



Research Article

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Naira - Yuan Diplomacy: A Pathway for Unlocking Nigeria's Manufacturing Sub-Sector Potentials

Simeon G. Nenbee

Jonah O. Orji

Department of Economics,
Faculty of Social Sciences,
University of Port Harcourt,
PMB 5323 Choba, East-West Rd,
Port Harcourt, Nigeria

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Abstract

The fountain head for weighing one unit of a domestic currency in-terms of another within an international framework is rooted in the famous Gold Standard proposed by the Bretton Woods Institutions (BWIs). This brand of thought had since been practiced and experienced in numerous trade ties that Nigeria had had with China. Like other bilateral agreements, it sets to re-define and deepen the two countries' economic space. Thus, this paper shed lights on Naira - Yuan Diplomacy as a Pathway for Unlocking Nigeria's Manufacturing Sub-Sector Potentials. The manufacturing industries are engines of economic prosperity. Facilitation of job creation space and poverty reducing strategies are core values in manufacturing too. This paper conclusively presume that the exchange rate pass-through mechanism can transmit price increase and macroeconomic instability from China and supply shocks to the Nigerian economy (especially from manufactured products) when adequate provisions are not domestically taken. Furthermore, the Naira-Yuan diplomacy will increase imports from China thereby increase her foreign income since Nigeria will be spending more on Chinese manufactured products, hence, increase the national income of China. The policy implication of this finding is that the net exports of China will rise faster and add to her expansion of domestic income instead of Nigeria. The paper therefore calls upon Nigeria to be proactive in ensuring a stable trade and exchange rate policies to deepen technical innovation for local manufacturing tools to boost output rather than depending more on China.

Keywords: Naira, Yuan, Diplomacy

1. Introduction

One important feature of today's life, is that productive resources are traded across national boundaries (Nenbee and Medee; 2013). According to Akinbobola and Nwosa (2015), productive resources (also called foreign capital) inflow exists in various forms like workers remittances, foreign aid, private capital inflow and more.

Today, most countries now engage in diverse forms of international trade agreements to better their citizens' lives. Often times, such transactions take the form of regional blocks and bilateralism.

Bilateralism exemplifies a form of political-cum-economic relationship between two trading countries. It offers the two countries an opportunity to optimize the inherent comparative advantage in trade arrangements. One undeniable fact by Helpman and Krugman (2009:1) is that more than half of world trade is in manufactured goods, where markets are often oligopolistic rather than competition.

Nigeria's manufacturing sector is also facing the "oligopolistic attributes rather than competitive" market structural foundation too. The reality therefore is to formulate healthy trade policies and agreements. Experiences recently gathered from events in other clines according to Lindert and Pugel (1996:1) reveal that national borders come and go especially during the 1990s. Others were emergence of trade bloc revolution, the immigration fight on who is my neighbour paradigm and gyrating exchange rates between the early and mid-1990s.

Irrespective of either the convergence or divergence of trade policy models of countries, the thin line is that Nigeria's economic strength can be measured from the development of manufacturing industries. The manufacturing industries are engines of economic prosperity. Facilitation of job creation space and poverty reducing strategies are core values in manufacturing. Manufacturing in Kenton's (2019) discourse connotes the processing of raw material or parts into finished goods through the use of tools, human labor, machinery, and chemical processing. These finished products are traded in both domestic and foreign markets. External trade therefore, is that which involves a country's commodity crossing to another one and involves the use of foreign currency (Gbosi, 2019). It describes how exchange of commodities among nations in which payments are made with the usage of an internationally recognised currency platform. This informs trade policy and agreements between nations like China - Nigeria bilateralism option.

China's interest in developing nations can be treacable to the famous "Banung Conference of 1955" and later in 1980, when she joined the Bretton Woods Institutions (BWIs) and General Agreement on Trade and Tariff (now World Trade Organisation, [WTO]). The quest to expand China's manufactured market perhaps informed the recently signed currency swap agreement with Nigera. The idea was to foster beneficial trading activities between the two countries. As reported by the CBN (2018), it was intended to relax the possible influence and the use of US dollar (Green back). The Yuan as the basic unit of the Renminbi by Chinese' law in 1948 was to be exchanged for the Nigeria's naira (CBN, 2018).

One take home from the above is that both countries will be better -of in this formally entered trade agreement. Historically, extant economic literature since the era of the Mercantilists' thinking have laboured to show that effective movement of goods and services across national boundaries could be rightly possible through exchange rate measured in the various domestic currencies. Like other bilateral agreements, it is hoped that the economic and social interaction between the two nations will blossom. Thus, this paper shed lights on Naira - Yuan Diplomacy as a Pathway for Unlocking Nigeria's Manufacturing Sub-Sector Potentials

The paper is sub-divided into five sections. Sections two and three present the Overview of Naira - Yuan Diplomacy and Stylized Facts about the Manufacturing Sector in China and Nigeria. In section four, the Currency Swap Agreement: A Synoptic view was made. Section five looks at Naira-Yuan as a Mechanism for Unlocking Potentials in the Nigeria's Manufacturing Sector channels while six centred on Concluding Remarks.

2. Naira - Yuan Diplomacy: A Historical Reflection

Both China and Nigeria set out to achieve some degree of macroeconomic goals like poverty reduction, price stability, balance of payments' equilibrium, etc. Each of them need to overcome a plethora of structural rigidities. The structural rigidities are by-products of the adopted type of economic system.

China for instance, started as a socialist economy and relied on the famous Marxian ideologies. The crux of the Marxian thesis was to rationalize direct government participation in productive

activities. In China, the public enterprises were mainly owned and controlled by the state and they produced diverse outputs. The growth in Chinese public enterprises ownership can be traceable to Kirkpatrick, Lee and Mixson (1985:156) opinion. Kirkpatrick, Lee and Mixson (1985:156) noted that “the growth in the public –enterprise section can be analyzed from two alternative although not mutually exclusive perspectives. The first approach views the establishment of public enterprises largely as a result of certain economic factors. Government ownership of the production process is therefore seen as a non-ideological response to failures in the workings of the market mechanism”, Kirkpatrick, Lee and Mixson (1985:156). A second approach considers the public enterprise sector from a broader socio-political perspective, and sees its growth as being determined by the interplay of political and social forces within the developing countries, Kirkpatrick, Lee and Mixson (1985:156). History attest to the fact that China was a developing country during the 1980s but like other East and South-East Asian countries, certain causatic factors enhanced her growth. These factors in the eye of Adedeji (1998) were broad-based growth strategy with high human capital investment, positive regional macroeconomic environment, political stability and softening authoritarian through social justice.

A particular interest from the above is that China had elope the clutches of a developing economy. Danjuma and Luis (2017) aptly writes that the world economic system has herald the emergence of China as a major economic power house, a fact that most be reckoned by the US and other major actors alike in the global arena. Nenbee and Kalu (2013) reasoned that the quest for China’s economic dominance in the world surfaced in the 1970s sequel to diverse economic reforms. This informs why the contours of an exalted China’s economic map is common place in international trade cycles today.

Dèes (2001) benignly noted that China embarked on tremendous economic reforms in 1978. These reforms were visible in the form of an impressive annual real output growth of 8.3%. The progress in the Chinese economic reforms is undoubtedly the main reason for the Chinese take-off. The Chinese reform agenda primarily targetted two main goals of how to market the internal economy and to open up towards the rest of the world (Dèes, 2001).

Qin *et al* (2007) accepts Dèes (2001) view that the reforms progressed gradually from farming to commerce, to state-owned enterprises, and to government’s finance and banking. The net result of the reforms in China is increased socio-economic prosperity today. Chamberlin and Yueh (2006:447) aptly noted that China’s recent economic performance has been truly impressive, growing at an annual average rate of 9.8 percent. Since the year 1978, China has become an important actor in the global economic trade discourse.

Unlike China, Nigeria started as an agriculture driven economy during the 1960s but later slipped into crude oil fortunes. The accidental oil economy boomed especially during the 1970s and beyond. Iwayemi (2013) while reflecting on the 1970s noted that oil revenues rose sharply from 26.3 percent in 1970 to 82.1 percent in 1974. However, the sad story remains as to the re-investment of the accruable revenues into enclave sectors bathed by corruption rather than the manufacturing sector (See NEEDS; 2004, Nenbee and Kalu; 2013, Ekpo; 2015, Oakhenan and Aigheyisi; 2015).

The nursing bed of China-Nigeria’s economic relationship is the quest to boost trade and capital investment. Izuchukwu and Ofori (2014) contend that Nigeria is the largest recipient of FDI in Africa. Admittedly, UNCTAD (2009) had also reported that Nigeria is the nineteenth greatest recipient of FDI in the world. As China seek to expand its trade relation with Africa, she is becoming one of Nigeria’s most important source of FDI. In year 2013, the Chinese government invested \$1.1 billion in Nigeria’s infrastructure (UNCTAD; 2009).

This billion of USD investment from China to Nigeria calls for questioning and concern. What type of investment is of interest to China? One needs to ask why is China investing so heavily in Nigeria? Izuchukwu and Ofori (2014) indentified oil and gas sector to have received 75 percent of China’s FDI while Lafargue (2005) saw raw materials deposits, hence increasing her trading partnership with Nigeria in order to secure regular supplies. Table 1 shows taxonomy of China’s investment in Nigeria.

Table 1: Taxonomy of China’s investment in Nigeria

Companies	Sector	Employees	Area of Investment
SINOPEC	Oil and Gas	373,375	Block of 64,6629 and operating right to block 2 Nigeria- Sao Tome Joint Development Zone.
CNPC	Oil and Gas	1.6 Million	Licenses for OPL 471,721,732,298.
SEPCO	Electric and Power construction	19,756	Papalanto power plant
CCECC	Construction	70,000	Construction of Games Village Lekki Free Trade zone etc.
CSCEC	Construction and Real Estate	121,500	Refinery
CNOON	Offshore oil and gas	21,000	45% interest in Offshore exploitation license OML 130.
Huawei	Telecom	51,000	Network and handsets
ZTE	Telecom	85,232	CDMA, Handsets

Source: Nigeria Investment Promotion Commission cited in Izuchukwu and Ofori (2014)

Table 1 indicates the break-down of different Chinese companies and investments in Nigeria. Without doubt, these companies are concentrated mostly in the petroleum sub-sector. The offshoot of the concentration of Chinese companies when properly harnessed can enhance spill-over effects through technological innovations in the manufacturing sector. The narrative of Agiobenebo (2018) about technology is to use what you have to get what you need to see the rest of the possibilities.

The popular lesson from the above discussion is that there should be a display of great tact and discretion in Yuan-Naira diplomacy option. China is today unarguably one of the closest business partners with Nigeria. Trade between the two countries is on the increase today. For instance, trade between them hit US\$384 million in 1998 and as at 2006, it rose to US\$3 Billion while in 2010, it worths US\$7.8 billion (CBN; 2013; Wiki; 2018 and Investopedia, 2019). This trading relationship is skewed in favour of China’s manufactured products. This will likely pose a major economic challenge to Nigeria if not properly re-examined.

3. Stylized Facts about the Manufacturing Sector in China and Nigeria

3.1 China’s Manufacturing Sector Outlook

Over 40.5 percent of China's Gross Domestic Product (GDP) comes from Industrial output and the higher on the worldwide industrial output too (IMF; 2015). This is the result of a painstaking industrial development approach. Machine-building and metallurgical industries were the key drivers as they accounted for about 20-30 percent of the total gross value of industrial output (Florida Forestry China Trade Mission, 2018 and Wiki, 2019). Others were machinery and transportation equipment worth about of 425 billion US dollars in 2005 and the energy industry (See China Fact and Figures 2007: Machine Manufacturing, Automotive and Energy Industries Report).

Though China’s facts and figures show an impressive conversation, there need to further analyse the implication for Nigeria. WDI (2019) had clearly stated that imports from China accounts for more than 35% of total imports in Nigeria but the NBS (2019) maintained that the figures changed in 2018, with Nigeria's imports from China declining to 26.4% and exports to China rose to 14.57% . What a paradox of trade outcomes.



Note: YR = Year

Figure 1: A Trend Showing China-Nigeria Merchandise Trade Inflow, 2011- 2019



Figure 2: A Trend of Nigeria- China Merchandise Trade Inflow, 2011- 2019

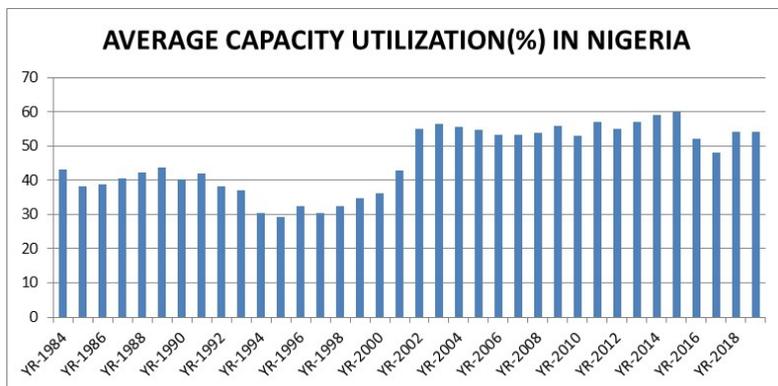


Figure 3: A Bar Chart Showing Nigeria’s Capacity Utilization, 1984- 2018



Note: PMI = Purchasing Managers' Index

Figure 4: A Bar Chart Showing Nigeria's Composite purchasing managers' index, 2014- 2017

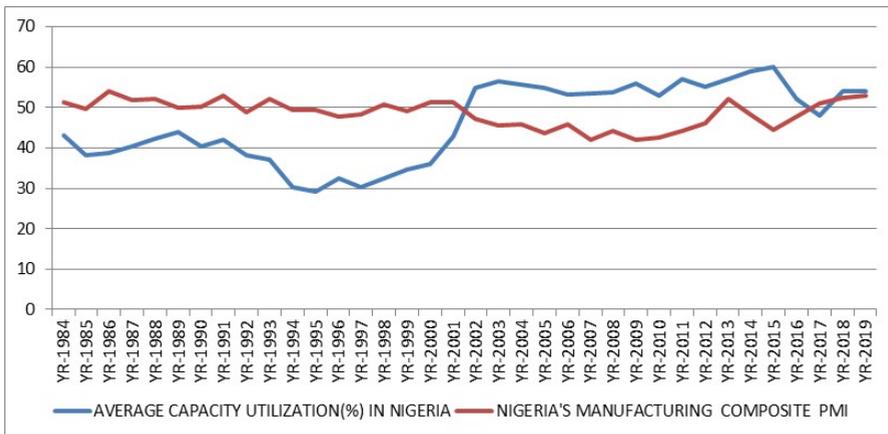


Figure 5: A Bar Chart Showing Nigeria's Manufacturing Composite, PMI, 2014- 2017

4. The Yuan-Naira Swap Agreement: A Synoptic View

The trade path of nations over time have shown a mutualistic behaviour. The case of China and Nigeria is a typified sample. The government in Nigeria would like to increase the domestic output and vice versa with China. This reason perhaps eulogises the CBN (2015) report that as the imports from china has provided a cushion for output gap and domestic output shortfalls as well as machinery and / or spare parts for production and vehicles assemblage in Nigeria. Whereas, Nigeria exports crude oil in millions of barrel and raw materials (e.g., cocoa beans, sesame seeds, zircon sand, etc (CBN; 2015). In our view, there seem to be less value addition to these exported products from Nigeria to China. Furthermore, China's concerted effort in strengthening trade relations with Nigeria is underlined by her increasing appetite for natural resources domiciled in Nigeria (Oyejide *et al*; 2007). Again, China's exports to Africa, and indeed Nigerian market have grown rapidly with their attendant effects of creating more severe competition in domestic markets. This most likely will create less exchange-value for other imported goods that are not of Chinese origin as well as weaken the productive strength of domestic and/or infant industries due to the face cut throat competition (See Schott; 2004).

An attempt to redress the above daunting challenges perhaps made the CBN, on June 6, 2018 to issue the Regulations for Transactions with Authorized Dealers in Renminbi. The Regulation provides the framework for implementation of the bilateral currency swap agreement. The currency swap agreement covered trade financing and investment between both countries (See *Investopedia*, 2015 and Emeka; 2019).

Taking a glimpse of China's manufacturing outlook can set the tone to understand where Nigeria stands in the currency swap agreement. Aside United States of America, India, Japan and few others China is obviously the leader of manufacturing and industrial outputs in the world today. These sectors account for over 40% of China's GDP (Sean, 2015). Prominent Chinese's industrial sectors include - manufacturing, agriculture and telecommunication services (*Investopedia*, 2015). Manufacturing in China is an important investment option with diverse product lines.

Despite increasing economic growth recorded in Nigeria as reported by National Institute for Legislative Studies (NIL; 2015), from 2011-2013, social realities show increasing evidence of unemployment and poverty incidence. Her industrial sector's contribution to economic progress is still relatively poor. Undoubtedly, industrial development is a route to achieving sustained economic growth (Todaro, 2000 and Orji, 2019). Industrial sector lies at the heart of manufacturing sub-sector. Manufacturing in most developing economies (including Nigeria) is still at a teething stage. In Nigeria as reported by the NBS(2019), the manufacturing sector comprises of thirteen activities. They include: Oil Refining; Cement; Food, Beverages and Tobacco; Textile Apparel, and Foot Wear; Wood and Wood Products; Pulp Paper and paper product; Chemical and Pharmaceutical Products; Non-Metallic Products, Plastic Rubber Products; Electrical and Electronic, Basic Metal, Iron and Steel; Motor Vehicles and Assembly; and other Manufacturing (NBS,2019).

The anatomy of manufacturing sector above in Nigeria perhaps will suggest a tail of woes in recent year. It seemingly exhibits a case of underperformance and can be traced to the discovery of crude oil in Nigeria. Manufacturing contribution to Gross Domestic Product (GDP) as reported by the NBS (2013) rose to 72% in 1970 but declined to 7.4% in 1975. It later nosedived to a all-time low of 5.4% in 1980 before rising marginally to about 10.7% in 1985. In 1990, manufacturing sector contributed only 8.1% to Gross Domestic Product (GDP) but thereafter dropped to 7.9% in 1992 and 6.7% in 1995. The downward trend persisted till 2000 with all-time low of 3.4%. However, activities of the manufacturing sector began to increase in its growth trajectory in recent times due to some policy interventions of government and ban on some imported products (See CBN, 2011; Fred-Young and Evans, 2018). Sequel to government's policy measures, the manufacturing sector in Nigeria witnessed a significant growth compared to year 2000s performances (NBS, 2019).

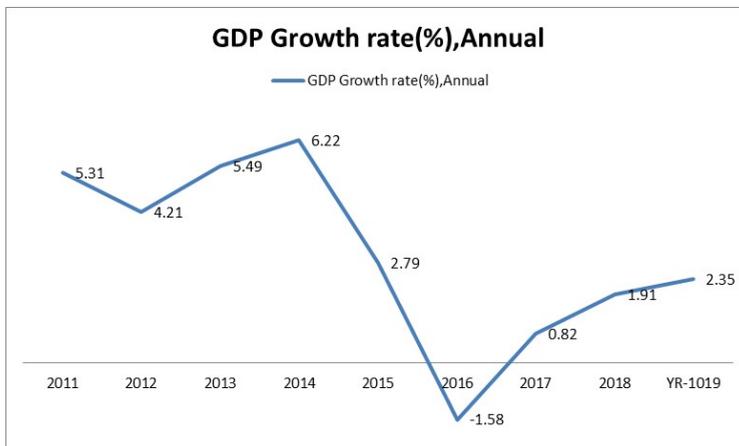


Figure 6: A Snapshot of Trend of Nigerian Manufacturing GDP growth (%), 2011- 2019

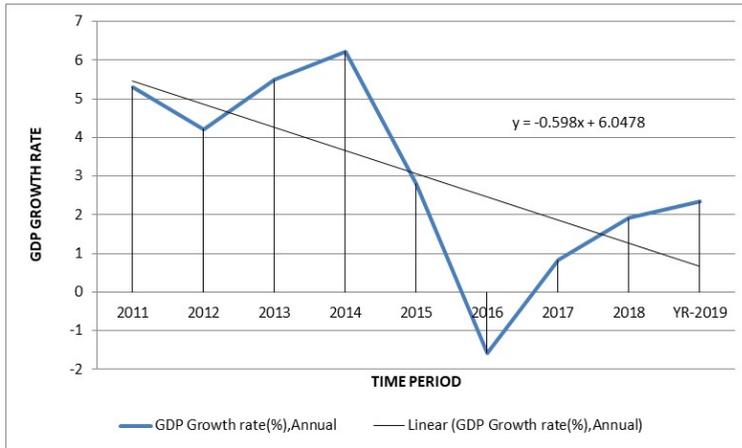


Figure 7: Trend of Nigeria' GDP growth (%), 2011- 2019

Figure 7 reiterates the fact that though manufacturing sector has been described as the modern catalyst for economic progress, Nigeria had not attained such feat. Kayode (2000) is of the view that Nigeria's manufacturing sector is still beclouded by challenges in the form of low capacity utilization, unstable exchange rate, infrastructural inadequacies, persistent rise in production cost, multiple taxation, policy inconsistency of government, porous border and smuggling activities, inadequate and erratic power supply, and inefficient energy utilization and others.

5. Naira-Yuan as a Mechanism for Unlocking Potentials in the Nigeria's Manufacturing Sector channels

Nigeria might benefit from the Naira-Yuan currency swap agreement if she understands that international trade is no a tea party. Countries do engaged in international trade to attract increased economic progress. At the centre of these economic progress are the real sectors' contributions. Manufacturing sector is now the modern driver of growth. Amongst some of the expected channels Nigeria will benefit are the duo of Exchange rate Pass-through Effect and Repercussion Channel Effect.

- a. Exchange rate Pass-through Channel Effect: Exchange rate represents the value of a domestic currency in-terms of a foreign one. Here, our concern is to scale the responsiveness of domestic prices of goods denominated in Naira to the exchange rate value (i.e. Yuan-Naira). Conceptually, it is the elasticity of Naira import prices with respect to exchange rate of Naira-Yuan. Extant economic literature reiterates the fact that changes in import prices do affect both retail and consumer prices. This implies that an increase in exchange rate pass-through will definitely trigger inflation between China and Nigeria. According to Chamberlin and Yueh (2006:445), "any factor that changes import prices, whether it is the marginal cost of production, the mark-up or the nominal exchange rate, can have a bearing on the domestic price level. Out of these, the factor that has attracted the most interest is the nominal exchange rate". In sum, changes in the exchange rate have a direct impacts on the domestic price level through its effect on import prices. Expectedly, in Naira-Yuan diplomacy, the percentage of cost of imports to the exchange rate value is of concern. The would-be rate of change in domestic prices in relation to a unit change in exchange rate will either make or mar the performance of the manufacturing sector. Accordingly, an adequate supply of Chinese Yuan in the weekly intervention of the government averaging of about CNY 135 million per month is well applauded in this

direction(See All Africa.com).

From the foregoing analysis in figure 2, there is increased demand for China's manufactured products. Therefore, more of Rehinmbi would be demanded for exchange and settlement of goods and services. The growth demand for Yuan would likely cause Yuan to appreciate over time, and the exchange rate of Yuan - Naira will rise above par. The pressure of rise in Yuan will fall on the Naira denominated products thereby, increasing the domestic prices of goods imported from China. The exchange rate pass-through mechanism will definitely transmit price increase and macro-economic instability from China and supply shocks to Nigerian economy. Adequate provisions should be made domestically to checkmate the influence of such foreign shocks. Similarly, the difference in exchange rate when dollar was to be used is significantly large. The products of China if it was to be dollar denominated will exact much more pressure on Naira as the relative scarcity of the green back stalls free flow of trade between Nigeria and China. Therefore, the currency pass-through effect on Naira will be much higher when it comes to domestic currency.

- (b) Repercussion Channel Effect: Increased imports of manufactured products by Nigerians from China imply export of job opportunities and increased deteriorating social conditions. It transmits into higher foreign income stream because such spending on Chinese goods will increase her national income. An increased domestic income in China will stimulate spending on China's domestic goods hence, the net exports of China rises and by extension adds to the expansion of domestic income. However, any change in domestic policy resulting in the depreciation of the domestic currency will have a negative impact on the other country. Increase in the export in turns increases the domestic income and employment opportunities. However, the falling imports results into fall in foreign income and hence employment in Nigeria resulting in a Beggar - Thou - Neighbor syndrome.

6. Concluding Remarks

One take home so far is that there is need to have an insight into a deeper view on how formally entered trade agreements by the governments of both sovereign nations like China and Nigeria had fared. Historically, extant economic literature since the era of the Mercantilists' thinking have laboured to show that effective movement of goods and services across national boundaries could be rightly possible through exchange rate measured in the various domestic currencies. The fountain head for exchanged for one unit of a currency for another within an internationally framework is rooted in the BWIs framework. This brand of thought had since then been practiced and experienced in numerous trade ties Nigeria as a nation have had with Peoples Republic of China. Like other bilateral agreements, it is assumed amongst others that the economic and social interaction between the two nations will blossom. Thus, this paper sheds light on Naira - Yuan Diplomacy as a Pathway for Unlocking Nigeria's Manufacturing Sub-Sector Potentials.

Manufacturing sector is now the modern driver of this growth. Amongst some of the expected channels Nigeria will benefit are the duo of Exchange rate Pass-through Effect and repercussion effect channel. This paper conclusively presume that the exchange rate pass-through mechanism can transmit price increase and macro-economic instability from China and supply shocks to the Nigerian economy (especially from manufactured products) when adequate provisions are not domestically taken. Furthermore, the Naira-Yuan diplomacy will increase in imports from China thereby increase her foreign income since Nigeria will be spending on Chinese manufacture products, hence, national income of China. This is so because the net exports of China will rise faster and add to her expansion of domestic income. On the other hand, any change in domestic policy resulting into the depreciation of the domestic currency will have a negative impact on the other country. The depreciation of domestic currency usually make domestic goods more competitive relative to foreign goods in trade. This leads to increase in exports and a decline in imports of the country, improving the net exports of the country. Increase in the export in turns increases the domestic income and

employment in China. The paper therefore calls upon Nigeria to be proactive in ensuring a stable trade and exchange rate policies to deepen technical innovation for local manufacturing tools to boost output.

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