products	9.0
Textiles and clothing	11.5

China Trade Policy Review, 2008

The simple average of the applied MFN rate is 9.7% with 14.5% for agricultural products (HS), 8.8% for industrial products (HS), 15.3% for agricultural products (WTO definition), 8.8% for non-agricultural products (WTO definition) and 11.5% for textile and clothing. In the total apply MFN tariff lines, 2.3% exceed three times the overall simple average applied rate (domestic tariff peaks) while 15.4% exceed 15% of the overall simple average applied rate (international tariff peaks).

Tariff-rate quotas (TRQs) currently apply to wheat (6 lines), maize (5 lines), rice (14 lines), sugar (6 lines), wool (6 lines), wool tops (3 lines), cotton (2 lines), and chemical fertilizers (3 lines). China offers (lower) preferential/agreement tariff rates to regional and bilateral agreement partners which include: members of the Asia-Pacific Trade Agreement (APTA); members of ASEAN (Under the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN); the Special Administrative Regions of Hong Kong and Macao (Under the Closer Economic Partnership Agreements, CEPAs); Chile (Under the China – Chile FTA); Pakistan (Under the China – Pakistan FTA) and 37 LDC African countries (Under different Agreements).

Table 11: Structure of the Applied MFN Tariff as at 2007

	Description	%
1.	Simple average applied rate	9.7
	Agricultural products (HS 01-24)	14.5
	Industrial products (HS 25-97)	8.8
	WTO agricultural products	15.3

	WTO non-agricultural products	8.8
	Textiles and clothing	11.5
2.	Domestic tariff "peaks" (% of all tariff lines)	2.3
3.	International tariff "peaks" (% of all tariff lines)	15.4

China Trade Policy Review, 2008

Duty exemptions and reductions may apply to goods imported into or exported from designated areas (for example, Special Economic Zones), by designated enterprises (for example, Foreign Invested Enterprises), or for designated uses. Preferential treatment, including through tariff preferences, is applied to some border trade activities under the Circular of the State Council on Issues Concerning Border Trade, issued in 1996. Goods imported under "processing trade", whereby the imported goods are processed into exports, can be imported in bond and exempt from payment of import duties as long as they are processed and exported within a certain period. To reduce energy consumption and protect the environment, the Government may not grant preferential treatment under processing trade on certain goods. Such exclusion of certain goods from preferential treatment is called "import prohibition under processing trade". An inward article duty is levied on luggage and other personal items belonging to persons entering the Customs Territory of China in excess of a "reasonable amount that suffices for personal use", which is determined by the General Administration of Customs, based on an "internationally exercised principle". Currently, four duty rates (50%, 30%, 20%, and 10%), apply, depending on products.

The custom procedure requires registration with MOFCOM or its authorized bodies before filing customs declarations in paper or electronic form. Declarations must be made to Customs at the port of entry within 14 days of the goods' arrival and accompanied by relevant documents. At the time of customs declaration, importers must meet the requirements of Customs and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). Under current reforms goods authorized by Customs can be transported within China as bonded goods as against the previous practice in which enterprises had to declare goods and undergo clearance at both the port of entry and inland customs.

The pre-shipment inspection was introduced to protect public health, improve the phytosanitary situation, protect the environment, and prevent counterfeit goods from entering China. This is required for imports of: certain commodities related to national security, with high value or complicated technology; equipment exceeding certain height, length or volume;

solid waste used as raw materials; and certain used electronic products that are deemed to affect public health and environment.

Customs value is determined on the basis of transaction value, (that is, the c.i.f. price). Where it is not possible to determine the transaction value, the customs value is based on: the transaction value, sales value or production cost of identical or similar goods imported into the customs territory of China at or about the same time as the goods being valued.

China applies non-preferential rules of origin under which the place of origin is the country or region where "substantial transformation" has been made and finalized. Preferential rules of origin are applied under the Asia-Pacific Trade Agreement (APTA) and preferential/free-trade agreements China has concluded with trading partners (including ASEAN countries, Hong Kong, Macao, Chile and Pakistan).

China has adopted measures to increase the alignment of its national standards with international norms through a number of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). With a large number of laws governing SPS measures, the SPS regime remains complex. Imports, like domestic products, are subject to value-added tax; the current rates are 17%, in general, and 13% for most goods (audio and video products and other forms of electronic publications). In addition to import tariffs and VAT, an excise tax (consumption tax) is also levied at the border on certain items (cigarettes, alcoholic beverages, gasoline, cosmetics, cars, golf balls and equipment, luxury watches, yachts, disposable wooden chopsticks, and wooden floorboards).

Import prohibitions are maintained on grounds of public interest, environmental protection, or in accordance with international commitments. Prohibitions include some products of animal origin, opium, mineral products, rubber, chemicals, raw hides, waste of skins and leather, used clothes, ash of precious metals, base metals, second-hand precision equipment, games, and imports of used articles of HS sections 16 and 17 (machinery and transport equipment). Quantitative restrictions have been eliminated and no fees, charges, deposits or advance payments are required for the issuance of licences. Products that are not subject to import restrictions but require import monitoring for statistical purposes are subject to automatic import licences, which involves no restriction in terms of import quantity or value while products like chemicals used for military purposes, and toxic materials are under non-automatic import licences.

Export Policies in China

China's export regime has become more restrictive mainly to reduce exports of products using large amounts of natural resources and energy, and to reduce China's large trade surplus in an attempt to reduce trade friction. Measures used include export taxes, reduced rebates of VAT on exports, export prohibitions, licensing, and quotas. Others include customs procedures, preshipment inspection, tax concessions under processing trade, export promotion, marketing and other export assistance.

Export declaration procedures are similar to those for imports. Exporters must register with Customs before making customs declarations, and export declarations must be made after the goods arrive at the customs surveillance zone, and 24 hours before loading, unless otherwise approved by Customs. Exports of animals and plants and their products are subject to similar SPS requirements as imports and to the requirements of the importing country. Goods that do not meet the SPS requirements are not allowed to leave the country. The Catalogue of Entry-Exit Commodities Subject to Inspection and Quarantine is issued annually by AQSIQ; exports of certain products in the catalogue, such as food and goods affecting health, need to be registered with relevant government agencies.

China does not require preshipment inspection (PSI) for exports; its PSI agencies engage in preshipment export inspection for its trading partners that require PSI. Export taxes are levied at statutory rates in relation to f.o.b. values and on an MFN basis. In addition, lower interim rates may be applied, and also on an MFN basis. VAT and excise tax may be rebated on exports. However, VAT rebate rates on exports are, by and large, lower than the VAT rates actually paid. The difference between the two rates constitutes a levy on exports, which may, in turn, constitute assistance to downstream processing of the products affected

China does not grant bonded status for all imports used as inputs for exports under "processing trade". The authorities call the non-granting of bonded status "export prohibition under processing trade". Exports of products "prohibited under processing trade" are allowed if import duties are paid on imported inputs. In 2007, there were 617 such items at the HS 8-digit level.

Prohibited items include mainly materials relating to State secrets, precious and rare animals and plants (such as horn-cores, bezoars, musk, and wood charcoal).

China maintains both global export quotas and destination-specific quotas. Global quotas are applied regardless of destination. Destination-specific quotas apply to live cattle, live swine, and fowl to be exported to the Hong Kong and Macao SARs.

Global export quotas applied to 146 lines at the HS 8-digit level in 2007. Quotas on certain exports can also be allocated through a bidding process. For exports subject to non-automatic licensing, as for imports, applicants must obtain an export permit prior to applying for a licence. China's non-automatic export licensing requirements are implemented mainly to fulfil its obligations under international agreements, such as: Articles XX and XXI of GATT 1994; the Montreal Protocol on Substances that Deplete the Ozone Layer; the Conventions on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction; and the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

China's schemes to promote exports comprise mainly tax concessions, export finance operated by the Export-Import Bank of China (EXIM Bank), export credit insurance by the China Export & Credit Insurance Corporation (SINOSURE), and export fairs. China does not provide export subsidies.

In addition, MOFCOM provides online information to help enterprises export. The China Foreign Trade Centre under MOFCOM holds export fairs, including the China Import and Export Fair in Guangzhou twice a year. The International Market Exploration Fund for SMEs is operated by MOFCOM and MOF, to facilitate SMEs' participation in overseas exhibitions, so as to promote their presence in international markets and encourage them to explore new markets.

The China Council for the Promotion of International Trade (CCPIT) also helps to promote international trade, by, inter alia, establishing contacts with foreign governments, offering various consultation services, and helping enterprises to apply for patents and register trademarks. As a non-profit agency, the CCPIT obtains some financial support from government.

2.3 Trade Policies in Nigeria

Nigeria is a member of the African Economic Community (AEC) which was set up under the Organisation of African Unity (OAU) which has been transformed into the African Union (AU). The New Partnership for African Development is a major initiative under the AU. Trade

and trade-related measures articulated under NEPAD to foster African exports include: promotion and improvement of regional trade agreements; inter-regional trade liberalization; harmonization of tariffs, rules of origin, and product standards; reduction of export taxes and costs of transactions and operations; promotion of African firms engaging in exporting and importing business, and promotion of active participation of African countries in the multilateral trading system.

Nigeria is also a founding member of the Economic Community of West African States (ECOWAS). ECOWAS serves as a major avenue through which Nigeria's regional integration efforts are carried out in the West African sub region. Among the programmes that are designed to promote regional trade in the ECOWAS is a trade liberalization scheme (TLS) which has been implemented since 1990. The objective of the TLS is to establish a free-trade area by removing all barriers on all goods traded between member States. There are two major groups in the ECOWAS: Those that belong to West Africa Economic and Monetary Union- WAEMU(the Francophone countries); and those that are yet to formally launch the West African Monetary Zone (WAMZ). For the purpose of negotiating an Economic Partnership Agreement with the European Union, the ECOWAS common external tariffs (CET) was agreed upon by member States in 2006 to consists of four bands (0%, 5%, 10%, and 20%) similar to those already being applied by WAEMU member States. However, with the approval of Nigeria's application, a fifth band was introduced at 35%. Nigeria and six other ECOWAS member states (Benin, Burkina Faso, Ghana, Mali, Niger, and Togo) are engaged in a free trade area programme, which seeks to remove all physical and non-physical trade barriers (including remaining tariffs); eradicate rigid border formalities; enforce the application of ECOWAS prescribed customs procedures; and adopt a common ECOWAS passport.

Nigeria is eligible for non-reciprocal trade preferences under the GSP schemes of several developed countries; the Cotonou Agreement with the European Communities (which is been renegotiated on a reciprocal basis); and the United States' African Growth and Opportunity Act. Nigeria is a member of the World Trade Organisation (WTO) and the Uruguay Round agreement has had a great impact on Nigeria's trade policy.

Import Policies in Nigeria

The importation of goods to Nigeria is governed by the Customs and Excise Management Act; Customs and Excise Notices; and guidelines set out by the Federal Ministry of Finance.

Under these provisions, importers do not need to be registered, since registration with the Corporate Affairs Commission under the Companies and Allied Decree of 1990 is sufficient to import all but a few regulated goods.

Reforms to customs services are one of the core components of the Government's current reform programme. The objective of the programme is to modernize and speed up customs clearance; simplify and rationalize tariffs, duties, and waivers; improve revenue collection by customs; and strengthen and professionalize customs service.

Nigeria's non-preferential rules of origin are contained in the Customs Duties Act. Goods are considered originating in a country if they are wholly produced in that country or if the value-added during production or a component incorporated in the goods is at least 75% of the production costs. Nigeria also applies ECOWAS rules of origin, under which a finished product has Community origin, if at least 60% of the raw materials used in its manufacture come from ECOWAS members, or if the value-added is at least 35% of the ex-works cost price, excluding taxes.

Nigeria uses the HS 1996 at the eight-digit level. Its 2003 applied MFN tariff had 5,146 lines; all duties are ad valorem. Nigeria bound some 19.2% of its total tariff lines at the HS eight-digit level. All agricultural lines are bound in contrast with only 7% of non-agricultural lines (WTO definitions). Tariffs range from 2.5% to 150%, with 19 different bands. The structure of the MFN tariff as at 2003 is shown in Table 12.The simple average tariff rate is 28.6% with the average of 50.2% on agricultural products (WTO), 25.3% on non-agricultural products (WTO), 41.4% on agriculture, hunting, forestry and fishing (ISIC), 17.9% on mining and quarrying (ISIC), and 28.0% on manufacturing (ISIC). About 5% of the tariff lines have domestic spikes while about 56.5% have international spike.

Table 12: Structure of the MFN tariffs as at 2003

S/N	Category	%
1.	Bound tariff lines (% of all tariff lines)	19.2
2.	Simple average tariff rate	28.6
	Agricultural products (WTO definition)	50.2
	Non-agricultural products (WTO definition)	25.3
	Agriculture, hunting, forestry and fishing (ISIC, Div. 1)	41.4
	Mining and quarrying (ISIC, Div. 2)	17.9
	Manufacturing (ISIC, Div. 3)	28.0
3.	Domestic tariff "spikes" (% of all tariff lines)	5.0
4.	International tariff "spikes" (% of all tariff lines)	56.5

Source Nigeria Trade Policy Review, 2005

The summary of the MFN tariffs on agriculture as at 2003 is shown in Table 13. The simple average tariff is highest for fruits and vegetables with the value of 98.2%. This is followed by tobacco and beverages and spirits with the values of 89.4% and 75.3% respectively. Cut flowers and plants have the least average tariffs of 20.3%.

Table 13: Summary analysis of the MFN tariff on Agriculture, 2003

	No of lines	No. of lines used	Simple avg. Tariff (%)	Tariff range (%)
Total	5,146	5,124	28.6	2.5-150
By WTO definition				
Agriculture	677	677	50.2	5-150
Live animals and products thereof	81	81	34.5	5-100
Dairy products	20	20	48.1	5-100
Coffee and tea, cocoa, sugar, etc.	128	128	44.5	5-100
Cut flowers and plants	34	34	20.3	5-65
Fruit and vegetables	150	150	98.2	45-100
Grains	16	16	49.4	5-100
Oil seeds, fats, oils and their products	71	71	34.1	10-100
Beverages and spirits	31	31	75.3	5-150
Tobacco	9	9	89.4	15-150
Other agricultural products	137	137	20.4	5-100

Source Nigeria Trade Policy Review, 2005

The summary analysis of the MFN tariffs on non-agriculture but excluding petroleum is shown in Table 14. The table shows that the mineral products, precious stones and precious metals have the highest simple average tariff of 29.8% while chemicals and photographic supplies have the lowest average tariff of 17.7%.

Table 14: Summary analysis of the MFN tariff on Non-Agriculture, 2003

Description	No. of lines	No. of lines used	Simple avg. tariff (%)	Tariff range (%)
Total	5,146	5,124	28.6	2.5-150
By WTO definition				
Non-agriculture (excl. petroleum)	4,467	4,445	25.3	2.5-100
Fish and fishery products	108	108	28.4	5-100
Mineral products, precious stones and precious metals	340	340	29.8	2.5-100
Metals	591	589	22.4	5-65

Chemicals and photographic supplies	844	842	17.7	2.5-100
Leather, rubber, footwear and travel goods	146	146	28.9	5-50

Source Nigeria Trade Policy Review, 2005

Within the context of accelerated integration amongst ECOWAS member states, Nigeria is committed to adjusting its tariffs to the ECOWAS common external tariff, ranging from zero to 20% with a four band tariff structure. In general, Nigeria has lagged behind in trade reforms and hence has higher average and dispersed tariffs.

The general import guidelines provide for exemptions from import duties on a number of goods, including: aircraft, their parts and ancillary equipment; life saving appliances; all goods imported for the official and personal use of a Consular Officer, where the Government of the country represented grants similar privileges; furniture and personal effect of diplomats; goods obtained free as technical assistance materials from donor international organizations or countries; personal and household effects in passengers' baggage; and military hardware and uniforms. Various tariff concessions are also in place to attract investment.

As a member of ECOWAS, Nigeria provides tariff preferences to the other ECOWAS member states. Furthermore, Nigeria grants tariff preferences to all Global System of Trade Preferences participants. Tariff reductions of up to 80% of the MFN rate are applied on ten HS-four digit groups including medicaments, cars and trucks.

Nigeria bound other duties and charges on all imports at 80%. Additional duties applying only to imports include: a port development levy of 7% of the duties payable; an ECOWAS community levy of 0.5%; a Comprehensive Import Supervision Scheme charge of 1% on the f.o.b value of imports, a national automotive council levy of 2% on vehicles and parts; and a levy of 10% on the importation of both sugar and rice.

VAT is calculated at 5% on the duty-inclusive c.i.f. value of imports and exports are zero-rated. Excise duties were re-introduced in 1999 on spirits, cigarettes, alcoholic beverages, and cosmetics, at rates ranging from 20% to 40%. Under Nigeria's customs legislation, import prohibitions can be applied to protect domestic industries; to reduce balance-of-payments deficits; as anti-dumping measures; and for moral, safety, and other purposes. The Government modifies the import prohibition list, adding or subtracting items, through notices and decrees. As at November 2004, agricultural and non-agricultural goods under some 218 HS four-digit codes were subject to import prohibition, mainly for the purpose of protecting domestic industries.

Under the Customs Duties (Dumped and Subsidies Goods) Act 1958, goods are regarded as having been dumped if the export price is lower than the "fair market price". In January 2002, Nigeria notified the WTO Committee on Safeguards that import prohibitions on wheat flour, sorghum, millet, and kaolin were in place for safeguard reasons. In accordance with Paragraph 9 of the Understanding on Balance-of-Payments Provisions of GATT 1994, and pursuant to the consultations between Nigeria and the Committee on Balance-of-Payments Restrictions, Nigeria submitted to the General Council a schedule for the elimination of restrictive trade measures maintained for BOP reasons.

The Government considers countertrade arrangements and buy-back schemes as strategies for conserving foreign exchange earnings. Therefore, it encourages companies and individuals to undertake industrial projects by sourcing machinery and equipment from overseas suppliers, through such arrangements, on a medium and long-term basis. However, countertrade arrangements and buy-back schemes are not permitted for the importation of consumer goods.

The improvement in the use of public funds, at the Federal, State and local levels, remains a priority of the Government. Nigeria is neither a member of nor an observer to the WTO plurilateral Agreement on Government Procurement. Under its current public procurement regime, the Government uses open tendering, selective tendering, and negotiated tendering to purchase goods and services.

Nigeria has commenced the application of a modified CET from October 2006 and its proposed fifth band of 35% was approved by the ECOWAS. The adoption by the CET has led to substantial liberalisation of trade regime in Nigeria.

Export Policies in Nigeria

Export taxes were abolished in Nigeria in 1986 due to the liberalisation scheme of the Structural Adjustment Programme (SAP). It also abolished Commodity Marketing Boards. Exporters are required to be registered with the Nigerian Export Promotion Council (NEPC). All export proceeds must be repatriated into the exporter's domiciliary account, maintained with the processing bank, within 90 days of shipment. A currency retention scheme allows exporters to retain 100% of their foreign exchange earnings in their domiciliary accounts.

The export amendment decree of 1992 prescribes that all raw material or unprocessed commodities, whether mineral or agricultural, may be subject to the payment of an export levy as may be prescribed, from time to time, by order of the NEPC

Under Nigeria's Export Prohibition Act certain exports are prohibited for purposes of domestic food security, value-added considerations, and preservation of cultural heritage. Currently, the ban covers raw hides and skins, timber (rough or sawn), scrap metals, unprocessed rubber latex and rubber lumps, rice, yams, maize, beans, and artefacts and antiquities. Nigeria's food safety regulations require export licences for unprocessed food products; in certain cases, the Minister for Agriculture is empowered to prescribe grades and standards of quality for these products.

The various incentive schemes available to exporters may somewhat reduce the anti-export bias resulting from the protection of domestic markets by high tariffs and import prohibitions. Export incentives in Nigeria include: company profits in respect of goods exported are exempt from tax under certain conditions; profits of companies whose supplies are exclusively input to the manufacturing of products for export are excluded from tax; export processing zone companies are allowed full tax holidays for three consecutive years; investment tax credits; retention of export proceeds in a foreign currency in a domiciliary account with a Nigerian bank; export development fund to cover expenses on export promotion activities; export adjustment fund to compensate exporters for high cost of local production, arising mainly from infrastructural deficiencies; unrestricted remittance of profits and dividends; and zero-rated VAT.

The Export Expansion Grant Fund scheme (EEGF) provides cash inducement (4% on their total annual export turnover) to exporters who have exported a minimum of N500,000 of processed products. The objective of the scheme is to stimulate exporters to expand the volume of exports, and diversify their export product and market coverage. The main support to exporters through banks is the Re-discounting and Re-financing Facility (RRF) scheme which are designed to assist banks provide pre- and post-shipment finance in local currency for non-oil exports.

A drawback scheme allows for duties (including other levies) charged on raw materials used in the manufacture of products to be refunded upon the export of the final products. The purpose of this scheme is to encourage manufacturing for exports. The scheme is to provide

automatic refunds of up to 60% upon initial screening by the Duty Drawback Committee; the balance of the funds is granted upon final processing of the application. To be eligible, applicants must be companies incorporated in Nigeria.

Under the manufacture-in-bond scheme, raw materials may be imported duty-free for the production of export goods, on the basis of a bond issued by a recognized financial institution. The bond is discharged upon production of proof of export and repatriation of foreign exchange. The scheme faces: difficulties in the recovery of import duty in case of default; poor accounting of input-output coefficients; lack of funds for the supervision of the scheme; and implementation weaknesses. The scheme is under review.

The manufacture-in-Bond Scheme is designed to encourage manufacturers to import raw material inputs and other intermediate products duty-free for the production of exportable goods, backed by a bond issued by any recognized financial institution. The bond will be is charged after evidenced of exportation and repatriation of foreign exchange has been produced.

The Export Development Fund (EDF) was set up by the Government to help finance certain activities of private exporting companies. These include: participation in training courses, symposia, seminars, and workshops; advertising and publicity campaigns in foreign markets; product design and consultancy; participation in trade missions, buyer-oriented activities, overseas trade fairs, exhibitions, and sales promotion; collection of trade information; organization of export groups; and studies in respect of setting up export-oriented industries. The maximum grant per company for each activity is 50% of the total direct costs approved, up to a maximum of N200,000.

The law enabling EPZs was enacted in 1992 and supports the establishment of industries and businesses within demarcated zones, principally for export purposes. EPZs are also being used to address the infrastructural and regulatory deficiencies inhibiting export-oriented companies in Nigeria. The Nigerian Export Processing Zone Authority (NEPZA) has responsibility for overseeing the development and management of EPZs. Existing EPZs are located in Calabar, Onne, Kano, and Lekki, but only the first two are operational. EPZs have also been initiated by some state governments.

2.4 The Global Economic Crisis and Nigeria-China Trade Relations

The current global financial crisis was triggered by the sub-prime mortgage lending crisis in 2007 in the United State of America (USA). The global financial crisis is characterised by credit squeeze and this has affected the world economy in no small measure since it became a full-blown crisis towards the end of 2007. The crisis got to a peak in September 2008 when several major financial institutions in the USA collapsed. Two of the famous investment banks, Lehman Brothers and Merrill Lynch, were among the financial institutions that collapsed. While Merril Lynch was acquired by Bank of America (at the cost of $33 billion), the USA government had to acquire American International Group (an insurance conglomerate).

Other manifestations of the global financial crisis are disruption of credit/investment flows and falling export commodities' prices. There have also been fears of the global financial crisis degenerating into global recession, widespread unemployment and inflation. The underlying causes of the financial crisis include among others strong demand stimulated by easy credit in the developed countries, high investment demand and growth in global external imbalances, financial deregulation and innovations not sufficiently regulated, and expansionary policies in the developed countries which encouraged speculation in financial assets and commodities' prices (Oyejide, 2009). The projected impact of the global financial crisis cum economy recession on global economy is that world economy may shrink by at least 1% in 2009 while world trade growth may plummet to 2.1% in 2009 from 4.4% in 2008 and a peak of 8.5% in 2006 (Oyejide, 2009).

The impact of the crisis on African countries has been manifested in reduction in the demand for African exports, falling export commodities' prices, unpredictable volatility in commodities prices and costly trade finance/credits/insurance. In the literature, the impact/channels of influence of the crisis have been analysed along four lines. And these are along the lines of exports, export prices and terms of trade, current-account balances, and international reserves (Oyejide, 2009). In the case of Nigeria, the channels of the financial meltdown have been in the forms of the drastic fall in export commodities' prices (oil and agricultural commodities), bearish stock market activity and the restrictions/disruptions of international credit/investment flows to needy sectors of the economy. While the price per barrel of crude petroleum (the main export commodity of Nigeria) fell from a peak of $147 in July

2008 to $40 in January 2009,[2] the nation's stock market capitalisation fell from ₦12.047trillion on April 1, 2008 to ₦6.382trillion on January 13, 2009 thereby resulted in a dramatic and unprecedented fall of 47 percent within a period of nine months.[3]

The falling oil price in the international market alone has resulted in more than 50 percent reduction in the nation's oil revenue. The revenue has declined from $2.2billion to $1 billion on a monthly basis.[4]. The dramatic decline in oil export revenue (accruing to government) has in fact led to the drawing down of Nigeria's excess crude oil savings from $20.44 billion (in January 2009) to $11.20 billion (in June 2009). The nation's foreign reserves have equally been affected by reducing from $50.11 billion in January 2009 to $43.46 billion in June 2009.[5] Even

Owing to the conscious of government on the adverse effect of the global crisis, a number of fiscal, monetary and exchange rate policies have been packaged to address them. Among the policies introduced are the 20 percent reductions in political appointees' allowances/salaries, unannounced freezing of public sector employees' wages/salaries (at a time labour unions are demanding for increased pay, which has stagnated at point since 2000 fiscal year), allowing the naira to depreciate against the dollar (the anchor currency for the naira) as a sort of shock absorber (and in the main assist in the conservation of foreign exchange), injection of liquidity into the banking system, tightening of regulation and supervision, creation of special agricultural fund (of ₦200 billion) and the pegging of lending rate at 22 percent (while the spread between the deposit and lending rates is fixed at 7 percent).

Other measures taken by the Nigerian government (especially through the instrumentality of her Central Bank) to address the financial meltdown are the reduction of the monetary policy rate (MPR) from 10.25 to 9.75 percent (and later to 6 percent in July 2009), reduction of the cash reserve requirement (CRR) from 4.0 percent to 2.0 percent, reduction of liquidity ratio from 40

[2] However, in recent months (June and July, 2009), the international price of oil has been approaching $70 per barrel (see *The Nation,* July 23, 24 and 27, 2009).

[3] See Ibe (2009:70-71).

[4] See *The Nation,* a daily newspaper, March 26, 2009, front page.

[5] See *The Guardian,* a daily newspaper, July 27, 2009, pages 1 &2.

to 30 percent, directive to banks to restructure their margin loans until December 2009,[6] and the introduction of Retail Dutch Auction System (RDAS) to check speculative demand for foreign exchange and the incorporation of a band of plus or minus three percent to ensure stability in the foreign exchange market.[7]

With respect to the impact of the global economic crisis on the Nigeria-China trade relations, the available data from the Central Bank of Nigeria[8] on non-oil import by country of origin and direction of Nigeria's oil exports provide some information. Data on non-oil import by country of origin reveals that Nigeria's import to Asia rose from $6,957.98million in 2006 to $7,813.16 million and $8,689.90 million in 2007 and 2008 respectively. Non-oil imports from the people Republic of China to Nigeria increased from $2,473.94 million in 2006 to $2,866.60 million and $3,275.75 million in 2007 and 2008 respectively. This implies that the global economic crisis has not affected bilateral import flows between Nigeria and China.

In the case of exports, Nigeria export of oil to Asia rose from $8,995.77 million in 2006 to $10,487.47 million and $13,973.39 million in 2007 and 2008 respectively. Similarly, Nigeria export of oil to China increased from $914.82 million in 2006 to $4,055.92 and $4,412.65 million in 2007 and 2008. Therefore, it can be seen that the global economic crisis has not hindered bilateral trade flows (import and export flows) between Nigeria and China.

III Review of Literature

3.1 Theoretical Literature

According to the standard trade theory, determinants or causes of Trade include comparative advantage and pattern of trade, trade regimes and trade facilitation. Comparative advantage results from differences in labour productivity between countries (David Ricardo: Comparative cost advantage theory), differences in countries' resource endowments and in the use of these

[6] The banking sector must have been seriously affected by the meltdown that has afflicted the Nigerian stock exchange as a whooping sum of ₦784billion was said to have been lent by banks for stock trading/purchase perhaps during the bullish era of the stock market (see CBN, 2009).

[7] See *The Nation,* a daily newspaper, April 8, 2009, page 19 under the caption *How Nigeria has Managed the Global Economic Crisis.* The listing of government monetary policy measures was made public by the then Central Bank Governor, Professor Chukwuma Soludo.

[8] See appendix

endowments (Heckscher and Ohlin trade model), and exploitation of economies of scale or the availability of increasing returns to scale in production (New Trade theory- see Markusen et al, 1995; Krugman and Obstfeld, 2006). Trade regime can be outward- or inward-oriented depending on trade orientation and development strategy adopted by a country. The pattern of trade enables us to see the type of trade occurring between two countries, whether inter-industry or intra-industry which will enable us to know whether the trade relation is consistent with the developmental aspiration of each country.

Generally, the impacts of trade have been of interest in the literature because of the seeming contradiction between the claim of the gains from trade and persistence of trade restrictions manifested by the slowness to embark on trade liberalisation by most countries of the world. Trade leads to redistribution of income between the participants in the countries involved. According to the economics literature, about 20% of rising wage inequality is caused by increased trade (this may be higher for a developing country) while technological changes account for most of the remaining 80%. The fact that trade often triggers technological changes in developing countries implies that the income inequality effect of trade is larger for this category of countries. Therefore, it is very pertinent to understand this distributional impact so as to anticipate it and ensure the type of trade liberalisation that will increase incomes. In effect, trade impacts on the adjustment costs required to compensate losers from trade.

Another effect of trade is that import-competing firms undergo some adjustments that are detrimental to their profit interests because of the tendency for trade liberalisation to force them to make structural changes that reduce their mark-ups of price over marginal cost. However, there is a high tendency for these adjustments to enhance their efficiency and reduce their size, which in turn is likely to lead to unemployment as in the case of textile industry in Nigeria.

Complementary-Competing Framework

A framework for the analysis of the complementary and competitive impacts of economic relations between two or more countries is provided Kaplinsky (2008). This framework involves analysis of the direct and indirect impact of the associated complementary and competitive effects of economic relations. This framework examines different elements of the main channels for their complementarity and/or competitiveness of Nigeria's interest and development strategy with that of the China. Put differently, in what ways is the relations between Nigeria and China in consonance with Nigeria's development goals and development aspiration? In situation where

the answer indicates that the relations, in most cases, promote and/or support Nigeria's growth and development strategies, then the relationship is considered to be complementary. It is also possible to find some elements of the relationship that are rather competing with Nigeria's development goals and aspirations. It is expected that while some elements are complementary, others are competing and hence policy makers should be aiming at net positive complementary relationship. This, of course, requires coordination, analysis, and harmonisation of issues in the relationship.

Table 15: A Framework for Assessing the Impact of China on Nigeria

	Complementary		Competitive	
	Direct	Indirect	Direct	Indirect
Trade	Btw China and Nigeria (i) Trade gains: TOT gains, gain in Market share, BOT positions, consumer and producer surpluses, compatibility with industrialisation aspiration	(ii) Trade induced gins and loses: factor mobility (labour mobility and FDI flows) Aid flows, etc (ii) Effect of China's or Nigeria's relations with other nations	Btw China and Nigeria (i) Trade losses: TOT loss, loss of Market share, BOT positions, consumer and producer losses, compatibility with industrialisation aspiration	(ii) Trade induced gins and loses: factor mobility (labour mobility and FDI flows) Aid flows, etc (ii) Effect of China's or Nigeria's relations with other nations
Investment				
Aid/Technical Assistance				
Global governance				
Migration				
Environment				

Source: Kaplinsky, 2008

The direct component of complementary and competitive impacts can be adduced from bilateral relations. The indirect effects of both complementary and competitive impacts are not easily discernible as they may manifest through Nigeria or China's relationship with other countries.

3.2 Review of Issues, Methodological approaches and findings of some previous studies

Increased China-Africa relation is a recent phenomenon, which needs intensive, rigorous and periodic studies so as to inform policy fine-tuning. Most studies in the literature are on Africa or SSA or developed nations and little or no study(s) have addressed the country specific developmental impacts of the relations in a comprehensive manner.

Bhattacharya and Bhattacharyay (2007) examine the gains and losses of India-China trade cooperation using trade intensity index and a gravity model to measure the impact. Through analysis of the trade intensity indices the study reveals that India and China possess a significant bilateral trade potential, which remains untapped before now. Both countries have started negotiating for free trade arrangements based on their complementarities. The study found that in the short run, India's potential gain from the trade relations is relatively lower than that of China due to the fact that, it imposes high tariffs. However, in the long run, India's gains are higher than China as soon as its tariff levels are brought at par with that of China. They concluded that this trade relation is a win-win situation for both countries, which is in line with their increasing dominance in global trade.

Another study was conducted by Breisinger and Thurlow (2008) that looked at the Asia-driven resource booms in Africa that offers new opportunities for resource-rich African countries. The authors opined that though contrary to the previous booms experienced, most mining profits now go to the foreign firms, which leave less room for governments to use revenue for pro-poor investments. The Study developed a simple computable general equilibrium (CGE) model using Zambia as a case study. They discovered that despite the privatization, Dutch disease remains a valid concern and may hamper economic diversification, worsen income distribution, and undermine poverty reduction strategies. The study concluded that Mining royalties must be increased and should be used to finance growth-inducing investments that encourage pro-poor economic diversification else many African countries will remain caught in a resource trap.

Stern and Steven (2000) gave a report that launch a debate on the proposed free trade agreements (FTAs) between Brazil and India by providing some preliminary analysis. Two different but complementary research methodologies were employed, and each of which provides a different perspective on the possible impact of these agreements. Using the database and general equilibrium model of the Global Trade Analysis Project (GTAP), the economy-wide

impact of a number of different tariff liberalisation scenarios have been evaluated. The results suggest that SACU would achieve positive gains from bilateral trade liberalisation with South Asia and Mercosur. Exports over a 2–3 year period would be 0.2 to 0.4 percentage points higher than would otherwise be the case. But the gains would be greater from unilateral liberalisation, an FTA with East Asia or even one with the rest of Africa. Almost all of the increased trade resulting from bilateral liberalisation with Mercosur or South Asia arises from the artificial diversion of demand away from favoured to less favoured suppliers (at the expense in the case of SACU imports of South African consumers, including producers using imported inputs).

Cattaneo (2000) attempted to provide a critical assessment of the Regional Trade Model for Southern Africa (RTMSA), the model underlying the only serious study to date, which provides quantitative estimates at the sub-sectoral level of the impact of a SADC FTA on the individual members of SADC. Evans' (1997a) results suggest that the formation of a SADC FTA will result primarily in trade creation, with little or no trade diversion. However, he illustrated that, in consumer goods sectors, the excess capacity assumption and the assumption of equal elasticity of substitution between imports from SADC and the rest of the world (ROW) and between imports and domestic production in the RTMSA tends to exaggerate the likely trade creation effects of a SADC FTA. Further, the absence of any reduction in imports from the ROW at the country level in the 1997 simulation, except in the case of Mauritius, and the marginal increase in ROW imports for some members appears to be anomalous results, given the magnitude of the assumed elasticity in the RTMS.

3.3 Review of Scoping studies on China-Africa Trade Relations

Currently, China is Africa's third largest commercial partner after the US and France. It is the second largest exporter to Africa after France and is ahead of Britain in both categories (Ajakaiye, 2006). The structure of the trade relation is such that exports from African countries to China have been predominantly of extractive industries products – minerals, petroleum, metals and timber – while China has been exporting finished goods ranging from machinery and equipment to vehicles, textiles, and clothing and consumer electronics. One of the opportunities provided by Chinese imports is their low prices and hence affordability, especially by the poor. Ajakaye (2008) noted that Chinese imports may intensify the de-industrialization process initiated by the liberalization policies embedded in the Structural Adjustment Programmes

(SAP). He made reference to Kaplinsky, et.al, (2006) for experiences of specific examples of how these situations have arisen in specific African countries.

According to Corkin (2008), Angola is currently China's largest trading partner in Africa, accounting for roughly one fifth of China's trade with the African continent. Angola's export to China rose from 243 million US dollars in 1996 to 10.9 billion US dollars in 2006 while China's exports to Angola rose from 28.5 million US dollars in 1996 to 894 million US dollars in 2006. He noted that China runs a considerable trade deficit with Angola (as one of the China's main oil producer) while Angola enjoys trade surplus with China.

In the case of South Africa, Burke et al (2008) indicate that South Africa is China's second largest trading partner in Africa, after Angola. The trade volume between China and South Africa accounted for 20 percent of the total trade volume between China and Africa. The direct bilateral trade between the two countries started in the early 1990s and in 2004, South Africa granted China market economy status. To correct this situation, South Africa and China have committed to work together to create favourable conditions for growth in relations between the two countries and to balance trade (Burke et al, 2008).

With respect to Nigeria, Ogunkola et al. (2008) noted that Nigeria's exports to China spread over many and varied products and increase from US$20.3 billion in 2000 to US$44.4billion in 2005. They identify the top 10 export to China as at 2005 to include: Pulp of wood/of other fibrous cellulosic mat; Tanning/dyeing extract, tannins & derives, pigm et; Prepr feathers & down, arti flower; articles huma; Lac, gums, resins & other vegetable saps & extrac; Oil seed, oleagi fruits, miscell grain, seed, fru ; Cotton; Cocoa and cocoa preparations; Copper and articles thereof; Ores, slag and ash; and Mineral fuels, oils & product of their distillation.

Following the dramatic increase of Nigeria's total imports between 2000 and 2005, the country's imports from China rose phenomenally from as little as US$252million in 2000 to US$2.3billion in 2005 (Ogunkola et al, 2008).

There are many examples of African countries where trade with China is low. An example is Kenya even though the volume and value of Kenya's exports has been growing with time (rose by 36.0% in 2006 to US$620 million) Onjala (2008). Quoting Broadman et al. (2006), he noted further that the major exports to China are hides and skins, sisal, fibre, coffee, tea, fishery products, horticultural products and scrap metals. He however recognized that there has been a gradual growth in import value (total and from China) in the last three years (China's

import from Kenya rose by 38.3% to US$20 million in 2006). In Ghana, export to China has been very low compared to imports and the industrial sector in Ghana is being challenged with the increased imports of manufactured goods from China Tsikata et al (2008). Also it appears that the rapid growth of China since the turn of the new millennium has proved disastrous for Mauritian exports (Ancharaz, 2008). Part of the evidence given is that since 2002 exports have been on a downward path, declining by a cumulative 41 percent over the period 2002-2006 to reach Rs. 166 m in 2006.

The foregoing have shown that the Scoping studies just provides the ground for further detailed studies

IV Theoretical/Analytical Framework and Methodology

The analytical frame work of this study is multi-dimensional given the various issues to be addressed.

4.1 Theoretical/Analytical Framework for Macroeconomic Analysis

In order to analyse trade potential between China and Nigeria and to be able to quantify gains and losses and hence, identify gainer and loser between the two countries, we adopt the trade intensity measures and gravity model.

The trade intensity index is a way of measuring trade performance between two countries. The index will enable us to see the trajectory of trade over the years and the trade orientation of a country with its trading partner. Besides, it helps to analyse how intensively the countries are trading with each other.

This study also adopts gravity model to analyse bilateral trade relations between China and Nigeria. Gravity models are commonly used as an analytical framework in empirical studies of bilateral trade flows. The basic form of the gravity model explains the level of export from country *i* to country *j* by GDP of exporting country, GDP of importing country, and distance between them. Gravity equation can be used not only to analyze trade patterns and trade potentials but also to address the impact of preferential trade arrangements (PTAs) and formation of free trade area (FTA). Indeed, such an exercise can be done in order to simulate trade potentials and trade benefits corresponding to any bilateral or regional integration scheme between any groups of countries. In this respect, we estimate the determinants of trade flows from Nigeria or China (exporting country) to China or Nigeria (importing country).

The Gravity Model has a number of advantages in analyzing the inter- or intra-regional trade, particularly for the PTA and FTA. It provides a good measure of trade creation. Among its limitations is that it does not take into account the possible impact of the terms of trade associated with trade creation. Hence, the simulated results based on the Gravity Model are generally upward biased. The estimates also give the results in a static framework, and the extent of intraregional trade will possibly further increase if the estimation is carried out in a dynamic framework, incorporating the effects of factors like terms of trade, scale economies, technology spill-over, investment inflows, trade liberalization, and so on. These could reinforce the short term trade creation, thus, underestimating the true long-run impact. Paucity of data limit the possibility of estimating the parameters related to some of these factors. For instance, we can only find proxy for some price elasticities but information on scale economies is not available. Nevertheless, some existing studies have shown that the short-term impact is higher than the dynamic impact. In addition, the results also do not take into consideration the concessions offered in the form of non-tariff barriers, it only considers reduction of tariffs under different scenarios, which is purely hypothetical. Further, the results of alternate scenarios have also not measured the effect of PTAs/FTAs on different variables related to welfare.

If the simulations correctly gauge the impact on trade creation, this impact is not the only factor to consider when evaluating FTAs. It is to be noted that the negative effect on bilateral trade with countries not entering in the simulated arrangement is not assessed in the simulations. Therefore, none of the indicators from the simulations could be viewed as a welfare measure, which necessities caution in the applications of results in policy analysis. It should be mentioned that the results of the simulations serve limited purpose of providing an estimate of the potential effects of bilateral trade between Nigeria and China based on a particular year data. The study therefore analyse the likely increase in Nigeria-China trade under some hypothetical situations. In this analysis, the impact of PTAs in terms of the proportionate change in exports and imports of Nigeria and China (in dollar terms) are measured. The higher the initial tariff level on trade between partners, the greater the final effect of reduction and elimination of tariffs. The result of reduction of tariffs would be reflected in increasing the estimated values of a_4 and a_5. However, tariff is only among many other factors that determine the impact of PTAs and FTA on trade. In evaluating the impact, the following are important. First, the tariff (1+ TRn,c), that is, (1 + percentage tariff of ‘n’) (where n = Nigeria and c = China), presents tariffs imposed by Nigeria

on its imports from China. Similarly, the tariff (1 + TR c, n), that is, (1 + percentage tariff of 'c'), which means tariffs imposed by China on its imports from Nigeria. Since TRn,c (i.e. tariffs imposed by Nigeria on its imports from China) is higher than TRc,n (i.e. tariffs imposed by China on its import from Nigeria), the higher the coefficient of tariffs (in absolute values), the greater the impact of preferential arrangement. Second, since a_4 and a_5 are elasticities indicating the proportionate response of bilateral trade to changes in tariffs of China and Nigeria, the initial tariff levels as well as initial trade level are relevant for determining the absolute changes in trade in both Nigeria and China following PTAs/FTA.

4.2 Theoretical/Analytical Framework for Microeconomic Analysis

The standard trade theories would guide the analysis of the causes and pattern of trade between China and Nigeria as well as the income distribution effect. It would also guide analysis of the consequences of trade for economic agents in each country. This will be supplemented with the competitive and complementary framework developed by Kaplinsky (2008) to analyse the impact of economic relations between countries. This study would identify the gainers and losers and verify how and extent of the gains and losses accrue to different economic agents as well as the sources of the gains and/losses. The economic agents include:

- Nigerian producers and exporters
- Nigerian consumers
- Nigerian importers

Causes and consequences of trade between economic agents in the two countries

- For exporters-resource endowment is the main cause of trade (oil as the major export-mainly by government and foreign firms).
    - Increased demand and price of oil export drive increased trade relations
    - Welfare effect on the people depends on state of governance (absence of corruption)
- For consumers of foreign goods (imports)-Chinese goods
    - Availability of varieties of cheap (and quality) products drive increased trade relations
    - Benefits from infrastructure provided through export receipts by government
    - Welfare effects can be positive or negative
- For domestic producers
    - Availability of Cheap and quality imported inputs drive increased trade relations
    - Market opportunities abroad
    - Benefits from infrastructure provided through export receipts by government
    - Competition effect can be positive or negative
- For importers of foreign goods (imports)-Chinese goods
    - Increased demand for varieties of cheap (and quality) products by consumers in domestic market **(consumers' preference)** drives increased trade relations

- Increased demand for varieties of cheap (and quality) inputs by producers in the economy **(producers' preference)** drives increased trade relations
- Benefits from infrastructure provided through export receipts by government
- Market diversion to trading partner is with **positive profit effect**

4.3 Methodology of the Study

Going by the objectives of this study, it is obvious that a number of techniques have to be adopted. Thus, we adopt trade intensity index and gravity model (that is often applied to the study of bilateral economic arrangement or relations) to analyse trade potential between China and Nigeria. The gravity model is to be estimated with panel data econometrics techniques. With the aid of the gravity model results, we would simulate the likely impact of preferential trade arrangements (PTAs) and formation of a free trade area (FTA) on the two countries. This would enable us to analyse the potential gainers and losers from these scenarios.

This study is also based on a survey of opinions of the various stakeholders on the impacts of China-Nigeria trade relations on their economic activities and welfare. The survey covers issues in the terms of reference. The table 16 below presents the terms of reference against the methodology.

(a) Trade Intensity between Nigeria and China

Trade intensity index is defined as the share of one country's trade with another country, divided by the other country's share of world trade. The value of index ranges from 0 to 100. If the value is 0, it implies no trade relationship between the partner countries. On the other hand, if the value of trade intensity index is more (or less) than 100, it indicates that country i is trading more (or less) from country j than might be expected from that country's share in total world trade. We have both the import intensity and export intensity indices.

The Import Intensity Index between China and Nigeria (MIIij) is shown as follows:

$$MIIij = [Mij / Mi] / [Xj / (Xw – Xi)]$$

Where:

MIIij = Import intensity index of trade of country i with country j

Mij = Import of a country i to trading partner j

Mi = Total import of country i

Xj = Total export of country j

Xw = Total world export,

Xi = Total export of country i

i,j = China and Nigeria respectively

Export Intensity Index (XII) can also be measured as follows:

XIIij = [X ij / X i] / [M j / (M w - M i)]

Where:

XIIij = Export intensity index of trade of country i with country j

Xij = Export of country i to trading partner j

Xi = Total export of country i

Mj = Total import of country j

Mw = Total world imports

Mi = Total imports of country i

i, j = China and Nigeria respectively

These indices are computed for both China and Nigeria over 1995 to 2007

(b) A Gravity Model of Analysing Trade Relations Between China and Nigeria

Following the above framework, Srinivasan and Canonero (S-C) have estimated the effects of PTAs on South Asian countries. We therefore follow this approach in this study and the S-C model is adopted and specified as follows:

$$\text{Log BTI}_{c, n, t} = a_0 + a_1 \log (\text{GNP}_{c, t} * \text{GNP}_{n, t}) + a_2 \log (\text{PCGNP}_{c, t} * \text{PCGNP}_{n, t}) + a_3 \text{D}_{c, n} + a_4 \log (1 + \text{TR}_{n, c}) + a_5 \log (1 + \text{TR}_{c, n}) + a_6 \log \text{REXRT}_{c, n, t} + e_{c, n, t} \quad \text{.......(1)}$$

Where,

BTI c, n, t = Bilateral trade of commodity ' i ' between country 'c' and country 'n' at time’t’ (i.e. bilateral trade between China and Nigeria, which is the sum of exports and imports);

GNPc, t (or GNPn, t) = Gross National Product of country 'c' (or 'n') at time t

PCGNPc, t (or, PCGNPn, t) = Per capita Gross National Product of country 'c' or country 'n'.

Dc, n = Distance between relevant centres of 'c' on country 'n'.

TRc, n = Tariff rate imposed by country 'c' on products imported from country 'n'.

TRn, c = Tariff rate imposed by country 'n' on products imported from country 'c'.

REXRc, n, t = Real Effective Exchange Rate between countries 'c' and 'n', at time 't', measured in US $.

u, v = country specific effect

w = temporal effect

η = random effects

c, n = China and Nigeria

$e_{c, n, t} = u_c + v_n + w_t + \eta_{c, n, t}$

The theoretical expectation is that trade between two equal size countries will be greater than between one large and one small economies. This observation is also in line with the objective resistant factors, which states that trade intensity between two countries is likely to be high if the combination of countries are between industrial good exporter and primary good exporter. On the other hand, if the combination is between either industrial good exporter or primary good exporter, the intensity will be low. Therefore, 'a_1' of equation (1) will be positive. Both distance and tariff barriers restrict trade flows between two countries. Therefore, coefficients a_3, a_4, and a_5 will be negative. The effect of real exchange rate on total trade is ambiguous. Panel data are used in this model, the utilization of which requires special treatment of the error terms shown in equation (1). A more general expression of the error term '$e_{c, n, t}$ 'can be written as follows:

$e_{c, n, t} = u_c + v_n + w_t + \eta_{c, n, t}$ ……(2)

Where,

u & v = country specific effects

w = temporal effects, and

η = random effects

In equation (2), one can avoid consistency problems arising from country-specific effects by estimating equation (1) with its variables defined as deviations from their individual means. But this is not the reasonable proposition simply because of the fact that the effects of PTAs and FTA are being evaluated, and therefore, one should know the values of the tariff variables viz. (1+ TR

c, n) and (1+ TR n, c), which are eliminated from the estimated equation, once the variables are expressed as deviation from their means (Srinivasan and Canonero 1993).

After estimating all parameters in equation (1), one can estimate the parameters of variance component model of equation (2). The problem of using country dummies will be solved if 'u' and 'v' are fixed effects. But if these effects are random, the more appropriate way to estimate equation (1) would be by using Generalized Least Square (GLS), taking into consideration of the variance of country-specific effects to the variance of $e_{c, n, t}$.

We used data generated by seven product categories of export and import over 1990 to 2006 to estimate panel data models (panel least square, fixed effect and random effect models). More discussions about the data and estimations shall be done in the empirical analysis.

(c) Simulation Exercise

A comparative static analysis of tariff reductions under different scenarios and its resultant effects on increase in imports and exports of both Nigeria and China are also done. The objective of this analysis is to examine the likely increase in intra-regional trade (measured in terms of higher rates of growth of exports and imports) of both the countries due to different PTAs and FTA. To conduct the simulation exercise, we used the estimated parametric value of 'a_4' and 'a_5' from the fitted regression equations, and changes in tariff rates under different alternative scenarios. The percentage rise in import from n to c (i.e. from Nigeria to China) and percentage increase in exports from c to n (i.e. China to Nigeria) are to be computed using the methodology employed by Bhattacharya and Bhattacharyay (2007), which is expressed as follows:

$$[\exp \{ \hat{a}_4 \log ((1+TR_{n,c}) t_1 / (1+ TR_{n,c}) t_0) + \tfrac{1}{2} \sigma^2 \} -1] * 100$$

an increase of import of n from c (i.e. imports from Nigeria to China)

$$[\exp \{ \hat{a}_5 \log ((1+TR_{c,n}) t_1 / (1+TR_{c,n}) t_0) + \tfrac{1}{2} \sigma^2 \} - 1] * 100$$

an increase of exports from c to n (i.e. from China to Nigeria)

where,

$$\sigma^2 = \sigma^{\wedge 2} a_4 \log (1+TR_{n,c}) + a_5 \log (1 + TR_{c,n})$$

The elasticities used in these simulations are tariff elasticities but not the price elasticities. They show the increase in demand due to reduction in preferential tariffs. Thus, 1+TR is the

most appropriate method to estimate the increase in trade due to reduction in tariff rather than price. If elasticities (1+TR) are high it may be due to distance factor (Bhattacharya and Bhattacharyay, 2007).

This study explores four hypothetical scenarios of PTAs and FTA between the two countries as follows:

(i) 25 % across the board tariff cuts by China and Nigeria

(ii) 50 % across the board tariff cuts by these two countries

(iii) 75 % across the board tariff cuts by the same countries

(iv) 100 % tariff cuts i.e. free trade between them.

(d) Field Survey of Opinions of stakeholders on the gains and losses as well as other related issues on the impact of China-Nigeria trade relations

Different questionnaires were designed and administered to different stakeholders (consumers, manufacturers, exporters and importers) to elicit their opinions on the gains and losses as well as other related issues on the impact of China-Nigeria trade relations. The survey was conducted in Lagos because of the idea that most industrial and foreign trade activities occur in this Nigeria's city. Among the major markets in which questionnaires for consumers and importers were administered are Chinese market at Ojota, Computer village at Ikeja, and Oshodi and Aswani markets. About between 200 and 500 people patronise these markets on a daily basis. These are markets where there are many importers and consumers of foreign goods. We obtained links with manufacturers and exporters through their associations such as Nigerian manufacturers association (MAN) and Nigerian Export promotion council (NEPC). The breakdown of the number of questionnaires administered is given below.

Distribution of Questionnaires by Respondents

S/N	Stakeholders	Number of Questionnaires administered	Quantity Retrieved
1	Consumers	300	300
2	Manufacturers/exporters (both small and large scale producers)	100	53

3	Importers	100	100
	Total	500	453

The questionnaires were allocated to cover the main products categories as follows:

(1) Agro-allied product category, which includes cocoa and cocoa products, coffee and other agric export products
(2) Mineral products (oil and other mineral products):
(3) Manufactured product categories, including the following:

- Food, beverages and tobacco:
- Textiles, wearing Apparels, clothing, leather and leather products:
- Wood, wood products and furniture:
- pulp, paper and paper products:
- printing and publishing:
- Chemical and pharmaceutical products:
- Domestic and industrial plastic and rubber:
- Non-metallic mineral products:
- Metal products (basic metal, iron and steel):
- Electrical and electronics:
- Motor vehicles and miscellaneous assembly.

Given that women patronise markets than man, we allocated 60.0 percent of the questionnaires to them. Also, due to the nature of the questionnaires and time available for the survey, they were administered to literate people (with at least secondary school qualification) that will be able to respond appropriately and would not need interpretation.

Table 16: Summary of Methodology of the study

S/N	Terms of Reference of the Study	Methodology	Data Source
1.	Analysis of the country's economic structure and performance, paying particular attention to the role of trade with China.	Trend and comparative analyses of indicators of economic structure and performance (tables, graphs, figures,).	WDI and IFS
2.	Analysis of the country's export growth, by sector and export destination, paying specific attention to the contribution of China in terms of export volume, export prices and export earnings.	(i) Trend Analysis of export growth indicators using graphs, tables and charts. (ii) Regression analysis of bilateral export performance	WDI, IFS, World Bank DOT, ITC, UNCTAD, WTO and WITS.
3.	Analysis of the country's relative gains and losses generated by exports to China, paying particular attention to their sources (in terms of volume and price changes) and their sectoral distribution.	A. Trend Analysis of : (i) Price/ Terms of trade changes by export products/sectors (ii) Volume changes by export products/sectors (iii) Revenue changes by export products (graphs, tables and charts). B. Gravity model: Simulations	WDI, ITC, UNCTAD and WITS data base.
4.	Identification and analysis of the key export stakeholders, classified by key sectors, relative gains and losses, gainers and losers, and sources of their gains and losses.	Survey and case study: In-depth Interview and questionnaires administration to elicit info from various Stakeholders (consumers, importers, producers, trade associations and OPS, govt, etc).	Primary Data
5	Analysis of the country's import structure and performance, by key sectors and import sources, with specific focus on the contribution of China in terms of import volume, and import prices.	Trend Analysis of indicators of import structure and performance using graphs, tables and charts, etc.	WDI, World Bank DOT, ITC, UNCTAD and WITS data base
6	Analysis of the country's relative gains and losses generated by imports from China, paying particular attention to the sources (i.e. volume and price changes) and the sectoral distribution of these losses and gains.	A. Trend Analysis of : (i) Price/ Terms of trade changes by export products/sectors (ii) Volume changes by export products/sectors (iii) Revenue changes by export products (use of graphs, tables and charts). B. Gravity model: Simulations	WDI, World Bank DOT, ITC, UNCTAD and WITS data base.

7	Identification and analysis of the key import stakeholders classified by key sectors, relative gains and losses, gainers and losers, and sources of their gains and losses.	Survey and case study: In-depth Interview and questionnaires to elicit information from various Stakeholders (consumers, importers, producers, trade associations and OPS, govt officials, Chinese Markets or Towns, etc).	Primary Data
8	Analysis of the evolution of Chinese trade regime and trade policy	Review of trade policy documents and content analysis	WTO Trade Policy Review documents
9	Analysis of the evolution of the Nigeria's trade regime and trade policy……	Review of trade policy documents and content analysis	WTO Trade Policy Review documents
10	Analysis of any bilateral and/or regional trade agreements and/or special trade arrangements between the country, and China, with particular focus …….	Review of the agreements and content analysis	Federal Ministry of Commerce and Industry in Nigeria and Chinese Embassy.
11	Identification and analysis of the **opportunities** which can be derived by the country and the **challenges** from its trading relationship with China.	Identification and analysis of Domestic opportunities (empt, tech. and constraints (threats, infrastructure)	
12	Articulation and analysis of the policy responses which could enable the country maximize the benefits derivable from its trading relationship with China and minimise the losses, etc.		Information from all the various analyses carried out

V EMPIRICAL ANALYSIS

V.1 Macroeconomic Analysis of impact of China-Nigeria Trade Relations

Analysis of Trade Intensity between Nigeria and China

In order to know the trajectory of trade flows (export and import flows) between Nigeria and China over about 13 years, we computed trade intensity index. This index enables us to analyse how intensively Nigeria and China are trading with each other. This index ranges between the value of zero (0) and 100. The value of zero (0) indicates that there is no trade relationship between the two countries, while values higher than zero and up to 100 indicates the significance of trade relationship and the value of 100 desired, maximum or expected level of trade relationship. However, values exceeding 100 implies that a country is trading with its trading partner more than expected from the country's share in world trade.

Table 17 presents export and import intensity indices of Nigeria and China over a 13 year period (1995 to 2007). It can be seen from the table that the intensity of China's export to Nigeria (Xllij) has been high over time. During the 1995-99 period, export intensity index rose from about 39.5 in 1995 to 103.0 in 1999. This indicates that during this period, China exported more and more and even beyond what it was expected to export to Nigeria in 1999. This development is traceable to economic growth recorded by Nigeria and the need to demand for more manufactured products from China in order to facilitate industrial activities in Nigeria. Apart from 2000, the trend continued through 2001 to 2003 as the index shows that there are demand pressures from Nigeria that made China exported more than what it ought to. However, by 2004 the index dropped to 84.1 and further to 77.2 in 2006. Nevertheless, the index jumped to 116.5 in 2007, which is the beginning year of the global financial crisis, thus suggesting the crisis is yet to have a significant impact on the Nigeria-China trade relations. On the other hand, the intensity of Nigeria's export to China (Xllji) has been somehow low and around 60.0 throughout the entire period. During 1995 to 1998, it was very low and negligible in 1996 (0.33). By 1999, it rose to about 45.0 and further to 62.23 in 2000 before taking a declining trend in 2001 through 2003. Subsequently in 2004, it rose to 31.2 and thereafter declined to 11.4 in 2006 and jumped to about 25.0 in 2007. This analysis shows that Nigeria has exported less than it should do to China. The combined analysis of export and import may

suggest the trend of balance of payments position between the two countries. The expectation is that since China tries to utilise its export potential or opportunities with Nigeria more than the case of its import, China is likely to record surplus against Nigeria.

The foregoing analysis of export and intensity indices of China with Nigeria (columns 2 and 4 on the table) represents a mirror image of the analysis of import intensity indices of China with Nigeria (columns 1 and 3 on the table). This is because the indices show that China import less from Nigeria while Nigeria import more from China than expected. It should be mentioned that Nigeria should strive to increase its level of export to China more than it currently does, while China may want to maintain 2007 level (if not at 2002-2003 level) it attained,. Therefore with appropriate policies, there is some scope for increasing bilateral trade relations between Nigeria and China.

Table17: Trade Intensity Indices for Nigeria and China

Year	Mllij	Xllij	Mllji	Xllji
1995	24.99	39.49	40.79	26.00
1996	0.33	32.68	33.68	0.35
1997	3.27	58.90	61.15	3.41
1998	7.09	98.29	101.21	7.45
1999	44.94	103.02	106.05	47.42
2000	58.33	70.68	72.58	62.23
2001	30.57	107.89	110.60	32.89
2002	14.18	137.51	143.29	15.25
2003	6.13	135.27	141.76	6.65
2004	31.23	84.13	88.31	34.16
2005	27.31	81.51	86.48	29.89
2006	11.44	77.15	82.56	12.52
2007	24.65	116.51	124.20	26.98

Source: Computed, Underlying Data Obtained from the IMF data base, Direction of Trade Statisctics, 2008.
Note i and j represent China and Nigeria, respectively.

Impact of Trade Policy on Bilateral Trade Relations between China and Nigeria.

The panel regression results (based on the gravity model) on the impact of trade Policy on bilateral trade between Nigeria and China are presented in table 18. The R-squared is generally high, while the Durbin Watson statistics are within the acceptable bound. The Lagrange multiplier (L-M) values of 37.93 implies that panel estimation techniques (fixed and random effects models-2 and 3) are superior to the classical pooled estimation (Least Square model 1). Also, the Haussmann specification test

statistic of 10.53 is far less than the corresponding value of 18.30 in the chi-square table with ten degree of freedom. Hence, we conclude that, of the fixed and random effect models, the fixed effect model is better. However, it can be seen from the table that results obtained from different estimation techniques are similar.

Worthy of note in the results is the significant of the economic size and trade policy variables (GDP and tariffs of both nations) in all the various specifications. As expected, the economic size of the countries plays a major role in promoting trade relations between the two countries. While the positive sign of the coefficient of China's tariff implies that there is a positive (direct) relationship between tariff and trade, the negative sign of the coefficient of Nigeria's tariff implies an inverse relationship between the two variables. It should be mentioned that while the sign of the coefficient of China's tariff is inconsistent with a priori expectation that of Nigeria is consistent (lower level of tariff should promote trade, while higher level should hinder trade-inverse relationship). These results suggest that higher level of tariffs in China promotes trade with Nigeria (and vice-versa), while higher level of tariffs in Nigeria hinders trade with China (and vice-versa). The per capita income (which reflects the purchasing power of the people in the countries) hinders trade relations between them. This result may be reflecting the effect of the lower level of per capita income in Nigeria compared to China. The distance variable carries the expected negative sign, (which indicates that the longer the distance the lower the level of trade between two countries) but is not significant in most of the equations. Similarly, the real exchange rate variable shows positive effect but such effect is not significant in most equations.

Table 18: Regression results on the impact of trade Policy on Bilateral trade Between Nigeria and China

Variable	Panel Least squares	Fixed Effect	Random effect
Constant	11.71841*	40.73362*	11.63879**
REER	0.487838*	0.073474	0.234389
Nigeria's tariff	**-1.191341***	**-1.847790***	**-1.317214****
China's tariff	**0.923799***	**0.993883***	**0.835652***
NGDP*CGDP	**0.187083****	**0.352070***	**0.163103***
NPCI*CCPI	-0.361264***	-1.088015*	-0.191609
Distance	-0.694000	-8.170000*	-6.410000
R-Squared	0.724	0.749	0.678
Adjusted R-Squared	0.690	0.735	0.659
D. Watson	2.208	2.07	1.77
F-statistics	21.4 (0.0000)	67.3 (0.000000)	5.067 (0.0012)
LM statistics	37.93		-
Haussmann statistics	-	10.53 vs 18.30	-

Source: Computed *, ** and *** denotes statistically significant at 1%, 5% and 10% respectively.

Analysis of the Potential Gainers and Losers from PTAs and FTA: Simulation Results based on the Gravity Model

This section presents a comparative – static analysis of the possible change in the bilateral trade between Nigeria and China due to preferential trade agreements (PTAs) and free trade area (FTA) negotiations. This simulation exercise is conducted to provide an indication of how and to what extent tariffs should be cut by both Nigeria and China to provide beneficial effects in terms of increase in export and imports based on 2006 data on trade and tariffs obtained from the World Integrated Trade Solutions (WITS) database. The simulation exercise is meant to provide to provide information to the policy makers about the implications if possible trade liberalisation arrangement between Nigeria and China.

We adopted four forms of hypothetical scenarios for the simulations exercise, which are tariff cut of 25% 50%, 75% and 100%. Since the simulation experiment is based on the regression result presented earlier (particularly on Nigeria's tariff and China's tariff), therefore they may reflect on the simulation results. This is because while the sign of the coefficient of Nigeria's tariff is negative, indicating an inverse relationship between tariff and trade (which is consistent with the a priori expectation) that of China is positive, implying a direct relationship between the two variables. These alternative results may therefore show up in the simulation results. The simulation experiments have been done to cover seven principal commodities traded between the two countries. These products are food and live animals; crude materials (inedible); mineral fuels, lubricants and related products; chemicals; machinery and transport equipment; manufactured products and miscellaneous manufactured products. The expectation is that the country with lower initial tariff level will gain more than its trading partner, and vice-versa. Since Nigeria's simple average applied rate was 28.6 percent in 2006 compared to China's rate of 9.8 percent, then increase in China's export to Nigeria will be much more than the latter's export to the former. Nigeria's export products to China are mainly crude materials and mineral fuels, while China's export products to Nigeria are principally Chemicals and manufactured products.

The simulation results are presented in Tables 19 and 20. It can be seen from the Table 19 that a 25 percent tariff cut will lead to a reduction in Nigeria's export to China by about 90.0 percent for all categories of products. However, a 50.0 percent tariff cut will result in a rise of export of all products particularly chemicals (19.3%), mineral fuels (16.6%) and some manufactured products. A 75.0 percent cut in tariff will result in a significant percentage rise in export of all categories of product ranging between 24.1 percent (for crude materials) and 40.9 percent (for chemicals). The result shows that

negotiation of an FTA between the two countries (100% tariff cut) will lead to a reduction in Nigeria's export to China (all categories of product) by a range of 17.9 to 27.0 percent.

Table 19: Likely Change in Nigeria's Exports to China (China's import from Nigeria) under Different PTAs and FTA, based on 2006 data

Principal products traded	Nigeria's exports to China in 2006 ($'Mill)	Average China's MFN Tariff in 2006	Equivalent monetary change in Nigeria's export to China (China's imports from Nigeria) Millions US $				% change in Nigeria's export to China (China's imports from Nigeria) as a result of tariff cuts			
			Scenario 25% tariff cut	Scenario 50% tariff cut	Scenario 75% tariff cut	Scenario 100% tariff cut	Scenario 25% tariff cut	Scenario 50% tariff cut	Scenario 75% tariff cut	Scenario 100% tariff cut
Food and live animals	0.03	9.44	-0.024	0.002	0.008	-0.006	-90.01	9.23	29.07	-22.54
Crude materials, inedible, except f	23.71	0.96	-21.46	1.19	5.71	-6.29	-90.53	5.02	24.09	-26.52
Mineral fuels, lubricants and related products	241.78	2.64	-218.02	40.13	91.32	-49.09	-90.17	16.60	37.77	-20.30
Chemicals	0.09	8.12	-0.078	0.017	0.036	-0.016	-89.81	19.25	40.90	-17.90
Manufactured goods classified chiefly b	11.61	9.01	-10.41	1.80	4.24	-2.42	-89.69	15.52	36.55	-20.86
Machinery and transport equipment	0.46	8.12	-0.41	0.061	0.15	-0.10	-89.81	13.39	33.99	-21.94
Miscellaneous manufactured articles	0.08	9.53	-0.076	0.011	0.028	-0.017	-89.91	12.99	33.51	-20.54

Source: Computed

With respect to simulation result for China, Table 20 reveals that with a 25 percent cut in tariff, China's export to Nigeria will rise except in the case of chemicals and miscellaneous manufactured products. Further, a 50.0 percent cut in tariff will engender a rise in China's export (of all categories) to Nigeria by between 5.96 percent (for miscellaneous manufactured products) and 23.5 percent (for crude materials). Similarly, a significant cut in tariff by 75.0 percent will lead to a substantial rise in China's export to Nigeria by between 25.2 percent (for miscellaneous manufactured products) and 45.9 percent (for crude materials). As in the case of Nigeria, negotiation of an FTA will result in a decline in export of all kind of products by percentage ranging between 13.6 and 25.8.

Table 20: Likely Change in China's Export to Nigeria (Nigeria's Imports from China) under Different PTAs and FTAs, based on 2006 data

Principal products traded	China's exports to Nigeria in 2006 ($'Mill)	Average Nigeria's MFN Tariff in 2006	Equivalent monetary change in China's export to Nigeria (Nigeria's imports from China) Million US$				% change in China's export to Nigeria (Nigeria's imports from China) as a result of tariff cuts			
			Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 25% tariff cut	Scenario 50% tariff cut	Scenario 75% tariff cut	Scenario 100% tariff cut
Food and live animals	35.25	16.69	0.123	3.75	10.83	-7.59	0.35	10.64	30.73	-21.54
Crude materials, inedible, except f	10.64	8.63	1.273	2.49	4.88	-1.45	11.96	23.45	45.86	-13.62
Mineral fuels, lubricants and related products	2.33	5.94	0.18	0.44	0.94	-0.44	7.81	18.86	40.45	-18.76
Chemicals	249.38	10.70	-5.66	19.33	68.13	-64.38	-2.27	7.75	27.32	-25.82
Manufactured goods classified chiefly b	745.49	10.45	32.62	112.40	268.21	-157.76	4.37	15.08	35.98	-21.16
Machinery and transport equipment	1536.3	10.70	49.88	212.53	530.13	-332.30	3.25	13.38	34.51	-21.63
Miscellaneous manufactured articles	271.43	15.28	-10.58	16.17	68.40	-69.17	-3.90	5.96	25.20	-25.48

Source: Computed

Potential gainers and losers from PTAs and FTA between Nigeria and China can be observed from Table 21. With a 25 percent cut in tariff, china gains in terms of percentage increase in export of most commodities (except chemicals and miscellaneous products) to Nigeria while Nigeria loses in terms of percentage fall in export of all categories of products to China. Under both a 50 and a 75 percent cut in tariff, both countries gain in terms of percentage rise in their export to each other. However, the magnitude of gains (in terms of percentage increase in export) differs. Thus, while China gains more in terms of percentage rise in export of food and live animals; crude materials (inedible);

and mineral fuels, lubrications and related products, Nigeria gains more in terms of percentage increase in export of chemical and manufactured products. They gain almost equally in the case of machinery and transport equipment. With respect to outcome on formation of an FTA (100% tariff cut), although both countries lose, Nigeria lose more in terms of export of food and live animals; crude materials (inedible); and mineral fuels, lubrications and related products, while China lose more in terms of chemical and manufactured products.

Table 21: Summary of the Likely Changes in China's and Nigeria's Exports under Different PTAs and FTAs, based on 2006 data

Principal products traded	China's exports to Nigeria in 2006 ($'Mill)	Average Nigeria's MFN Tariff in 2006	Nigeria's exports to China in 2006 ($'Mill)	Average China's MFN Tariff in 2006	% change in export as a result of tariff cuts							
					Scenario 25% tariff cut		Scenario 50% tariff cut		Scenario 75% tariff cut		Scenario 100% tariff cut	
					China	Nigeria	China	Nigeria	China	Nigeria	China	Nigeria
Food and live animals	35.25	16.69	0.03	9.44	0.35	-90.0	**10.64**	9.23	**30.73**	29.07	-21.5	**-22.5**
Crude materials, inedible, except f	10.64	8.63	23.71	0.96	11.96	-90.5	**23.45**	5.02	**45.86**	24.09	-13.6	**-26.5**
Mineral fuels, lubricants and related products	2.33	5.94	241.78	2.64	7.81	-90.2	**18.86**	16.60	**40.45**	37.77	-18.8	**-20.3**
Chemicals	249.38	10.70	0.09	8.12	-2.27	-89.8	7.75	**19.25**	27.32	**40.90**	**-25.8**	-17.9
Manufactured goods classified chiefly b	745.49	10.45	11.61	9.01	4.37	-89.7	15.08	**15.52**	35.98	**36.55**	**-21.2**	-20.9
Machinery and transport equipment	1536.30	10.70	0.46	8.12	3.25	-89.8	13.38	13.39	**34.51**	33.99	-21.6	-21.9
Miscellaneous manufactured articles	271.43	15.28	0.08	9.53	-3.90	-89.9	5.96	**12.99**	25.20	**33.51**	**-25.5**	-20.5

Source: Extracted from Tables 19 and 20

V.2 Microeconomic analysis of impact of Nigeria-China Trade Relations

Analysis of the Survey Results on the Impact of China-Nigeria Trade Relations on the various Stakeholders

Impact on Consumers

Table 22: Socio-economic characteristics of the respondents

Variable	Group	All		Male		Female	
		Frequency	%	Frequency	%	Frequency	%
Age group (years)	≥20	69	23	30	25.6	39.0	21.4
	[20-40[	108	36	40	34.1	68.0	37.2
	[40-60[	92	30.7	35	29.8	57	31.2
	≥60	31	10.3	12	10.6	19	10.2
	Total	**300**	**100**	**117**	**100**	**183**	**100**
Income group (income per month)	≥10,000	55	18.3	25	21.6	31	18.6
	(10,000-49,999)	67	22.3	25	21.6	32	19.2
	(50,000-99,999)	55	18.3	19	16.4	35	21.0
	(100,000-199,999)	107	35.7	38	32.8	59	35.4
	200,000-399,000	14	4.7	7	6.0	8	5.0
	Above 400,000	2	0.7	2	1.7	1	0.7
	Total	**300**	**100**	**116**	**100**	**167**	**100**
Sector of employment	Public sector	76	25.3	27	26.6	36	22.6
	Private formal sector	123	41.0	42	41.3	65	40.8
	Private informal sector	64	21.3	20	19.7	33	20.7
	Self-employment	28	9.3	9	8.9	20	12.5
	Others	9	3.0	4	3.5	5	3.4
	Total	**300**	**100.0**	**102**	**100.0**	**159**	100.0
Level of education	Secondary	112	37.3	40	37.0	61	37.2
	Tertiary	188	62.7	68	63.0	103	62.8
	Total	**300**	**100.0**	**108**	**100.0**	**164**	**100**

Source: Field survey, 2009

Socio-economic characteristics of the respondents are presented in Table 22. It can be seen that the majority of the respondents are between ages 20 and 60 years. There are more female respondents than male. A relatively high proportion of the respondents earn an income that is less than N200,000 (less than $1,400) per month. The respondents are engaged in different sectors of the economy such as private formal sector (41%), public sector (25.3%), private informal sector (21.3%) and self employment (9.3%). Majority of them attended tertiary education.

Responses of the sampled consumers on the question regarding the sources of goods they consumed are presented in Table 23. It can be seen from the table that majority of the respondents (40%) revealed that they consumed made-in-China products. This is followed by those who indicated that they consumed products that are made in Nigeria. Other sources of products consumed indicated by the respondents are the European Union (EU), United States of America (USA), India, West African countries (ECOWAS) and South Africa.

Table 23: Consumers' responses on sources of imported goods

Source	Frequency	% of respondents
Nigeria	78	26.0
China	120	40.0
USA	33	11.0
EU	39	13.0
India	15	5.0
South America	3.0	1.0
South Africa	3.0	1.0
West Africa (ECOWAS)	9.0	3.0
Total	300	100

Source: Field survey, August, 2009

When the consumers were asked about what make them purchase goods from China, their responses are presented in Table 24. The table shows that majority of the respondents (49%) indicated that they purchase products from China because their prices are low. In the same vein, some of them (34%) revealed that they purchase Chinese goods because they are always available in the Nigerian markets. Other reasons adduced for their patronage of made-in-China goods are high quality (12% of respondents), technology content of the products (3.4 % of respondents), and packaging (2% of respondents).

Table 24: Factor responsible for consumers' patronage of Chinese goods

Factors		% of respondents
Low Price	147	49.1
High Quality	36	12
Availability	102	34
Packaging	6	2.0
Technology	9	3.4
Total	300	100

Source: Field survey, 2009

Based on the survey, household commodities from China purchased by the respondents are presented in Table 25. The list of commodities includes electronics; phones and accessories; computers and accessories; electrical appliances (gas cooker, generator, heater, pressing iron, fan, etc); drugs and food items; furniture, carpets and rugs; and freezer, refrigerators and air conditioner.

Table 25: Household commodities that the Respondents purchased that are from China

Goods	Frequency	% of respondents
Computers and Accessories	36	12.6
Electronics i.e T. V,Radio,C.D,DVD,Stereo	102	35.8
Drugs/Food	27	9.5
Clothes	12	4.2
Freezer,Refrigerator,Air Condition,etc	12	4.2
Gascooker,Generator, Heater,Pressing lron,Fan	36	12.6
Furnitures,Carpets,Rugs, etc	15	5.3
Phone and Accessories	45	15.8
Total	285	100

Source: Field survey, 2009

On the recent trend in consumers' purchase of household commodities from various markets, Table 26 provides some insights. It can be seen from the table that a relatively high proportion of the respondents disclosed that their purchase of household commodities from China, USA and South Africa has increased, while their purchase of commodities from Nigeria, India and Africa has decreased. It should be mentioned that those who indicated that their purchase of commodities from China have risen (58.7%) are relatively more than those who did so in respect of other markets. This then shows the importance of Chinese products to Nigerian consumers.

Table 26: Recent trend in the respondents' purchase of household commodities from markets

Country/trend	Frequency	% of respondents
China		
Increased	48	17.4
Decreased	162	58.7
Remained constant	66	23.9
Total	276	100
Nigeria		
Increased	72	25.8

Decreased	123	44.1
Remained constant	84	30.1
Total	279	100
USA		
Increased	90	35.3
Decreased	87	34.1
Remained constant	78	30.6
Total	85	100
Europe		
Increased	29	33.7
Decreased	29	33.7
Remained constant	28	32.6
Total	255	100
India		
Increased	63	30.4
Decreased	81	39.1
Remained constant	63	30.4
Total	207	100
South America		
Increased	69	34.3
Decreased	66	32.8
Remained constant	66	32.8
Total	201	100
South Africa		
Increased	69	35.4
Decreased	63	32.3
Remained constant	63	32.3
Total	195	100
African countries		
Increased	60	26.3
Decreased	129	56.6
Remained constant	39	17.1
Total	228	100

Source: Field survey, 2009

Factors responsible for the influx of commodities from China were asked from the responding consumers, and a high proportion of them (66.2%) revealed that the main factor is that Chinese products are cheaper compared to products from other markets (Table 27). Some of them (26.5%) also said that products from China are of high quality. Other factor given by the respondents is good packaging. This again confirms the earlier finding above that Chinese products are cheap. Further

issues relating to price and quality are raised with the consumers and Tables 28 and 29 present the findings. It can be observed from Table 28 that overwhelming majority of the consumers (83.5 to 92%) believed that Chinese products are cheaper than products made in either Nigeria or Europe or America. In terms of quality, a high proportion of the responding consumers (55.1%) believed that Chinese goods are better than made-in-Nigeria goods (Table 29). However, overwhelming percentage of them (over 80%) unfolded the idea that goods that are made in either Europe or America are of better quality than goods made in China.

Table 27: Factors responsible for the influx of commodities from China

Factors	Frequency	% of respondents
High quality	54	26.5
Cheaper price	135	66.2
Good packaging	12	5.9
other factors	3	1.5
Total	204	100

Source: Field survey, 2009

Table 28: Do you believe that Chinese goods are cheaper than goods from other markets

Cheaper than made in Nigeria goods		
No	48	16.5
Yes	243	83.5
Total	291	100.0
Cheaper than made in Europe goods		
No	24	8.6
Yes	255	91.4
Total	279	100.0
Cheaper than made in America goods		
No	24	8.3
Yes	264	91.7
Total	288	100.0

Source: Field survey, 2009-10-11

Table 29: Do you believe that Chinese goods better in terms of quality than goods from other markets

Better than made in Nigeria goods		
No	132	44.9
Yes	162	55.1
Total	294	100.0
Better than made in Europe goods		
No	231	82.8
Yes	48	17.2
Total	279	100.0
Better than made in America goods		
No	225	79.8
Yes	57	20.2
Total	282	100.0

Source: Field survey, 2009

Owing to the idea that influx of products from various foreign markets to the Nigerian market will lead to competition between local and foreign producers, the consumers were asked to suggest various coping measures to local producers. Table 30 presents the various measures suggested by consumers to local producers to enable them cope with the influx of commodities from China and other markets. It can be seen from the table that majority of them (66.7%) suggested that local producers should produce high quality goods. Other coping strategies suggested by the consumers are good packaging, adoption of modern technology and reduction of market prices. Consumers were also asked to suggest measures that government can take to enable local producers cope with the influx of commodities from China and other markets and the findings are presented in Table 31. A relatively high proportion of them (36.8%) advanced that government should provide loans for local producers at subsidised interest rate. Some of them (19.7%) also indicated that government should support consumption of locally made goods. Other reasons given by the consumers are that government should raise import duties to discourage consumption of foreign goods. It should provide steady power supply and assist producers in improving their technology.

Table 30: Respondents' Advise to the local producers on measures to take to cope with the influx of commodities from China and other foreign markets

Measures	Frequency	% of respondents
Produce quality goods	144	66.7
Adopt modern technology	21	9.7
Good packaging	33	15.3
Reduce their market price	18	8.3
Total	216	100

Source: Field survey, 2009

Table 31: Respondents' advise to government on the steps to take to enable local producers cope with influx of goods from China and other markets

Measures	Frequency	% of respondents
Provide loans for local producers at subsidised rate	84	36.8
Assist them in improving technology	27	11.8
Support consumption of locally made goods	45	19.7
Provide steady power supply	33	14.5
Increase import duties	39	17.1
Total	228	100.0

Source: Field survey, 2009.

A further examination of the impact of Chinese products on the consumers particularly on the negative effect is conducted. Table 32 presents commodities that the responding consumers bought that are of China origin that caused them some discomfort. According to majority of them, the commodities include Electronics, clothes, and phone and accessories. Others are electrical appliances (gas cooker, generator, heater, pressing iron, fan, etc); drugs and food items; freezer, refrigerators and air conditioner; computers and accessories; and furniture, carpets and rugs. On the sources of discomforts experienced by the consumers, majority of them (66.7%) revealed that Chinese products are characterised by high frequency of breakdown (Table 33). Some of them (20.8%) said that Chinese products are of low quality, while they also disclosed that the products from China are not easy and cheap to repair. Bad electricity was also mentioned as a source of discomfort.

Table 32: Commodities bought from the China that caused you some discomforts

Commodities	Frequency	% of respondents
Computers and Accessories	6	2.4
Electronics i.e T.V,Radio,C.D,DVD,Stereo	75	30.5
Drugs/Food	12	4.9
Clothes	63	25.6
Freezer,Refrigerator,Air Condition,etc	12	4.9
Gascooker,Generator, Heater,Pressing lron,Fan	15	6.1
Furnitures,Carpets,Rugs, etc	6	2.4
Phone and Accessories	57	23.2
Total	246	100.0

Source: Field survey, 2009

Table 33: Sources or types of discomforts you experienced from commodities bought from the China

Sources/type	frequency	% of respondents
Bad Electricity	3	1.4
High frequent breakdowns	144	66.7
It is not easy and costly to repair	24	11.1
The products are of low quality	45	20.8
Total	216	100.0

Source : Field survey, 2009

Majority of the consumers (65.9%) believed that due to availability of Chinese products in the Nigerian markets, their presence of these goods has increased (Table 34). Hence, they revealed that their preference for made-in-Nigeria goods and other foreign goods (including those made in Europe and America) has reduced (Table 35). When consumers were asked if their incomes were doubled what will happen to their demand for made-in-China goods, majority of them (67.5%) indicated that it will decrease (Table 36).

Table 34: Do you believe that following the availability of Chinese goods in Nigeria markets, your preference for these goods has

Increased	Frequency	% of respondents
Decreased	180	65.9
Remain unchanged	33	12.1
Yes	60	22.0
Total	273	100.0

Source: Field survey, 2009

Table 35: Has your consumption of made-in-China goods reduced your preference for made-in-Nigeria and others goods

Country/region	Frequency	% of respondents
Nigeria		
No	36	37.9
Yes	59	62.1
Total	95	100.0
Europe		
No	35	38.9
Yes	55	61.1
Total	90	100.0
America		
No	30	33.0
Yes	61	67.0
Total	91	100.0

Source: Field survey, 2009

Table 36: If your income was doubled, your demand for made-in-China goods will

Change	frequency	% of respondents
Increased	33	13.3
Decreased	168	67.5
Remained unchanged	48	19.3
Total	249	100.0

Source: Field survey, 2009

On the impact of the global financial crisis on the consumers, the responding consumers indicated that their consumption decreased as a result of the crisis (Table 37). An overall assessment question was asked about the consumer surplus (gains or losses) in terms of price and quality of goods from China, majority of them (72.9%) revealed that they recorded some gains (Table 38)

Table 37: What is the impact of the global financial crisis on your consumption

Change	frequency	% of respondents
Increase	3	1.0
Decrease	222	77.1
Remained unchanged	63	21.9
Total	288	100.0

Source: Field survey, 2009

Table 38: How would you quantify your gains or losses in terms of price and quality of goods from various markets

Gains/losses	Frequency	% of respondents
Negative	57	27.1
Positive	153	72.9
Total	210	100.0

Source: Field Survey, 2009

Impact on Importers

The sampled importers revealed that they imported a number of commodities from foreign markets including China. Among the commodities that they imported from China are clothes and shoes; electrical and electronics equipment and appliances; computers, phones and accessories; furniture, rugs and carpets; musical instruments; printing materials and stationeries; and motorcycles, bicycles and parts (Table 39). Overwhelming majority of the respondents (85%) indicated that China is a major source of their imported commodities (Table 40). A significant proportion of them (48 and 39%) disclosed that USA and EU are major sources of their imported commodities. Some of them also indicated West Africa and India as well as other sources. It is obvious that because of the preference of consumers for Chinese goods, importers also patronise China for their imported goods.

Table 39: Commodities/Goods/Services lmported

Commodities	Frequency	Percent
Electrical Materials	16	16.0
Electronics i.e:T.V,Radio,C.D,DVD,Stereo etc.	23	23.0
Freezer,Refrigerator,Air	12	12.0
Generator,GasCooker, machine etc	12	12.0
Computer,Phones and accessories	12	12.0
Printing materials,stationeries etc	5	5.0
Musical lnstruments	6	6.0
Motorcycle,Bicycle and parts	4	4.0
Furnitures, Rugs,carpets,etc	9	9.0
Clothes,Shoes,etc	28	28.0

Source: Field survey, 2009

Table 40: Major sources of Import for your commodities

	Frequency	Percent
China	85	85.0
USA	48	48.0
EU	39	39.0
India	14	14.0
other Far East	6	6.0
South America	5	5.0

South Africa	2	2.0
ECOWAS	6	6.0

Source: Field survey, 2009

Importers were requested to indicate the trend in their purchase of final commodities from various markets including China and the result is shown in Table 41. The table reveals that the purchase of commodities by majority of the respondents from China increased, while some of them said that their purchase of commodities from USA has remained unchanged and that from EU has reduced. In terms of price trend, majority of the respondents declared that prices of commodities from China, EU and India decreased (Table 42). This therefore implies that there will be competition among various imported goods in the Nigerian markets. Analysis of the impact of competition from the various markets shows that majority of the respondents believed that competition from various markets particularly from China and India as well as USA and EU is destructive (Table 43). Further issues raised with the importers revealed that the completion from various markets particularly China had positive effect on their sales and profits (Table 44).

Table 41: Recent trend in your purchase of final commodities from various markets

Markets	Trends	Frequency	Percent
China	Reduced	11	11
	Increased	41	41
	Remained Stable	23	23
USA	Reduced	1	1.0
	Increased	5	5.0
	Remained Stable	23	23
EU	Reduced	24	24.0
	Increased	17	17.0
	Remained Stable	3	3.0
India	Reduced	12	12.0
	Increased	15	15.0
	Remained Stable	3	3.0

Source: Field survey, 2009

Table 42: lndicate the trend of price of commodities from various markets

		Frequency	Percent
China	Increase	17	21.0
	Reduce	71	74.0
USA/NAFTA	Increase	12	16.0
	Reduce	39	48.0
EU	Increase	23	26.0
	Reduce	13	19.0

India	Increase	35	38.0
	Reduce	56	60.0

Source: Field survey, 2009

Table 43: How would you describe the competition among the various Markets?

		Frequency	Percent
China	Destructive	51	51.0
	Supportive	34	34.0
USA/NAFTA	Destructive	45	45.0
	Supportive	16	16.0
EU	Destructive	42	42.0
	Supportive	7	7.0
India	Destructive	35	35.0
	Supportive	7	7.0

Source: Field survey, 2009

Table 44: How would you measure your gains or losses with respect to sales and profit and as a result of competition from China

Gains or losses	Sales frequency	Sales Percent	Profit frequency	Profit Percent
Negative (loss)	5	6.6	10	12.7
Positive (gain)	71	93.4	69	87.3
Total	76	100	79	100.0

Source: Field survey, 2009

The respondents (importers) were asked to suggest measures that government could take to enable all stakeholders including local manufacturers, importers and consumers cope with competition from various markets. The suggested measures are presented in Table 45. These measures are; Government should; ensure low exchange rate; reduce import tariffs; provide good road networks; encourage local production; provide loan facilities; and ensure importation of quality products. Similarly, importers were asked to advise the manufacturers on the measures they could adopt to enable them cope with competition from various markets (especially China), the following are their suggestions (Table 46). Manufacturers should; try and maintain uniform price with foreign goods or even reduce the prices of their products; produce high quality goods; ensure easy and fast delivery of goods; and boost production of their goods.

Table 45: Measures you would advise the Government to take to enable economic agents cope with competition from various markets especially China

Measures	Frequency	Percent
Ensure the exchange rate is low	20	20.0
Reduced import tariffs	16	16.0
Govt should provide good roads	18	18.0
Govt should encourage local productions	22	22.0
Ensure importation of quality products	10	10.0
Provide loans facilities	14	14.0
Total	100	100.0

Source: Field survey, 2009

Table 46: Measures you would advise Manufacturers to adopt to enable them cope with competition from various markets especially China

Measures	frequency	% of respondents
maintain uniform price	27	31.4
produce high quality goods	23	26.7
Easy and fast delivery of goods	15	17.4
Price reduction	14	16.3
Boost production	7	8.1
Total	86	100.0

Source: Field survey, 2009

The impact of the global economic crisis on the activities of the respondents was also investigated and they unfolded the fact that their activities have reduced as a result of the crisis (Table 47)

Table 47: what is the impact of the global economic crisis on your activities?

Commodities	Frequency	Percent
Reduced	88	88.0
Increased	11	11.0
Remain Unchanged	1	1.0
Total	100	100.0

Source: Field survey, 2009

Impact on Manufacturers/Exporters

Products produced by different categories of firms interviewed are presented in Table 48. The products ranged from processed agricultural goods (cashew/palm kernel, Chips, honey, charcoal, ginger, sesam, etc); Chemical and Allied (cosmetics, toiletries, etc); ICT equipment and materials (computer and accessories, Phones, printing equipment and materials, projectors, IP telephone, etc); Enterprises Development and Professional services (finance, real estate, etc); Furniture items (household and office furniture items, etc); and Transportation (Shipping, clearing and forwarding, etc). Majority of the respondents (56%) indicated that China is a major source of their imported inputs (Table 49). A relatively high proportion of them revealed that the volume of inputs imported from China has increased (Table 50), while they also indicated that the volume of inputs imported from other sources remained unchanged.

Table 48: Products produced by different categories of firms

Sector /industry	Frequency	Percent
Agric product processing (cashew/palm kernel, Chips, honey, charcoal, ginger, sesam, etc)	14	26
Chemical and Allied (cosmetics, toiletries, etc)	7	13
Enterprises Development and Professional services (finance, real estate, etc)	4	8
Furniture (household and office future items, etc)	11	21
ICT (computer and accessories, Phones, printing equipment and materials, projectors, IP telephone, etc)	13	25
Transportation (Shipping, clearing and forwarding, etc)	4	8
Total	53	100

Source: Field survey, 2009

Table 49: Sources of imported inputs

Sources of inputs	Yes %	No %
Nigeria	43	57
West Africa including Nigeria	35	65
Nigeria, US, China, EU, India	55	45
Europe and America	27	73
China only	56	44
Other s	15	85

Source: Field survey, 2009

Table 50: Recent Trend in purchase of Raw materials from Various markets

Nigeria	Frequency	% of respondents
Reduced	13	31.7
Increase	16	39.0
Remained stable	12	29.3
China		
Reduced	2	8.3
Increase	16	66.7
Remained stable	6	25.0
USA		
Reduced	6	27.3
Increase	5	22.7
Remained stable	11	50.0
European Union		
Reduced	4	40.0
Increase	0	0.0
Remained stable	6	60.0
India		
Reduced	1	12.5
Increase	1	12.5
Remained stable	6	75.0
West Africa		
Reduced	1	3.7
Increase	5	18.5
Remained stable	21	77.8

Source: Field survey, 2009

Majority of the respondents (70%) indicated that Nigeria is a major market outlet for their products, while some of them also indicated foreign market outlets including China (Table 51). They equally said that the volume of goods sold in the Nigerian markets has increased while they revealed that goods sold to Chinese market has also risen (Table 52).

Table 51: Market outlets for products

Market outlets	Frequency	Percent
Nigeria	30	70
West Africa including Nigeria	5	12
Nigeria, US, China, EU, India	2	5
Nigeria and Europe	3	7
Nigeria and China	1	1
Other	2	5
Total	43	100

Source: Field survey, 2009

Table 52: Recent trend in commodities sold in different markets

Nigeria	Frequency	Percent
Reduced	9	22.0
Increase	17	41.5
Remained stable	15	36.6
China	Frequency	Percent
Reduced	1	20.0
Increase	3	60.0
Remained stable	1	20.0
America	Frequency	Percent
Reduced	11	50.0
Increase	5	22.7
Remained stable	6	27.3
Europe	Frequency	Percent
Reduced	3	30.0
Increase	2	20.0
Remained stable	5	50.0
India	Frequency	Percent
Reduced	1	12.5
Increase	1	12.5
Remained stable	5	62.5
West Africa	Frequency	Percent
Reduced	2	7.4
Increase	8	29.6
Remained stable	17	63.0

Source: Field survey, 2009

High proportions of respondents pointed out that competition from various markets (within and outside Nigeria) have been destructive to their activities (Table 53). A number of reasons were adduced by producers and exporters for the intense completion that they face. These include unfavourable government policies (such as high and unfavourable interest and exchange rates), poor infrastructure, and poor governance (which make local goods more costly), low import duties, low level of information on foreign markets, many competitors, price reduction by competitors, quality standard and emergence of many retail and wholesale shops (Table 54). The position of the producers is also reinforced by their opinions on the degree of effects of the effects of price and non-price factors driving competition presented in Table 55 below.

Table 53: Implications of competitions coming various market

Nigeria	Frequency	Percentage
Supportive	5	14.7
Destructive	29	85.3
China	Frequency	Percentage
Supportive	12	25
Destructive	36	75
USA	Frequency	Percentage
Supportive	8	40
Destructive	12	60
Europe	Frequency	Percentage
Supportive	4	16
Destructive	21	84
India		
Supportive	5	33.3
Destructive	10	66.6
West Africa	Frequency	Percentage
Supportive	10	40
Destructive	15	60

Source: Field survey, 2009

Table 54: Reasons adduced by producers for the state of competition

Reasons	Frequency	Percentage
high and unfavourable interest and exchange rates	5	12.5
Low import duties	3	7.5
low level of information	1	2.5
quality standard	2	5.0
many competitors	11	27.5
poor infrastructure, govt. policies and governance which makes local goods more costly	8	20.0
price reduction by competitors	3	7.5
Emergence of many retail and wholesale shops	7	17.5
Total	40	100.0

Source: Field survey, 2009

Table 55: Variables that constitute the basis of competition from the various markets

Degree of effect	Low		moderate		High	
Competition variable	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Price	4	10	15	37.5	17	42.5
Quality	12	35.3	15	44.1	7	20.6
tech innovation	5	17.2	15	51.7	9	31
distribution network	8	25	14	43.8	10	31.3
tariff rate	7	24.1	13	44.8	9	31

Source: Field survey, 2009

Table 56 presents responses on the gains or losses in terms of sales and profits arising from competition from foreign markets including China. It can be seen from the table that majority of the respondents revealed that they were affected negatively. The sampled producers were asked to indicate the various measures that they have implemented to cope with competition. Table 57 presents the various measures which include moderate prices, sales promotion, quality improvement, better customer service, buying directly from manufactures, effective distribution, on line trading and packaging.

Table 56: How would you measure your gains or losses with respect to sales and profit and as a result of competition from foreign markets including China

Gains or losses	Sales frequency	Sales Percent	Profit frequency	Profit Percent
Negative (loss)	25	62.5	30	75.0
Positive (gain)	15	37.5	10	25.0
Total	40	100	40	100.0

Source: Field survey, 2009

Table 57: Measures that have been implemented to cope with competition

Measures	Frequency	Percentage
Moderate prices	6	15
Sales promotion	8	20
Quality improvement	5	12.5
Better customer service	5	12.5
Buying directly from manufactures	4	10
Effective distribution	3	7.5
on line trading	4	10
Packaging	5	12.5
Total	40	100

Source: Field survey, 2009

In terms of the measures that government can embark upon in order to help producers to cope with the competition, table 58 indicates that majority of the respondents believed that government should continue advocating for the consumption of locally produce goods. Also, the same number of respondents (25%) agreed that government must delay the signing of bilateral agreements such as EPA,

which will affect domestic producers. Prevention of smuggling is another measure that government could use to help domestic producers to cope with competition. However, about 8% of the respondents believed that government should use the Standard Organisation of Nigeria (SON) to control the quality of products coming into the country, while this measure was followed by others like the banning of importation of some products, infrastructural improvement, input tariffs reduction.

Table 58: Measures that Government can embark upon to help producers to cope with competition

Measures	Frequency	Percentage
Advocacy on consumption of locally made goods	10	25.0
Control of quality via SON	3	7.5
Prevent smuggling	5	12.5
Ban importation of some goods	2	5
Improvement in technology and capacity building	4	10
Improvement in infrastructural	2	5
Reduction in tariff on inputs	2	5
Reduction of interest and exchange rates	1	2.5
Delayed in signing bilateral agree such as EPA	10	25.0
Streamline taxes and eliminate corruption	1	2.5
Total	40	100

Source: Field survey, 2009.

VI Summary of findings, Recommendations and Conclusion

This study has examined the impact of China-Nigeria trade relations. Empirical analysis reveals some important findings which are discussed in what follows.

6.1 Summary of findings from macroeconomic analysis

The intensity of China's export to Nigeria has been high over time. China even exported more and more beyond what it was expected to export to Nigeria in some years including 2007, which suggests that the global economic crisis is yet to have a significant impact on the Nigeria-China trade relations. This development is traceable to economic growth recorded by Nigeria and the need to demand for more manufactured products from China in order to facilitate industrial activities in Nigeria. On the other hand, the intensity of Nigeria's export to China has been somehow low and

around 60.0 throughout the entire period, which implies that Nigeria has exported less than it should do to China. Nigeria should strive to increase its level of export to China more than it currently does, while China may want to maintain 2007 level (if not at 2002-2003 level) it attained,. Therefore with appropriate policies, there is some scope for increasing bilateral trade relations between Nigeria and China.

The results of the panel regression results (based on the gravity model) on the impact of trade Policy on bilateral trade between Nigeria and China reveal that the economic size of the countries plays a major role in promoting trade relations between the two countries. These results suggest that the level of tariffs in China promotes trade with Nigeria (and vice-versa), while the level of tariffs in Nigeria hinders trade with China (and vice-versa). The per capita income hinders trade relations between them. Although its impact is not significant, the distance variable indicates that the longer the distance the lower the level of trade between two countries. Similarly, the real exchange rate variable shows positive effect but such effect is not significant.

Analysis of potential gainers and losers from PTAs and FTA between Nigeria and China shows that, with a 25 percent cut in tariff, china gains in terms of percentage increase in export of most commodities (except chemicals and miscellaneous products) to Nigeria while Nigeria loses in terms of percentage fall in export of all categories of products to China. Under both a 50 and a 75 percent cut in tariff, both countries gain in terms of percentage rise in their export to each other. However, the magnitude of gains (in terms of percentage increase in export) differs. Thus, while China gains more in terms of percentage rise in export of food and live animals; crude materials (inedible); and mineral fuels, lubrications and related products, Nigeria gains more in terms of percentage increase in export of chemical and manufactured products. They gain almost equally in the case of machinery and transport equipment. With respect to outcome on formation of an FTA (100% tariff cut), although both countries lose, Nigeria lose more in terms of export of food and live animals; crude materials (inedible); and mineral fuels, lubrications and related products, while China lose more in terms of chemical and manufactured products.

6.2 Summary of findings from microeconomic analysis (Field survey)

In order to get people's perception about Chinese products, this study conducted field survey that covered the relevant stakeholders in the trade between Nigeria and China. They include the consumers, manufacturers, exporters and importers. It was discovered from the field survey that many of the consumers used made-in-China products, followed by domestically products and goods from the

EU, USA, India, e.t.c. The major reasons for consuming Chinese products are the relative lower prices, product availability, quality, technology and packaging. The categories of products that are imported from China are electronics, phones and accessories, computers and accessories, electronic appliances, drugs and food items.

In terms of consumers' purchase of household commodities from various markets, we found that a relatively high proportion of the respondents disclosed that their purchase of household commodities from China, USA and South Africa has increased, while their purchase of commodities from Nigeria, India and Africa has decreased. Owing to the fact that the influx of products from various foreign markets to the Nigerian market will lead to competition between local and foreign producers, the coping measures that the consumers suggested to domestic producers were that the local producers should produce high quality goods. Apart from this, they should engage in good packaging, adoption of modern technology and reduction of market prices. The Consumers also suggested measures that the government can take to enable local producers cope with the influx of commodities from China and other markets and they include the provision of loans for local producers at subsidised interest rate, intensive support for the consumption of locally made goods. Also, the imposition of high tariffs to discourage consumption of foreign goods and the provision of steady power supply as well as assistance of producers in improving their technology.

We found that commodities such as electronics, clothes, phone and accessories, electrical appliances (gas cooker, generator, heater, pressing iron, fan, etc); drugs and food items; freezer, refrigerators and air conditioner; computers and accessories; and furniture, carpets and rugs that are of China origin cause some discomfort to the Nigerian consumers On the sources of discomforts experienced by the consumers, majority of them revealed that Chinese products are characterized by high frequency of breakdown, low quality, and most of the products from China are not easy and cheap to repair. Bad electricity was also mentioned as a source of discomfort. Majority of the consumers believed that there have been increases in the presence of Chinese products in the Nigerian market, which led to reduction in the preference for made-in-Nigeria goods and other foreign goods (including those made in Europe and America). On the impact of the global financial crisis on the consumers, the consumers indicated that their consumption decreased as a result of the crisis.

The sampled importers revealed that they imported a number of commodities from foreign markets including China. Among the commodities that were imported from China are clothes and shoes; electrical and electronics equipment and appliances; computers, phones and accessories;

furniture, rugs and carpets; musical instruments; printing materials and stationeries; and motorcycles, bicycles and parts. Overwhelming majority of the importers indicated that China is a major source of their imported commodities.

In terms of demand for imports from various markets including China, most of the importers reveal that there have been increases in imports from China, while some of them said that their purchase of commodities from USA has remained unchanged and that from EU has reduced. In terms of price trend, majority of the respondents declared that prices of commodities from China, EU and India have decreased. This therefore implies that there will be competition among various imported goods in the Nigerian markets. Analysis of the impact of competition from the various markets shows that majority of the respondents believed that competition from various markets particularly from China and India as well as USA and EU is destructive. Further, issues raised with the importers revealed that the competition from various markets particularly China had positive effect on their sales and profits.

In terms of the measures that the government could take to enable all stakeholders such as domestic manufacturers, importers and consumers cope with competition from various markets, importers believe that the government should ensure low exchange rate; reduce import tariffs; provide good road networks; encourage local production; provide loan facilities; and ensure importation of quality products. The importers also believe that for the manufacturers to cope with the competition they should try and maintain uniform price with foreign goods or even reduce the prices of their products; produce high quality goods; ensure easy and fast delivery of goods; and boost production of their goods.

Products produced by different categories of firms ranged from processed agricultural goods (cashew/palm kernel, Chips, honey, charcoal, ginger, sesam, etc); Chemical and Allied (cosmetics, toiletries, etc); ICT equipment and materials (computer and accessories, Phones, printing equipment and materials, projectors, IP telephone, etc); Enterprises Development and Professional services (finance, real estate, etc); Furniture items (household and office furniture items, etc); and Transportation (Shipping, clearing and forwarding, etc). Majority of the manufacturers said that China is a major source of their imported inputs. A relatively high proportion of them revealed that the volume of inputs imported from China has increased, while they also indicated that the volume of inputs imported from other sources remained unchanged.

Many of the producers reveal that Nigeria is a major market outlet for their products, while some of them also indicated foreign market outlets including China. They equally said that the volume of goods sold in the Nigerian markets has increased while they revealed that goods sold to Chinese market have also risen. A large proportion of the producers pointed out that competition from various markets (within and outside Nigeria) have been destructive to their activities. Some of the reasons for these according to the producers and exporters are unfavourable government policies (such as high and unfavourable interest and exchange rates), poor infrastructure, and poor governance (which make local goods more costly), low import duties, low level of information on foreign markets, many competitors, price reduction by competitors, quality standard and emergence of many retail and wholesale shops. The producers reveal that competition from foreign products affects them negatively. However, they said that there coping measures were to charge moderate prices, sales promotion, quality improvement, better customer service, buying directly from manufactures, effective distribution, on line trading and packaging.

The respondents revealed that, for the producers to cope with the competition from foreign markets especially China, the government should continue to advocate for the consumption of locally produced goods.

6.3 Policy Recommendations

Recommendations to Government:

Since majority of the gains from exports do not go directly to the citizens, therefore in order to ensure that the people (particularly the poor) derive maximum benefits from oil export receipt, corruption should be eliminated. Thus, the Economic and financial crime commission (EFCC) and the independent corrupt practices commission (ICPC) should be allowed to work impartially and court actions on cases should be expedited. Government should use revenue from oil to improve the state of infrastructure and social amenities. Government should investment export receipts in activities with high employment potential such as agriculture and manufacturing. All these will enable the country overcome the challenges of judicious utilization of the increased income especially the foreign exchange earnings to relax supply side constraints and diversify the economic base.

Nigeria should increase export to China by encouraging manufacturers and exporters. Thus, the existing export incentive schemes should be reviewed to make them more effective. The government should encourage industrial development through adequate incentive and support. Nigeria should not enter into a free trade agreement (FTA) with China. To increase domestic output of producers, the state of infrastructural facilities in the country must be improved. Government must ensure adequate power supply so as to reduce cost of production.

Government should use the standard and sanitary and phytosanitary measures to control import of harmful products to the country. This should ensure that the country is not turned to dumping ground for low quality, sub-standard and harmful products. The Standard Organisation Nigeria (SON) and National Agency for Food and Drug Commission (NAFDAC) should put more effort at eliminating substandard products from the country. All the recommendations made by consumers, importers and manufacturers should be considered by the government. Prevention of smuggling is another measure that government could use to help domestic producers to cope with competition. The activities of the consumer protection commission (CPC) should be intensified such that consumers could be able to report any harmful product in the markets to them for appropriate actions. The CPC should educate the consumers on their right and how to seek counsel or redress in case of any undesirable effect of consumption of any good on their welfare. All these will enable the government to handle the possibility that imports from China may be hazardous on account of low quality.

Recommendation to Consumers/Sellers

In order to encourage local producers and support government in the promotion of consumption of locally made goods, sellers and consumers should patronise these goods. The consumers should report any harmful product in the markets to the consumer protection commission (CPC).

Recommendation to Manufacturers/Exporters: In order to be able to respond strategically to the price competition promoted by Chinese imports, manufacturers and exporters should;

- boost production and ensure that production is based on the needs of the consumers;
- produce high quality goods;
- embark on good packaging,
- adopt modern technology;
- try and maintain uniform price with foreign goods or even reduce the prices of their products;
- ensure easy and fast delivery of goods;
- advertise their goods on periodic basis;
- support research, especially those that will lead to innovation and invention in production and distribution of their products; and use locally produced inputs.

The recommendations offered to the government, consumers and manufacturers will enable the country deal with the risks of perpetuating specialization in primary commodity production. They will also enable the country to handle the risk involve in the massive influx of China's cheap import which can lead to de-industrialization, increased unemployment and discourage economic diversification.

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Figure 1: Nigeria's export and Import intensity with China

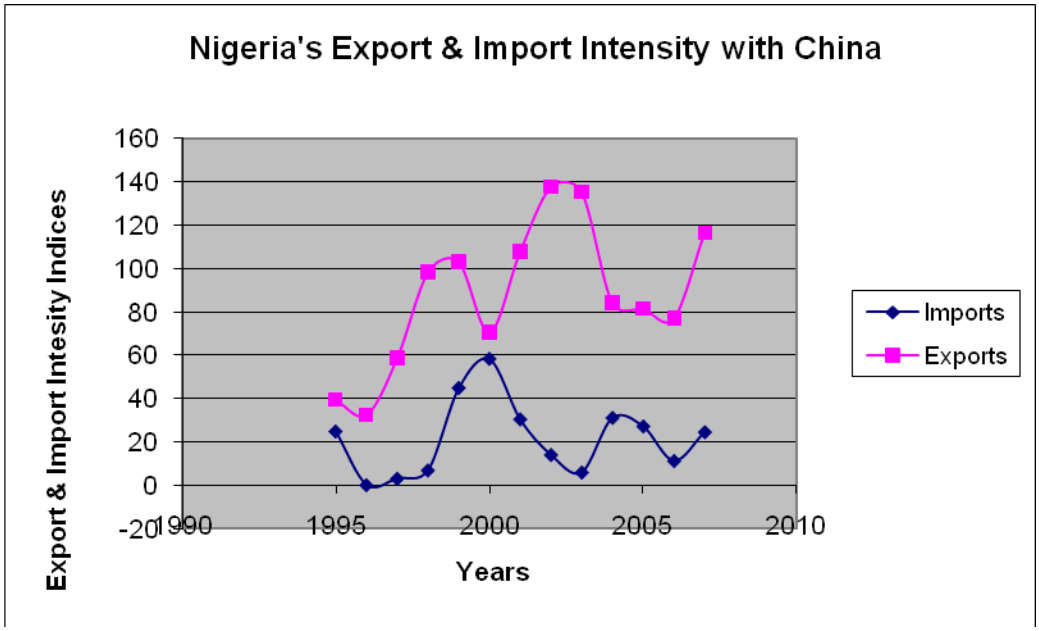
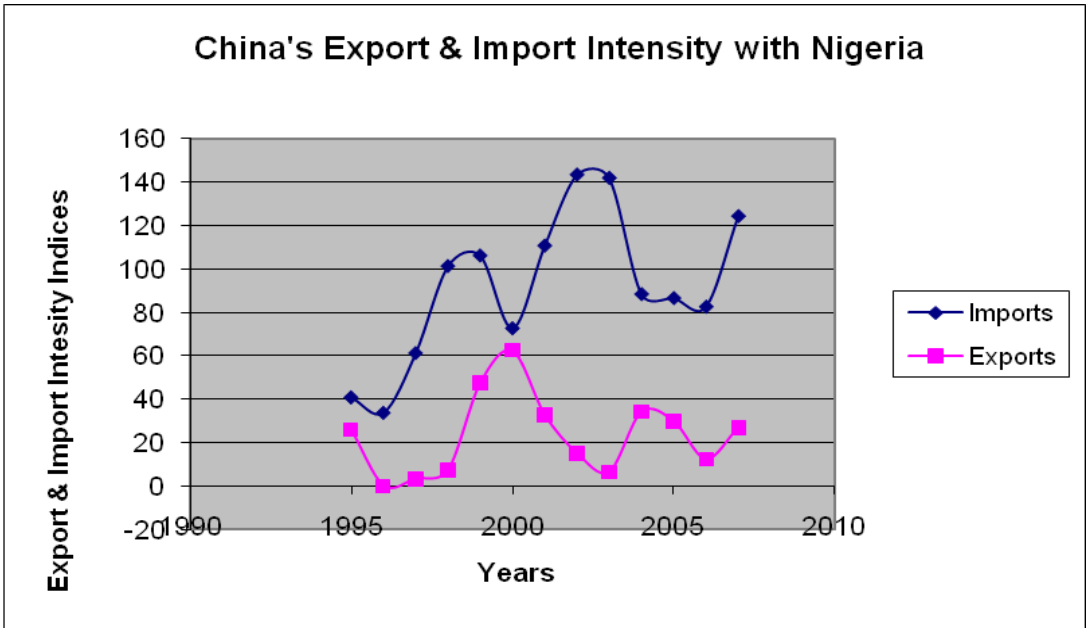


Figure 2: China Export and Import Intensity with Nigeria


China's Export & Import Intensity with Nigeria
Export & Import Intesity Indices
160
140
120
100
80
60
40
20
0
-20
1990
1995
2000
2005
2010
Years
Imports
Exports