

# NIGERIA AND CHINESE CURRENCY SWAP DEAL: THE ROLE AND BENEFITS OF SMEs IN NIGERIA

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## **Abstract**

**Purpose:** *This examines the role & benefits of small and medium scale enterprises as regards the currency swap deal between Nigeria and China. We assessed the roles SMEs played in such agreement and what will be its benefits in growing the industry.*

**Design/Methodology:** *The study is a theoretical paper whereas general purpose paper to assess the benefits and roles of small and medium scale enterprises in Nigeria as it affects the currency swap deal between the Chinese and Nigeria.*

**Findings/Conclusion:** *The Nigerian Customs Service must ascent to guarantee the standardization of items coming into this nation. We should not simply permit all way of imported goods into the country all the name money swap bargain between China and Nigeria.*

**Practical Implications:** *Nigeria should use China's oil hunger to exploit concessions in areas of critical importance to Nigeria. China should be encouraged to improve and enhance its engineering ventures and technical cooperation with Nigeria.*

**Keywords:** Central Banks, China, Currency Swap, Nigeria, SMEs.

## **Introduction**

Onuba (2018), posited that the Bilateral Currency Swap Contract signed with the People's Bank of China on April 27, 2018. The sale of the foreign exchange beneath the understanding would be completed through a blend of spot and short tenured advances. That the exercise is in type of a Special Secondary Market Intervention Sales retail and would be devoted to the disbursement of Renminbi named Letters of Credit for crude materials, machinery and horticulture.

Underneath the two-sided cash swap understanding, the Peoples Bank of China (PBC) will get around 16 billion Chinese Renminbi (RMB), while the Central Bank of Nigeria (CBN) will give about \$2.5 billion. The funds will give sufficient local currency liquidity to Nigerian and Chinese entrepreneurs to convey on their organizations and help other nearby organizations by decreasing the troubles

they experience in the look for monetary forms in their business exchanges.

The CBN employed a reciprocal currency swap concurrence with the People's Republic of China worth about N720bn, on June 23, 2015, the CBN set a restriction on getting to foreign trade in the official outside trade market for the importation of certain products and services. The point was to energize local production of these things, save foreign reserves, revive household ventures and advance business. The items banned were; rice, bond, poultry, tinned fish, furniture, toothpicks, kitchen utensils, table products, materials, garments, tomato glues, soap, cosmetics, personal jets, material sheets, metal boxes, wire poles, steel nails, security and razor nails, fired tiles, crystal, cellophane, plastic and elastic items. The naira was likewise anticipated to acknowledge alongside the US dollars as the interest for dollar facilitates. This arrangement was performed after just about more than two years of thorough exchanges with the PBC principally to support exchange relations among Nigeria and China.

The swap arrangement would work similarly as ordinary exchanges including issuance of letters of credit (LCs), which is a report from a bank to ensure a businessperson has ability to pay for products and services requested. The report is a type of security for individuals purchasing or selling different merchandise and ventures. It guarantees the vender that if a purchaser of his goods or services neglects to pay, the bank that give out the LC will pay for his benefit, notwithstanding all different necessities spelt out in the record

in the letter in regard of the exchange. The LC might likewise give security to purchasers of merchandise and ventures; that they are fit for paying for specific products or services, or they are ensured to get their money back if the seller fails to deliver, for example, on the off chance that a maker of merchandise or providers of service gets a request from another client abroad, he might not have any learning about the capacity of the client to pay for the order, to limit the risk of delivering the goods or services and not get paid, the vender or supplier of service requests an LC issued by an affirmed bank, ensuring to pay up if any party nosedives (Udo, 2018).

As of late, marks of Chinese contracting firms and organizations have come to Nigeria to do businesses. They exist in various segments of the economy. Some came to exchange, participate in horticulture and different organizations. With the noteworthy nearness of Chinese companies in the Nigerian economy as of late, the greater part of the organizations accomplishing different multi-billion dollars infrastructural ventures for Nigeria have needed to battle with genuine subsidizing imperatives to finish them. Nigeria is Chinese greatest venture goal in Africa just as the second biggest export market and the third biggest exchanging accomplice to China in Africa. A large portion of these agreements, including railroads frameworks, streets, power, water, emergency clinics, petro-chemical plants, air terminals just as activities in the oil and gas segment are financed through different partner subsidizing courses of action between the Nigerian and Chinese governments.

The swap bargain is one of the methodologies received by the Nigerian government to conquer the pressure and dissatisfactions experienced by organizations in getting financing for contracts and economic alliance through local commercial banks. Contractual workers or organizations with veritable contract grant records can approach any of the certify banks to demand for credit offices to execute the agreement under terms and conditions to be spelt out in the approved guidelines.

So far, aside from Nigeria, just two different nations in Africa are presently getting a charge out of the money swap deal; with China. Different nations are South Africa and Egypt, two of Africa's greatest economies after Nigeria which made the International Monetary Fund (IMF) in 2017, World Economic Outlook positioned the three nations among the greatest economies in Africa with gross domestic products (GDP) put at \$415.08 billion (Nigeria), \$330.159 (Egypt) and \$280.36 billion (South Africa). The World Bank in its most recent projections said the three nations would lead sub-Saharan Africa's economy development anticipated to achieve 3.1 percent in 2018, and a normal of 3.6 percent somewhere in the range of 2019 and 2020. The currency swap deal holds bright prospects to grow the economy and continue to keep Nigeria ahead of others as the leading economy in Africa.

### **Theoretical Foundation**

This work is related to the theory of purchasing power parity and the theory of balance of payments. In 1920 Gustav Cassel developed the Purchasing Power Parity

Theory (PPP) to determine the exchange rate on unconvertible paper currencies between countries. The theory notes that the exchange rate of equilibrium between two inconvertible currencies of papers is calculated by the equality of relative change in relative prices in the two countries. In other terms, they decide the exchange rate between two countries by their relative price rates.

The Balance of Payments Principle, the exchange rate of a country's currency under free exchange rates depends on its balance of payments. A favorable balance of payments raises the exchange rate whilst the exchange stems from the balance of payments debit side. This is equal to the amount of foreign-country payments for goods and services imported from it, plus loans and investments made abroad. Delivering foreign exchange originates from the balance of payments credit hand. It is equal to all payments made to our nation by the foreign country for goods and services purchased from us plus disbursed loans and investments made in that region. The balance of payments, it holds is equal to debits and credits. The balance of payments is unfavourable if debits outweigh credits. On the opposite, it is favourable when credits outweigh debits. When the balance of payments is negative, it means foreign currency demand is greater than its production. That causes the domestic currency's external value to fall relative to the foreign currency, and vice versa (Jhingan, 2010).

### **China, Nigeria Economic Relationship**

Exports to China by Nigeria are dominated by crude oil at about 95 percent. In terms of

relative market share, China accounts for just around 1.5 per cent of the volume of exports from Nigeria in 2000 and 2005. Imports from China by Nigeria are more varied than the importations. Three commodity groups: electrical equipment; vehicles and nuclear reactors, boiler machinery and mechanical equipment together accounted for over 50% of Nigeria's imports from China. The observed trade pattern structure is incompatible with the search of the Nigeria to export manufactured or processed goods. Given China's preference for raw materials and fuel and gas, the need to diversify export products may be an uphill job. More troubling is the distorted position of the balance of payments which has consistently been in China's favor. This suggests the need to look into the structure of tariff and non-tariff barriers facing exports from Nigeria to China. Perhaps more importantly, an analysis of the constraints that producers and exporters face in responding to market openings in full.

China has also undertaken to increase the average agricultural import tariff from 22% to 15% and remove export subsidies and non-tariff barriers to imports of many essential agricultural goods. However the Nigerian government did not take this initiative seriously (Kwanashie, 2007). The Obasanjo government's failure of the cassava initiative is a pitiful example. Farmers were encouraged to plant cassava but little did the government support the initiative (Kwanashie, 2007).

In Nigeria, China has founded more than 30 solely-owned companies or joint ventures active in the Nigerian economy's

construction, oil and gas, technology, services and education sectors. Some of the investments that are wholly foreign owned are: ZTE Nigeria Investment Limited, Plas Alliance Corporation, Royal Motors Corporation Limited etc. Many of these Chinese investments have also benefited from country opportunities such as leader status and expatriate quotas (Ogunkola, 2008).

The Chinese Civil Engineering Construction Corporation (CCECC) has been awarded the contract to upgrade the one-track Nigerian railway to the standard gage rail project (Siaka, 2009). The Nigerian government negotiated a US\$ 2.5 billion loan agreement with China in October 2006, a large portion of which was used to fund the railway system's reconstruction (Emeje, 2006). The first phase contract extended 1,215 kilometers of standard double track gauge line from Lagos in the southwest to Kano in the northwest, with a branch in Minna and Abuja. Once done, the railway upgrade and extension project will be able to operate 36 trains a day from Lagos to Kano.

The value to Nigeria of investment and technical cooperation with China cannot be over-emphasized as they are aimed at these sectors-power, communication of the economy that needs these interventions in particular. There are also areas where China has gained substantial expertise from which Nigeria will reap huge benefits.

### **Benefits of Local SMEs**

According to the Emefiele (2018), the Nigeria-China money swap arrangement would not cover the importation of the forty-one (41) things prohibited in its 2015

roundabout on things not substantial for outside trade. The only items that will come in are not necessarily finished goods. This will guarantee that the money bargain does not smother nearby organizations and make Nigeria a discarding ground for Chinese products. Emefiele stated that Nigeria will concentrate on fares to China. Already the nation exports cassava items to China just as cowhide, stows away and skin to China, among others. The arrangement will open further the fare market to China. Since China represents a quarter or more imports into Nigeria, the trading of monetary forms between the Nigerian Central Bank will make it simpler for our business people to have direct access to remote trade in Renminbi (Chinese cash). Previously, when importing necessary machinery or merchandise from China, one first exchanges Naira to the dollar before changing it again to Renminbi and this puts pressure on the Naira. What this means is that more pressure will be put straightforwardly on the Chinese Renminbi and a substantial bit of the interest for dollars in Nigeria lifted off the back of the Naira.

Some of the advantages of the deal is that it would encourage Chinese organizations to set up factories in Nigeria, which would lead to industrialization and job creation. The Chinese investors will be willing and interested in setting up shops in Nigeria because they produce here which will be cheaper for them and thereby eliminating the cost of transportation, shipping, and all that going by the conducive environment in Nigeria for them to thrive.

Small and medium enterprises (SMEs) and cabin enterprises in assembling and fare organizations will thrive due to the swap agreement especially those into importation of raw materials, spare parts and simple machinery for businesses (Udo, 2018). The deal will protect Nigerian business people from the harsh effects of third currency fluctuations and helping both countries deal with their stores better among different advantages: "it will likewise help the two countries in their remote trade saves the executives, improve budgetary steadiness and advance more extensive monetary participation between the two nations.

### **Importance to Nigeria's Economy**

According to Yusuf (2018), the Asian powerhouse has multiple year currency swap agreements of the Renminbi with Argentina, Belarus, Brazil, Hon Kong, Iceland, Indonesia, Malaysia, Singapore, South Korea, United Kingdom and Uzbekistan. As indicated by the People's Bank of China (PBoC), those swap understandings were proposed not exclusively to "settle the universal monetary market," yet in addition to facilitate trade and investment."

In an interview crosswise business owners in Nigeria, the Chairman, Mobile Software Solution, Chris Uwaji, believes that the naira to Yuan swap understanding ought to diminish the weight on the naira if legitimately actualized. He further stated that Nigerian businesses don't need to use dollar to pay anymore because it's going to be costlier, we pay with Yaun, by so doing we avoid every form of round tripping." Gbade Buraimoh, a Lagos-based financial expert asserted that the mission for dollar

through banks will definitely reduce, as all exchanges among Nigeria and China will be in Yuan rather than dollar and that oil deals from Nigeria to China would be settled in Chinese money. An Abuja-based worldwide issues and tact master, Kadiri Abdulrahman, saw the money swap bargain as a positive move towards upgrading the estimation of the naira, in this way improving access to less expensive outside trade, for individuals from the business network. Ecobank Group Research opined that the money swap bargain is a good one, they noted amongst other things that the deal aims to encourage reciprocal exchange and venture as well as promote financial stability and more extensive monetary collaboration between the two nations.

### **Assessment of the China-Nigeria Currency Swap deal for the first year**

It shows relative stability across all dimensions of the Bilateral Currency Swap Agreement (BCSA), especially in the area of liquidity, exchange rate, demand management and terminal date estimates, according to Anaeto (2019). The agreement marked its one-year implementation on May 2019 and barely two years this May 2020 to ease demand pressure on foreign-exchange supply by the government. It shows that there was sufficient supply of the Chinese Yuan foreign exchange in the CBN's weekly intervention on the foreign exchange market with average demand of CNY135 million per month. It may have accounted for the relative stability the end user has enjoyed over the past one year, with the exchange rate averaging CNY1/N51.9. Initially the BCSA exchange rate was on average CNY1/53.17. With a daily trading volume of about CNY1.74 billion in the first

anniversary of the deal, the CBN appears to be within the BCSA's cumulative three-year cumulative comfort zone of CNY15 billion.

The operations in the agricultural and raw materials sectors were for Renminbi (CNY)-denominated letters of credit requests. Mr. Isaac Okorafor, Director of Corporate Communications at CBN, expressed satisfaction with the stability of the foreign exchange market since the launch of the BCSA, which was largely due to the bank's sustained intervention. This in turn has sustained the confidence investors have in the Naira and the public.

The current annual import bill of Nigerian companies bringing goods from China into the country is currently at NGN 1.7 trillion, indicating that the NGN 720 trillion swap agreement will only cover around 15 per cent of Nigeria's total annual imports from China. Definitely the remaining 85 per cent would still need US dollars. Given the issues that have been raised, most experts conclude that the currency swap agreement is a step in the right direction. This group of analysts argues that the reduction in dollar demand, intended to be achieved through the swap agreement, will complement the current intervention by CBN through the FX Window of Investors and Exporters to deepen market stability by curbing the incidences of US dollar shortage and volatility in the exchange rate.

### **Conclusion**

Stakeholders have urged Nigeria to tread with caution as far as the cash swap deal with China is concerned. Director-General of Lagos Chamber of Commerce and

Industry, Muda Yusuf concurred that the swap arrangement would smoothen the installment framework in the respective exchange between the two nations however focused on that it may not by any stretch of the imagination fortify the naira in the outside trade market as the country would need to improve its profitable base to accomplish that. The President Progressive Shareholders Association of Nigeria, Mr. Boniface Okezie asserted that the cash bargain was unnecessary. He said the arrangement would guarantee that greater part of the nation's remote exchange were directed to the Chinese economy. This will prompt monetary reliance regardless of that Nigeria is a sovereign country, which will prompt the convergence of Chinese products into our nation thinking about that we are battling with feeble regulation.

The deal was criticized by Dr. Austin Nweze that it was only good on its surface value. He noticed that over the long haul, the activity would enable the Chinese to rival our neighborhood organizations, along these lines hindering the development of indigenous companies. He posited that the main advantage of the money swap bargain for Nigeria was that in the short run, it would address outsider sourcing of the Chinese cash by Nigerian imposters. Also criticized by Ken Ukaoha, President General, National Association of Nigerian Traders (NANTS), an umbrella organization for businesses trading across continents of the globe from Middle East, etc., acknowledged the fact that the cash swap has some of its downsides. He communicated that things may go amiss except if the legislature is alive to its duty. Certainly, to the extent we're disturbed, it is

our view that the Federal Government ought sound a note of alert just as shaft its searchlight on the exercises of the administrative offices, for example, the Standards Organization of Nigeria (SON), NAFDAC, Consumer Protection Council, the Nigeria Export Promotion Council, the Customs, Federal Ministry of Trade and Investment to ensure that they collaborate with the Central Bank of Nigeria so that the policy will not bring any negative effects to Nigeria. He further asserted that the approach can trigger high volumes of import into this nation which is great. Obviously, it can likewise activate unlimited imports, particularly the inundation of unacceptable merchandise into the nation. Subsequently what ought to be done is that the administrative offices should mount genuine reconnaissance to guarantee that convergence of unsatisfactory merchandise does not assume control over our local market. He expressed that all the more significantly, our nearby enterprises must not surrender or capitulate to the impulses and inclinations of importation. In other words we're not going to butcher our nearby businesses on the special stepped area of unlimited importation from China cordiality of the cash swap.

### **Implications**

The money swap bargain decreases the expense of exchange because of the cross-stream nature of the swap; in particular, this understanding improves the liquidity of the RMB, which is considered as a third cash. Nigerian businessmen are allowed to take positions, thereby reducing their risk exposure to country. Specialists are permitted to take positions, along these lines diminishing their hazard introduction to

cash instability whereby the PBOC and CBN are focused on a result profile, with assets traded at interims before the expiry of the agreement in this way smoothening exchange and the likelihood of a default, is more uncertain.

The execution of this understanding and its suggestions for Forex, Trade, Funding and to be sure, the general Economy, as it will appropriately be exposed to assist investigation and ought not, up 'til now, be signposted as "a definitive arrangement."

Nigeria should build a business climate that would allow Chinese and other investors to invest. This must tackle essential infrastructural impediments such as power supply, transportation and better telecommunication facilities.

Nigeria should learn from China's reform trend and build policies in such a way that Nigeria's economy becomes the growth focal point. For example, during the Chinese reform years, foreign direct investment inflows to China were subject to numerous rules and regulations including comprehensive plans to develop Chinese technological capability, strict local content requirements.

Nigeria should undertake a thorough reform of its foreign policy and use it bilaterally and globally for the effective promotion of economic stability and mutually beneficial international cooperation.

The government of Nigeria should ensure strict compliance with the implementation of local content in the country. This will allow the country to benefit from massive

infrastructural growth and financing gathered from China by transferring technology / technical expertise, growing small and medium-sized business development and creating jobs.

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