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# China-Nigeria Currency Swap Agreement: A Constructive Interogation

***Ojinnaka Ify Evaristus PhD***
*Research Scholar, Geopolitics, Peace and Conflicts Studies,*
*Ignatius Ajuru University of Education, Rumuolimeni, Port Harcourt, Nigeria.*

***Uhuegbu C. Ifeoma PhD***
*Department of Political Science (International Relations), Imo State University, Owerri, Nigeria.*
einndoprojects@gmail.com

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*Currency Swap, Balance of Trade, External Economic Relations, Bilateral Trade Agreement, Currency Liquidity, and Foreign Exchange Market.*

***Abstract***

*This Paper is a constructive interrogation of China-Nigeria currency swap agreement. The deal is meant to bypass the US dollar as a currency of settlement in transactions between the two countries. It is expected to make enough local currency liquidity available to Nigeria and Chinese businessmen doing business in each other's territory. The currency swap is aimed at stabilizing Nigeria Foreign Exchange Market and conserves her foreign exchange reserves. The theory of Balance of Trade was used as the intellectual framework of analysis. Also, Secondary method of data collection was used and the data collected was contently analyzed. The study finds the deal have significantly reduced the pressure of dollar on naira and have made Nigeria foreign trade and investment relations with China less vulnerable to unstable international financial system. The paper argues that with Chinese RMB as currency of settlement in the Nigeria-China trade relations; it will strengthen Nigeria foreign reserve, and stimulate financial discipline. The Paper maintains that the deal has eliminated the difficulties associated with dollar as a medium of settlement in international transactions. The study recommendations among others; Nigeria to restructure and align its economy to the path of production; Nigeria to create an enabling environment for Foreign Direct Investment, Nigeria to regulate the activities of foreign firms, the Central Bank of Nigeria should develop mechanism for oversight to prevent possible depreciation of the Naira against the Yuan, and Nigeria should focus on the local production of goods and services it has comparative advantage over China.*

## I. Introduction

### Background to the Study

The origin of currency swap can be traced back to 1970s and early 1980s when the first known formalized currency swap agreements between International Business Machine (IBM) and the World Bank was signed and activated (Central Bank of Nigeria, CBN, 2016). In the recent times Chinese Yuan has become prominent currency of international transaction and a global reserve currency. China has signed currency swap agreement with many countries including Argentina, Belarus, Indonesia, Malaysia, Singapore, Brazil, South Korea, UK, Iceland, Uzbekistan and, South Africa, Ghana, Zimbabwe and others. The deal is part of China's dream to internationalize its currency (RMB).

Nigeria and China signed three year renewable bilateral currency swap deal after four years of thorough negotiations between the Central Bank of Nigeria and the Peoples Bank of China. The agreement was signed in Beijing on Friday, April 27th 2018 by Godwine Emefiele Governor of the Central Bank of Nigeria and Mr. Yi Gang, the Corporate Head of the People's Bank of China (PBoC). Nigeria and China agreed to exchange a stipulated amount of their domestic currencies at agreed exchange rate within a specified period of time, thereby keeping their trade unaffected by the fluctuations of the value of dollar. This agreement is meant to bypass the US Dollar and end its domination of other international currencies in international trade settlement. According to the desired Nigerian authorities the agreement is intended to have long run significant impacts on Nigeria external economic relations by raising exchange rate value of the Naira and lower the value of the US Dollars in exchange to the Nigeria Naira (Abiodun and Kazeem, 2019). The terms of the agreement specifies that the Nigeria importers would access the Yuan locally and use it as the settlement currency for transactions in China, while the Chinese importers /investors would access the Naira locally from Chinese banks for payment of goods imported from Nigeria.

In Nigeria, exchange rate of Naira to other foreign currencies in the parallel market has been deteriorating in the recent times, while the demand for foreign exchange has remained high and supply continuously diminished (Nwokoma, 2017). Thus, as a remedy to this micro economic distortions, apart from enhancing currency market stability, the deal is expected to further facilitate trade and investment between the two countries (United Capital Research 2018), as it will make it easier for Chinese manufacturers seeking to buy raw materials from Nigeria to obtain enough naira from banks in China to pay for their imports from Nigeria; it will also encourage Nigeria importers to open Letter of Credit (LCs) in Yuan for the importation of raw materials, equipment and machinery from China. It is hoped that will therefore facilitate greater foreign exchange transactions and promote Nigeria external trade relations with China by eliminating the cost of exchange rate differential caused by dollar exchange conversion and scarcity.

The currency swap deal allows the direct exchange of RMB and Naira for the purpose of trade and direct investment between the two countries (www.fsdhhroup.com). Thus after signing of the three year renewable bilateral currency swap deal, the People's Bank of China (PBoC) and Central Bank of Nigeria (CBN) offer currency swap worth about $2.4 billion, in local currency the swap is worth 15 billion Chinese Renminbi (RMB) or #720 billion Nigeria Naira. In any case, Sino-Nigeria currency swap deal was aimed at promoting and advancing trade and investment transactions between the two countries. The whole idea behind the deal is to reduce the exposure of foreign reserves to the volatility risk of a single currency, the US dollar thereby establishing the real value of the Naira and Yuan exchange rates.

Thus Nigeria and China bilateral currency swap deal is aimed at strengthening Nigeria external economic relations by encouraging China and other countries willing to use Chinese Yuan to increase their imports from Nigeria, especially, in crude oil, solid mineral and other raw materials: thereby closing the huge trade gap between the two countries (Okwurume and Onuoha, 2019). To this end, this work intends to study, evaluate and analyze the implications of Sino-Nigeria currency swap deal for Nigeria external economic relations with China.

## II. Statement of the Problem

The failure of crude oil price from $110 per barrel between 2003 and 2014, to $40 per a barrel greatly exhausted Nigeria foreign reserve from $62 billion in 2008 to $37 billion in 2015.This resulted in economic downturn that led to harmful implications for Nigeria external economic relations. As Nigeria external reserve depleted, the Central Bank of Nigeria was unable to meet the increasing demand for dollar by Nigeria investors and importers. Grappling with this problem of dollar liquidity, the Central Bank of Nigeria considered bilateral swap agreement as an alternative avenue to stabilize its foreign reserve; hence the Nigeria Central Bank authorities took a bold step to extricate Nigeria from dollar dependency and diversified Nigeria foreign reserve.

However, the policy to diversify Nigeria foreign reserve was first initiated by the former Governor of the Central Bank of Nigeria, Sanusi Lamido Sanusi, who in 2011 announced a switch of between 5 and 10 percent of Nigeria's dollar buffers into Yuan as part of the plans to diversify the reserves away from the dollar (Okwurume and Onuoha, 2019). This was an officially designed strategy by the Nigeria government to ease the pressure on naira, potentially stabilize Nigeria's foreign exchange market, and help to conserve Nigeria foreign exchange reserves, as a way to shore up the value of the naira in the foreign exchange market (Okwurume and Onuoha, 2019).

According to Isaac Okoroafor (2016)) the spokesperson of the Central Bank of Nigeria (CBN) as cited in Ojinnaka (2024) the currency swap agreement provides naira liquidity to Chinese businessmen, as well as provides RMB liquidity to their Nigerian counterparts in return to improve the speed, conveniences and volume of transaction between the two countries. Thus given the current international financial architecture, and the critical issues arising from implications of the existing trade imbalance between Nigeria and China, the vital questions one is compelled to ask is the currency swap deal going to address the trade imbalance between Nigeria and China?, is it going to promote Nigeria industrialization and economic development? or is it going to further Nigeria dependence on China? These critical questions need to be answered in the light of the implications of these issues for Nigeria external economic relations.

It is obvious that the deal would help most Nigerian manufacturers, especially, small and medium enterprises (SME) and cottage industries in manufacturing and export businesses to import raw materials, spare parts and simple machineries to undertake their businesses (Okwurume and Onuoha, 2019). By changing Nigeria reserve composition, as a Sovereign States the currency swap deal will change the dynamics of international capital movements (Deergha Raj, 2016). Also by changing the demand for international currencies, the swap agreement can influence the relative price of international currencies leading to a change in international flow of goods and services in turn the change in balance of payment of sovereign States (Deergha Raj, 2016) of Nigeria.

Nevertheless the currency deal may have some negative implications for Nigeria external economic relations as it will increase the importation of goods and services from China thereby weakening Nigeria domestic manufacturing capacity (Ojinnaka, 2016. Anetoh et al, 2018).It will help to widen economic and investment relations between Nigeria and China, and other Asian countries. The ground purpose of this study is to investigate the implications of Sino-Nigeria Currency Swap deal for Nigeria's external economic relations, specifically the paper seeks to investigate the implication of the currency swap agreement for the stability of the value of Nigeria's Naira., to determine the extent the currency swap agreement has resolved the Nigeria balance of trade problem with China and to assess the extent to which the impacts of the swap agreement have effected Nigeria's external economic relations with China.

## III. Conceptual Review

### Conceptualizing Currency Swap

MARKET FORCES AFRICA (MFA) (2023) a financial news media platform for strategic opinions about economic policies, strategy & contemporary corporate analysis, in it piece on FX Swaps Account for 30% of Nigeria's External Reserves notes that in analysts perspectives, a foreign currency swap is an agreement between two countries to swap interest rate payments on their respective loans in their different currencies. MFA posits that the agreement can also involve swapping principal amounts of loans The MFA contends that. #FX Swaps Account for 30% of Nigeria's External Reserves.

Troy (2024) as cited in Ojinnaka et al (2025) define currency swap as an agreements between two parties to exchange one currency for another at a preset rate over a given period. He opined that these exchanges are more complex than simply changing denominations for accounting purposes instead; they set the stage for a large portion of global economic activity, allowing businesses to operate smoothly across borders and giving central banks powerful tools to manage monetary policy. Troy states that global daily currency swaps were worth about $400 billion, or around 5% of the $8.1 trillion forex market. He notes that currency swaps can be intricate; nevertheless, the basics will be familiar to anyone who has arrived at a foreign airport and stopped by an exchange booth to trade their money for the local currency. Troy acknowledged that currency swap involves the exchange of interest and sometimes principal in one currency for the same value in another. He posits that companies doing business abroad often use currency swaps to get more favorable loan rates in the local currency than if they borrowed money from a local bank. Thus considering a foreign exchange transaction, Troy contends currency swaps are not legally required to be shown on a company's balance sheet. The scholarly further states that interest rate variations for currency swaps include fixed rate to fixed rate, floating rate to floating rate, or fixed rate to floating rate.

In his background knowledge of currency swap, the scholar further states that currencies were initially swapped to get around exchange controls, or legal limits on buying or selling currencies. However, nations with weak or developing economies generally use foreign exchange controls to limit speculation against their currencies, most developed economies have eliminated them. Troy states that such swaps are now most commonly done to hedge long-term investments and change the interest rate exposure of the two parties participating in the swap, as companies doing business abroad often use currency swaps to get more favorable loan rates in the local currency than they could if they borrowed money from a bank in that country.

Research studies conducted by Yuantao et al. (2024) on the impact of short-term cross-border capital flows on stock market prices in China highlights that as of December 2022, the RMB remains the fifth most active currency for global payments by value, with a market share of 2.15%, trailing behind the US dollar (41.89%), euro (36.34%), British pound (6.08%), and Japanese yen (2.88%). Again, given the dominant position of the US dollar in the international monetary system, Ojinnaka (2024) maintain that China and Nigeria must be sensitive to the macroeconomic dynamics associated with changes in the RMB's exchange rate against the US dollar. The scholar consent that Nigeria-China currency swaps would reduce Nigeria firm's exchange rate exposure to fluctuations of the US dollar exchange rate. Ojinnaka strongly argue that before the Nigeria signed currency swap agreement with China, imports from China has been a major source of foreign exchange drain on Nigeria economy, as goods and items that could be sourced locally was even imported from China. Abbah (2019) argue that Nigeria was over dependent on China for manner of imported goods, even the forex restriction for importation of certain items, such as toothpicks, could not ease the forex burden being exerted on the economy by importers of China's goods. According to Abbah to reduce the burden on forex, especially in relation to dollars, on July 20, 2018, the Central Bank of Nigeria (CBN) began the sale of foreign exchange in Chinese Yuan (CNY), signaling the consummation of the Bilateral Currency Swap Agreement (BCSA) Nigeria signed with the People's Bank of China (PBoC) on April 27, 2018. In the same vein, the Central Bank of Nigeria (CBN) (2018) stated that the currency swap between Nigeria and China, which would be Special Secondary Market Intervention Sales (SMIS) retail, would be dedicated to the payment of Renminbi-denominated letters of credit for raw materials, machinery and agriculture. To this, Nigeria has injected a total of $868.56 million, translating to 141.47 Chines Yuan into the Secondary Market Intervention Sales (SMIS) to reduce the burden of using dollars to import from China (CBN Report, 2018). Notwithstanding the swap deal Ojinnaka (2024) assert that analysis of trade and investment statistics between China and Nigeria has shown that it is heavily to the disadvantage of Nigeria, and Nigeria is at great deficit in its economic activities with China.

Finance Facts (2024) states that foreign currency swaps represent an agreement between two parties, usually between businesses or financial institutions, to exchange interest payments on their respective loans denominated in different currencies. In some cases, these arrangements may also involve the exchange of principal amounts. Finance Facts argue that one crucial motivation behind engaging in a foreign currency swap is to procure loans in foreign currency at more favorable interest rates compared to those available domestically. It highlights that during times of economic instability or financial crises, such as the 2008 global crisis, currency swaps can play a pivotal role in addressing liquidity challenges faced by nations. For instance, foreign central banks could provide loans in foreign currencies to help stabilize their respective economies and ensure access to essential resources (Finance Facts, 2024). In a ground study of foreign currency swap, Financial Facts posits that foreign currency swap is a financial instrument that allows two parties, often businesses or financial institutions, to exchange principal and interest payments denominated in different currencies for a specified period. While similar to an interest rate swap, the main difference lies in the fact that foreign currency swaps involve the exchange of actual principal amounts (if applicable) at the onset and maturity of the transaction.

In a synthesized analytic commentary of the history of Foreign Currency Swaps Finance Facts (2024) posits that foreign currency swaps are an integral part of international financial markets, with their history dating back to the early 1980s. FF notes that the concept of swapping interest payments in different currencies first gained traction due to a growing need for multinational corporations and governments to manage foreign exchange risks and access cheaper borrowing costs. It argues that the historical significance of foreign currency swaps can be attributed to their evolution from simple exchange agreements between two counterparties, to sophisticated financial instruments that are used extensively in the global economy. FF posits that the first recorded instance of a currency swap took place in 1981 between the World Bank and IBM Corporation. It notes that following the IBM-World Bank Swap Deal in the early 1980s, the international financial community was grappling with high levels of interest rates and volatility. At that time, foreign currency swaps were an attractive alternative for companies seeking to borrow at more favorable terms than what local markets could offer. FF maintains that the IBM-World Bank swap deal is considered a milestone in the history of foreign currency swaps in that it involved the exchange of notional principal amounts in U.S. dollars and German Deutsche marks, with each party making interest payments on the other's loan principal throughout the length of the agreement.

The Finance Facts argue that since the IBM-World Bank swap, foreign currency swaps have become increasingly popular tools for managing foreign exchange risks, hedging investments, and providing access to cheaper borrowing costs. It states that in the 1980s, foreign currency swaps helped European economies recover from a severe recession by allowing them to secure funding at lower interest rates than would otherwise have been available through local markets. Finance Facts highlights that in the 1990s and beyond the use of foreign currency swaps expanded significantly as countries implemented monetary union programs such as the European Monetary System and the Exchange Rate Mechanism (ERM). These initiatives ff posits required member nations to maintain their currencies within a specific band against other participating currencies, creating a strong need for managing exchange risks through the use of foreign currency swaps. Nevertheless, FF states that understanding the benefits and risks of foreign currency swaps is essential for businesses operating in today's global economy. By carefully weighing the advantages and disadvantages of this financial instrument, organizations or countries can make informed decisions about its use and ensure that they mitigate potential risks while maximizing the rewards. On this notes, Financial Facts, maintain that overtime, the role of regulation in Foreign Currency Swaps (FCS) have grown as the popularity and usage of foreign currency swaps grew, regulators began to take notice. In response, organizations such as the Bank for International Settlements (BIS) issued guidelines designed to promote transparency and reduce risks associated with these transactions.

Financial Facts further argue that one key development was the introduction of the International Organization of Securities Commissions' (IOSCO) Principles for Financial Benchmarks in 2013, which provided guidance on how to design, calculate, and publish benchmark interest rates like that underpinned a significant portion of foreign currency swap transactions. It concludes that the history of foreign currency swaps demonstrates their evolution from simple exchange agreements to sophisticated financial tools used by multinational corporations, governments, and international organizations to manage foreign exchange risks and access cheaper borrowing costs. FF notes that understanding the historical context of foreign currency swaps provides valuable insight into their significance and the role they play in the global economy today.

Raphael (2009) highlights that in the 1970s, the dark ages of regulatory excess; globalization was impeded by tough restrictions imposed by governments on outflows from their capital markets. U.S. and U.K. companies got around some of these restrictions by devising parallel loan agreements whereby U.S. companies funded subsidiaries of U.K. companies in the United States and U.K. companies funded subsidiaries of U.S. companies in the United Kingdom. The scholar note that through this, cross-border transfers were avoided but the arrangements were complex and subject to legal haggling, hence in 1976, the swap emerged as a much simpler solution to the problem, and its popularity has grown ever since as more and more uses have been found for this predominant derivative.

Finance Facts (FF) (2024) and Central Bank of Nigeria (CBN) (2018) assert that the history of currency swaps dates back to 1981 when the World Bank entered into the very first currency swap with IBM Corporation. The deal involved the exchange of German Deutsche marks and Swiss francs for U.S. dollars, offering both parties an opportunity to secure financing in desirable currencies. Finance Facts argue that foreign currency swaps can be structured as either fixed-for-fixed rate or fixed-for-floating rate arrangements. In a fixed-for-fixed swap, the two parties exchange fixed interest payments on their respective loans. Also, in a fixed-for-floating arrangement, one party exchanges fixed interest payments for floating interest payments from the other. Notably, principal amounts do not always need to be exchanged during these transactions; instead, they can remain notional and serve as a basis for calculating interest payments throughout the agreement's term (Finance Facts, 2024). Finance Facts note that there are some potential benefits of currency swap; the significant advantage is the ability to secure lower borrowing costs by accessing more favorable financing terms available in other countries or markets. Another key reason is the hedging of exchange rate risks. As countries can utilize currency swaps to protect themselves from adverse movements in exchange rates, which might otherwise impact their investment and trade profitability and balance sheets negatively. Nevertheless, FF maintain that foreign currency swaps have been an integral part of the global financial landscape for decades, providing a valuable tool for businesses and institutions looking to manage their foreign exchange risks, secure favorable borrowing terms, or facilitate cross-border transactions. Financial Facts argue strongly that the key advantage of a currency swap is that it enables businesses or financial institutions to borrow funds in a foreign currency at potentially lower costs than if they were to secure a loan locally. This can be especially beneficial for companies operating internationally, as they may need access to multiple currencies to manage their business activities and mitigate exchange rate risks.

Conceptualizing the origin and development of currency swap Tgjuhelp (2024, July 8,) posits that swap agreements originated from agreements created in Great Britain in the 1970s to circumvent foreign exchange controls adopted by the British government. The first swaps were variations on currency swaps. The British government had a policy of taxing foreign exchange transactions that involved the British pound. This made it more difficult for capital to leave the country, thereby increasing domestic investment. Tgjuhelp maintain swaps were originally conceived as back-to-back loans. Two companies located in different countries would mutually swap loans in the currency of their respective countries. Tgjuhelp (note that this arrangement allowed each company to have access to the foreign exchange of the other country and avoid paying any foreign currency taxes. Tgjuhelp assert that the IBM and the World Bank entered into the first formalized swap agreement in 1981. The World Bank needed to borrow German marks and Swiss francs to finance its operations, but the governments of those countries prohibited it from borrowing activities. IBM, on the other hand, had already borrowed large amounts of those currencies, but needed U.S. dollars when interest rates were high for corporate borrowers. Tgjuhelp points that Salomon Brothers came up with the idea for the two parties to swap their debts, IBM swapped its borrowed francs and marks for the World Bank's dollars. Tgjuhelp states that the IBM further managed its currency exposure with the mark and franc and this swaps market has since grown exponentially to trillions of dollars a year in size. Tgjuhelp further states that the history of swaps wrote another chapter during the 2008 financial crisis when credit default swaps on mortgage backed securities (MBS) were cited as one of the contributing factors to the massive economic downturn. Tgjuhelp contends that credit default swaps were supposed to provide protection for the non-payment of mortgages, but when the market started to crumble, parties to those agreements defaulted and were unable to make payments. This according to Tgjuhelp has led to substantial financial reforms of how swaps are traded and how information on swap trading is disseminated. Hence today, swaps were historically traded over the counter, but they are now moving to trading on centralized exchanges.

In the same vein, Alberto (2022) posits that in 1981, Salomon Brothers intermediated what is commonly regarded as the first swap between the World Bank and IBM. At the time, the World Bank faced significant demand from borrowers in Swiss francs (CHF) and Deutsche marks (DEM) because the interest rates for those currencies were almost half the U.S. dollar (USD) rates. He note that since both the Swiss and the West German government had imposed limits on the level of borrowings a bank could do, by August 1981 the World Bank had already reached those limits. Arguing further the scholar states that some years earlier IBM had embarked on a funding program where many debts were originated in CHF and DEM and then remitted back to USD to fund operations within the organization. According to Alberto, the transaction provided a considerable advantage to both counterparties: IBM could convert its CHF and DEM liabilities into USD and the World Bank was able to circumnavigate the borrowing limits imposed by the Swiss and the West German governments.

Coyle, (2000) posits that Currency swaps were originally conceived in the 1970s to circumvent foreign exchange controls in the United Kingdom. At that time, UK companies had to pay a premium to borrow in US dollars. To avoid this, UK companies set up back-to-back loan agreements with US companies wishing to borrow sterling. Sources from wikipedia Historical facts ( July 2021) contends that the first formal currency swap, as opposed to the then used parallel loans structure, was transacted by Citicorp International Bank for a US$100,000,000 10 year US dollar-sterling swap between Mobil Oil Corporation and General Electric Corporation Ltd (UK). It argued that the concept of the interest rate swap was developed by the Citicorp International Services unit in 1980 but cross-currency interest rate swaps were introduced by the World Bank in 1981 to obtain Swiss francs and German marks by exchanging cash flows with IBM, According to wikipedia Historical facts the deal was brokered by Salomon Brothers with a notional amount of US$210 million and a term of over ten years.

Sources from the United States Federal Reserve outlined that during the 2008 financial crisis, the currency swap transaction structure was used by the United States Federal Reserve System to establish central bank liquidity swaps. In these, the Federal Reserve and the central bank of a developed or stable emerging economy agree to exchange domestic currencies at the current prevailing market exchange rate, and agree to reverse the swap at the same exchange rate at a fixed future date (Federal Reserve, 2010; Chan, 2008). According to the United States Federal Reserve authorities the aim of central bank liquidity swaps is "to provide liquidity in U.S. dollars to overseas markets, even as central bank liquidity swaps and currency swaps are structurally the same. The FRS states that currency swaps, as commercial transactions are driven by comparative advantage.

Turner (2009) and Reuters (2011) highlights that People's Republic of China has multiple year currency swap agreements of the renminbi with Argentina, Belarus, Brazil, HongKong, Iceland, Indonesia, Malaysia, Russia, Singapore, South Korea, United Kingdom and Uzbekistan that perform function equal to the central bank liquidity swaps. In the same vein, wikipedia (July, 2021) highlights that many countries have at one time of the other signed currency swap agreement. For instance. in August 2018, Qatar and Turkey's central banks signed a currency swap agreement to provide liquidity and support for financial stability. Again, South Korea and Indonesia signed three year renewable a one-rupiah currency swap agreement worth US$10 billion in October, 2013. In line with the agreement, the two nations can exchange up to 10.7 trillion won or 115 trillion rupiah for three years.

According to wikipedia the currency swap deal led to increase in trade and services between the two countries, as of 2013, South Korea imported goods worth US$13.2 billion from Indonesia, while its exports to Indonesia reached US$11.6 billion. Equally, the Economic Times on 30th of October 2018 reported that Japan and India signed a currency swap agreement worth US$75 billion in October, 2018, which has been one of the largest bilateral currency swap agreements ever in history. Wikipedia posits that the currency swap deal is anticipated to promote bilateral trade and strengthen financial cooperation for the economic development of the countries that signed the deal and it would also ensures the settlement of trade in local currency between the two countries even in times of financial stress to support regional financial stability.

Financial Facts (FFs) (2024) strongly argue that the process of a Foreign Currency Swap (FCS) involves detailed and structured agreement between the contracting parties, countries or business organizations. According to Currency swaps can help mitigate the impact of exchange rate fluctuations on businesses and investments. FFs states that the risk management tool allows parties to hedge against potential losses resulting from changes in currency values, hence in some cases, the countries or companies may not have access to sufficient financing in their home markets, but by participating in a swap arrangement with a counterparty, they can tap into alternative sources of capital and expand their business and transaction opportunities. FFs states that a foreign currency swap is an essential financial instrument that enables parties to exchange interest payments on their respective loans made in different currencies. It offers benefits like reduced borrowing costs, risk management capabilities, and access to foreign capital. It maintain that understanding the background, process, and various types of currency swaps, businesses and investors can make informed decisions about utilizing this valuable financial tool in their strategies.

**Conceptualizing Nigeria-China Currency Swap**

Anichukwueze (2024) posits that China-Nigeria currency swap which was originally signed in 2018 was aimed at addressing liquidity challenges for businesses in both countries and facilitating trade in their respective currencies. The scholar highlights that China and Nigeria have renewed a 15 billion yuan ($2 billion) currency swap agreement intended to enhance trade and investment between both countries. In the same vein, the People's Bank of China (PBOC) as cited in Anichukwueze (2024) noted that the facility will help strengthen financial cooperation and expand the use of the two currencies. According to the People's Bank of China the agreement is valid for three years and can be renewed upon mutual consent. With this deal, the direct exchange of the Chinese yuan and Nigerian naira will be seamless, providing an alternative to the reliance on the US dollar and reducing transaction costs in trade between the two nations. It allowed for the exchange of up to 15 billion Chinese yuan (CNY) for 720 billion Nigerian naira (NGN), equivalent to $2.5 billion at an exchange rate of NGN305 to $1. Anichukwueze (2024) maintain that the swap agreement is meant to rationalize trade transactions by getting rid of the need for US dollars as an intermediary currency. He explains that the deal provides liquidity in naira for Chinese businesses operating in Nigeria and in Yuan for Nigerian firms trading in China. The scholar contends that the system is meant to facilitate seamless transactions, support bilateral investments, and enhance market efficiency. He argues that the facility would also assist both countries in their foreign exchange reserves management, enhance financial stability, and promote broader economic cooperation between the two countries. Thus the agreement means that the central banks of both countries can inject liquidity into their respective financial systems via bi-weekly auctions (Anichukwueze, 2024).

Chima and Mmaduabuchi (2018) in their paper on analysis of the Financializaction and swapization:: A Chinese life boat for economic development of Nigeria posts that currency swap is the contemporary finanecialization that occurs as a result of foreign exchange volatility, while the Central Bank of Nigeria (CBN)(2016) maintain that currency swap enables organizations to leverage on business opportunities that are available in some other countries.

Ogunlola, bankola and Adewuji (2010) noted that Nigeria have political and economic relations with many countries but available information points to a general upward trend in the inflow of Foreign Direct Investment (FDI) from China to Nigeria. The scholars maintain that public investments and economic activities of the Chinese in Nigeria have also gained prominence in the recent times. Adeboye (2018) as cited in Abiodun and Kazeem (2019) posits that almost 70% of Nigeria imports come from China and other Asian countries. This has no doubt influenced the decision of the Nigeria federal government to negotiate a currency swap deal with China. Thus instead of using the US dollar at #450 to $1 USD in our transaction with China Nigerians can now buy the Chinese Yuan at the rate of #47 to Yuan. The scholar note that this policy deal have polarized Nigerians as regards to the benefits or its negative impacts to Nigeria economic development , especially in this era of the globalization of the world economy which has resulted in constant value fluctuation of Naira.

In the same vein, Chima and Mmadubike (202018) consent that financial development and integration are indispensible, if Nigeria is to increase its economic growth rate and reduce poverty. The scholars maintain that Nigeria financial systems have less depth than in the other regions in the world, and financial services reach fewer people than elsewhere. In other words the effectiveness of monetary policy in Nigeria has long been constrained by lack of financial depth. The scholars added, though this policy is largely driven by deregulation, liberalization and increasing wave of economic globalization, the resultant rapid financial sector development without solid base for industrialization and economic growth may incapacitate Nigeria productive capacity.

The structural changes in financial markets have equally exposed them (Nigeria financial institutions) to various risks amd posed several challenges for the supervisory authorities, hence Ogunlola, bankola and Adewuji argue that Nigeria has unbalanced trade relations with China and the structure and pattern of Nigeria-China trade relations and Foreign Direct Investment flow is exploitative. In the same light Ojinnaka (2016, 188) argues that the foundation of Nigeria external economic relations has been weakened by the volatility of the United Stated dollar as a currency of settlement in international transaction. The scholar note that the difficulties associated with the use of dollar as a medium of international transaction greatly undermines Nigeria external economic relations, as Nigeria external partners lost confidence in the Nigeria economy due to foreign exchange crisis. Ojinnaka further states that the highest stage of Nigeria-China relations is the currency swap agreement under Buhari administration. He notes that the currency swap deal policy of Nigeria government is aimed at restructuring Naira base on Nigeria trade liabilities and imbalance. A policy Ojinnaka posits will take Nigeria external economic relations to another level.

Nwokoma (2017) maintain that even before the currency swap agreement, the trade volume between Nigeria-China stood over #1trillion in 2012 with deficit of #270 Billion against Nigeria. The scholar writes in the light of the fact that the swap deal will further results in Nigeria trade deficit in favour of China. Conversely, Okwurume and Onuoha (2019) observe that Nigeria needs home grown policy to redirect and keep the economy on the part to sustainable growth. Not only that the currency swap deal will reduce Nigeria exposure of foreign reserves to the volatility risk of a single currency, the dollar, Nigeria will gain from the technical knowhow and Chinese ingenuity, especially in the area of information technology. The scholars argue that China's acceptance to swap its currency with Nigeria's Naira is an expression of confidence in the Nigeria economy, which is a good signal that Nigeria is back in business. They maintain that the deal has opened a fertile ground for mutual international trade and business between the two countries. Peoples Bank of China (PBOC) (2018) report that the swap agreement is to facilitate bilateral trade, direct investment and safe guide financial market stability. The deal is supposed to reduce the demand for US dollar by Nigeria business men doing business in China, as a result strengthen the value of the Naira. The deal will reduce both tariff and non-tariff barriers for Nigeria importers from China, as well as the difficulties associated with transactions in multiple currencies.

In the same vain the Chinese Foreign Ministry (CFM) (2016) note that since the currency swap deal between the two countries , China has invested $22 billion in projects in Nigeria and $23billion worth of projects are ongoing and over $40billion worth of investment are on the pipeline. Atinks (2016) and Durden (2014) contend that currency swap deal has both merit and demerit accruing from it. On the benefits and the dangers of Nigeria-China currency swap deal, Atinks argue that whiling increasing trade with China is a benefit to Nigeria; a possible political turmoil is the possible danger of the swap agreement. Also Durden states that as many countries through the swap agreement began to reject the dollar due to the exported inflation that is growing in the countries that are relegated to having to hold them for global oil purchase, alternative such as the Chinese Yuan will become a more viable option. Murphy and Yuan (2009) do not envisage any danger to the dollar from the Chinese currency swap agreement. The scholars argue that since the US is still number one destination for Chinese exports and as transactions are still denominated in dollar, the country will continue to build its dollar reserve Murphy and Yuan posits that given its vast holding and limited investment options, Beijing has little options but to continue to support the US dollar.

According to Cameron Ling as cited in KPMG (11 January 2017) the Internationalization of Chinas Currency the inclusion of RMB into IMF Special Drawing Right (SDR) is the real beginning of RMB internationalization. RMB joined a limited basket of currencies: USD, EUR, JRY and GBP, that is the make-up of IMF SDR, a supplementary foreign exchange reserve asset. How-how and Gleave (2017) maintain that as of 1st October, 2016, the RMB represents the 10.92% of that basket larger than both the JPY and GBP shares. The scholars argue that for RMB internationalization, the period since mid 2015 and continuing into 2017 is a pivotal period. The best part of a decade up to 2015, there was a reasonable steady, if not particularly fast march of RMB liberalization and internationalization. Thus Making Chinas long term ambitions for the RMB remain unchanged. How-how and Gleave note that joining the unofficial club of global currencies is a significant milestone in internationalization of RMB which may expand the demand of foreign institutions for RMB and RMB denominated assets.

Muda (2015) as cited in Ojinnaka (2016) argue that though the swap deal would smoothen the payment system in the bilateral trade relations, it might not really strengthens the naira in the foreign exchange market as the nation (Nigeria) would have to enhance its productive base to achieve that. Also, Burimoh (2016) maintain that the quest for dollar through banks will definitely reduce and the agreement will eliminate challenges arising from transactions with the dollar and promote business flexibility between Nigeria and China. Investigations by Ojinnaka (2016, 196) on the impact of swap agreement on the global financial stability maintain that currency swap agreement has several implications for countries issuing international currencies as it could lower the demand for an international currency, lower its relative price in the capital market as well as change the balance of payment and real income of the countries issuing the currencies. This he argues is bound to produce financial bottleneck effects on the economies of the countries concerned.

Muda Yusuf of the Centre for the Promotion of Private Enterprise [CPPE] speaking on the currency swap crisis in Nigeria posits that the CPPE is concerned that the failure of the currency swap could put N100 trillion component of the national GDP at risk. He highlights that two critical sectors are particularly vulnerable as a result of the currency swap crisis: Trade and Commerce; and Agriculture (Muda, as cited in Odiong, 2025). Muda argue forcefully that the crippling of business transactions at the distributive trade end amid the currency swap crisis would not only undermine the trade and agricultural sectors, but would have a knock-on effect on manufacturing value chain and the services sectors. This he states is because whatever is produced have to be sold. Odiong contends that the trading end of the chain has been greatly disrupted by the currency swap crisis.

According to Odiong the trade sector contributes about 14% of GDP valued at an estimated N35 trillion; agricultural sector contributes 25%, valued at an estimated N62 trillion. Most of the activities in these sectors are either in the rural areas or in the informal sector of the economy. He states that these are the sectors that have been driving the resilience of the Nigerian economy amid numerous domestic and global headwinds. He advised that any policy measure that would negatively disrupt these sectors should be avoided. For an economy that is tottering on the brink, the capacity to absorb shocks and disruptions is severely constrained. Arguing further Odiong contends that with 133 million Nigerians in poverty, inflicting additional hardship on the citizens would be unfair, insensitive and inconsiderate. He states that the citizens should not be made to pay for the incompetence, inefficiency and ineptitude of state institutions. Agreeing with Ojinnaka (2023), Odiong maintain that given the Nigeria internal and external economic dynamics: size of the Nigerian economy, large population of over 200 million people, the dominance of the rural economy, the huge informal sector, the literacy level, and the Nigerians ought to have been given proper education on the possible impacts of the the currency swap exercise between Nigeria and China.

Ojinnaka (2016; 188) maintain that the Nigeria –China currency swap deal has led to both positive and serious adverse effects on Nigeria external economic relations. He notes that though Nigeria has economic relations with so many countries in the World, China is Nigeria's largest trading partner and available information points to a general upward trend in the inflow of Foreign Direct Investment FDI from China to Nigeria. Similarly, Ogunkola et al (2010) contend that both public investment and private economic activities of Chinese in Nigeria have a gained prominence in the recent times due to the currency swap agreement. Ogunkola et al, (2010) & Ojinnaka (2016) posits that the implication of increased Nigeria-China public and private economic activities is that Europe and the United States is no longer Nigeria key trade and investment partners. Nigeria trade and investment relations have found new promising ally in China with market potentials at the global reach. The scholars concludes that though the resultant structure and pattern of trade and Foreign Direct Investment flow between Nigeria and China is unequal and exploitative, and has led to Nigeria unbalanced trade relations with China, it has displaced the United States and Europe as Nigeria's key trade partners

**The Theory of Balance of Trade**

The balance of trade theory of international political economy approach anchors on the difference between the monetary value of a nation's exports and imports over a certain period of time. According to Encyclopedia Britannica (2019) balance of trade is the difference between the value of a country's imports and exports of goods and services for a given period of time. In other words the balance of trade measures a flow of exports and imports over a given period of time. Thus balance of trade referred to the international trade balance of a nation. A country that imports more goods and services than it exports in terms of value has a trade deficit.

However, the concept of the balance of trade does not mean that exports and imports are "in equilibrium" with each other. If the exports of a country surpass its imports, the country is said to have a favorable balance of trade, or a trade surplus (Ojinnaka, 2023). In the same vein, if the imports exceed exports, an unfavorable balance of trade, or a trade deficit, exists. If a country exports a greater value than it imports, it has a trade surplus or positive trade balance, in the other hand, if a country imports a greater value than it exports, it has a trade deficit or negative trade balance of trade (https://www.freshgov.in/2019/11/balance-of-trade-of-trade-bot-is.html). Scholars of international political economy use the balance of trade to measure the relative strength of a country's economy.

A country that exports more goods and services than it imports has a trade surplus. The formula for calculating the balance of trade can be simplified as the total value of imports minus the total value of exports. For example in calculating Nigeria's balance of trade, the volume of trade between Nigeria and China in 2009 reached $73 billion, and $7.7billion in 2010, and over #1trillion in 2012 within this period of trade relations Nigeria imports of trade and services from China exceeded its exports to China. The result is a deficit of #270 billion against Nigeria (Ojinnaka, 2016, 364). In effect, Nigeria had to borrow money to pay for its goods and services, while China with a large trade surplus lends money to deficit Nigeria.

In some cases, the trade balance may correlate to a country's political and economic stability because it reflects the amount of foreign investment in that country. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad (Ojinnaka, 2023). Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy (Ojinnaka, 2023). By subtracting the credit items from the debit items, International political economists arrive at a trade deficit or trade surplus for a given country over the period of a month, quarter or year (Ojinnaka, 2023). Examples of Balance of Trade there are countries where it is almost certain that a trade deficit will occur. For example, Nigeria has had a trade deficit since its trade relations with China because of its dependency on imports of consumer products from China. Conversely, China produces and exports many of the consumable goods to Nigeria and has recorded a trade surplus. Though trade surplus or deficit is not always a viable indicator of an economy's health, For example, in a recession, countries prefer to export more to create jobs and demand in the economy. In times of economic expansion, countries prefer to import more to promote price competition, which limits inflation (Ojinnaka, 2023).

In the balance of trade theory, balance of trade is part of a larger economic unit, while balance of payments is the sum total of all economic transactions between one country and its trading partners (Encyclopedia Britannica, 2025).

## IV. Research Method

In this study we used secondary method of data collection. We relied on published scholarly materials that are relevant to Nigeria-China currency swap deal and its impacts on Nigeria development. Published materials like books, journals, periodicals, seminars and thesis, conference papers and government policy papers that gave us detailed understanding of Nigeria-China currency swap deal were used in the study. Thus data we obtained from secondary sources enabled us to properly understand the implications of China-Nigeria currency swap deal for Nigeria external economic relations. In addition, content method of data analysis was used in the analysis of data to ensure thorough and comprehensively analysis of data obtained.

### The Implications of Sino--Nigeria Currency Swap Agreement for Nigeria-China Trade and Investment Relations

Many scholars have documented Nigeria external trade relations, including Nigeria-China trade relations. Utomi (2007), Chibundu (2003), Oche (1997) Ojinnaka (2016) and (2024). According to Ojinnaka (2016). The trade and investment relations between Nigeria and China dates back to 1971, when both countries officially established diplomatic relations. Utomi (2007) assert that ever since officially established diplomatic relations between Nigeria and China the volume and value of trade between them grew at a lower level until rapid growth turned China in 1993 from a net exporter of crude oil to the second largest importer of crude oil in the world.

In the last few decades Nigeria imports from China have been higher than the exports leading to a negative trade balance. Nigeria had had imbalanced trade relations with China. The volume of trade between the two countries in 2009 reached $73 billion and $7.7billion in 2010 and over #1trillion in 2012 with a deficit of #270 billion against Nigeria (Nwokoma, 2017, Ojinnaka, 2016, 364) According to report by the National Association of Nigerian Traders (NANTS) (2018) the Nigeria trade volume with China increased to $14.94 billion in 2015 representing 22,2% of the $78.56 billion it traded with her eight biggest partners. At present about 78.1% of the nation's imports consumables come from the Asian Tiger and these are items that flow into the market space in large volume and turnover. It is worthy to note that close to 68% of traders regularly leaving the shore of the country for imports at the various airports on daily basis are heading towards the China market. This basically informed the Nigeria policy decision to tie the nuts with the Chinese currencies. Not only that the Nigeria-China currency swap would facilitate seamless transactions, but also to reduce the multiple jeopardy faced by traders and importers who would exchange local naira to dollar and from dollar back to the Chinese Yuan , thereby losing currency value at two poles up.( NANTS Report, 2018).

While the currency swap deal would reduce pressure on naira, the implications of the swap agreement to Nigeria external economic relations, indicates that the de facto currency dollar will no longer hold on the imports and exports deals between Nigeria and China, and Nigeria can through this agreement leverage on the technological prowess of China to attain a sustainable economic development (Uwaje, 2001). Also, the swap deal will be devoid of the current exchange challenges with the US dollar and will lead to naira inching up against the dollar in the parallel market. These and other factors informed the decision of the Nigerian government to sign currency swap agreement with the Peoples Republic of China.

However, the Nigeria-China trade and investment relations were first consolidate in 1990s under General Sani Abacha regime. The isolation of Nigeria and sanctions imposed by America and her Western harmony of nations in 1985 for Human Right abuses made the Abacha government to look east and courted the friendship of the Asian countries, particularly China (Ojinnaka, 1996). Also President Obasanjo granted China four drilling license to encourage her to invest $4 billion in Oil and infrastructural projects. While under President Jonathan Chinese firms were awarded contracts $10 billion on the generation, transmission and distribution in the power sector and over $2 billion for rejuvenation of rail system in Nigeria (Ojinnaka, 2016; 366). Nigeria imports from China accounts from an average of 20.95% of total imports between 2013 and 2017. Nigeria imports from China increased by 21.16% from #1.48 trillion in 2013 to #1.79 trillion in 2017.While over the same period Nigeria exports to China averaged just 1.50% of the total exports. The exports to China increased by 28.99% from #971billion in 2013 to #220.57 billion in 2017. Between 2016 and 2017 the value of bilateral trade between Nigeria and China increased by 30%, valued about $12.3 billion (FSDH Merchant Bank Research, 2018).

In this light, Isaac Okoronkwo, the spokesman of the Central Bank Of Nigeria asserts that with the operation of the currency swap agreement, it will be easier for most Nigerian manufacturers, especially Small and Medium Enterprises (SMEs) and Cottage Industries in manufacturing and export business to import raw materials, spare parts and simple machinery to undertake their businesses by taking advantage of available RMB Liquidity from Nigerian Banks without being exposed to difficulties of seeking other scarce foreign currencies. (Okoronkwo, 2018). The implications of this development for Nigeria external economic relations implies that significant portion of Nigeria imports bill will now be denominated and settled in Yuan. While this may improve Nigeria foreign exchange stability and aid external reserve management to a certain extent, it presents downside risks because removing trade barrier between the countries may increase Nigeria imports from China without corresponding exports which will further increase trade deficit with the country (Ojinnaka.2024).

Yan Yuqing, Consul General of the People's Republic of China in Lagos, posits that the bilateral trade between Nigeria and China surged to $15.48 billion between January and July 2025, representing a 34.7 per cent increase compared with the same period in 2024.Yuqinq described the sharp rise in trade volumes between the two countries as proof of the growing strength of China-Nigeria relations, noting that Nigeria has become China's second-largest trading partner in Africa (Yan, 2025). According to the envoy, the upgrade of relations between both nations to a comprehensive strategic partnership at the 2024 Forum on China-Africa Cooperation (FOCAC) has opened broader prospects for cooperation in key sectors such as infrastructure, energy resources, investment, culture, and education continues to deepen, areas she said continue to bring "tangible benefits" to citizens of both countries. The Chinese envoy posits that from January to July 2025, bilateral trade reached US$15.483 billion, marking a 34.7 per cent year-on-year increase, with Nigeria becoming China's second-largest trading partner in Africa. Accordingly, she states that the contributing factors to this development includes: the upgrade of bilateral/ diplomatic relations to a comprehensive strategic partnership between the two countries during the 2024 Forum on China-Africa Cooperation (FOCAC) summit, which has brought stronger economic ties, and opened broader prospects for cooperation (Yan, 2025).

Yuqing highlighted China's economic resilience despite global uncertainties, pointing out that the Asian giant recorded 5.3 per cent GDP growth in the first half of 2025 while maintaining its global leadership in innovation. Yuqing further praised the Chinese community in Nigeria for contributing to cultural exchanges, local development, and charity initiatives, urging them to continue to play a key role as "bridge-builders" in strengthening bilateral friendship between Nigeria and China. Encouraging the Chinese living in Nigeria Yuqing states thus:

> *"China-Nigeria relations are at their best in history, with profound prospects for cooperation. I urge you all to be bridge-builders in deepening China-Nigeria friendship, uphold unity and mutual assistance, and strive to be the vanguards in safe and lawful business operations".*

In the recent times, the Nigeria's manufacturing sector has sunk deeper into deficit, as imports of manufactured goods outpaced exports by more than N14tn in the first half of 2025. Official data from the National Bureau of Statistics highlight the scale of the country's industrial crisis and reinforces calls for urgent government action to reverse the trend (Arinze, 2025). Official NBS data indicates that the value of manufactured goods imported between January and June 2025,stood at N15.39tn, while exports during the same period amounted to just N1.09tn (National Bureau of Statistics 2025) This created a deficit of N14.3tn in only six months, continuing a long-standing imbalance that underscores Nigeria's reliance on foreign products (Arinze,2025).Although exports rebounded in the second quarter, rising to N803.81bn—up 173 per cent from the first quarter and 67.17 per cent year-on-year, industry players warned that the growth is insufficient to offset the flood of imports (Arinze,2025). According to Segun Ajayi-Kadir, The Director-General of the Manufacturers Association of Nigeria the figures is a troubling and the deficit is simply a confirmation that domestic manufacturing is still struggling, and more needs to be done to mitigate the widening gap between Nigeria exports and imports (Ajayi-Kadir, 2025). It is on record that over 65 percent of Nigeria imports within this period is from China, an indication of the negative impacts on Nigeria-China currency swap on Nigeria, as it has continued to widen Nigeria trade deficit with China. The structural weaknesses behind Nigeria's manufacturing widening deficit puts pressure on the Nigeria foreign exchange market, contributes to naira depreciation, and erodes the sector's role in driving economic growth. (Idahosa,2025).This defects points to chronic issues like low competitiveness, lack of raw materials, high energy costs, weak export infrastructure, and inconsistent policies (Idahosa,2025).

At present Nigeria do not have the structural and infrastructure capacity to increase its domestic production of goods and services and this has continued to complicate the nation's balance of trade problem with China. Thus Nigeria's domestic economic dynamics do not align with the nation's macroeconomic realities, which have been further weakened by poor export intelligence, weak port infrastructure, and regulatory bottlenecks. These factors of structural and economic weaknesses made the Nigeria exports products less competitive compare to those from its major trade partners like China (Ajayi-Kadir, 2025; Ojinnak, 2024).

In the other words, the uncritical currency swap agreement between Nigeria and China has worsened Nigeria structural weaknesses and widening its trade deficit in favour of China. Nigeria needs to develop competitive advantage in the production of certain exportable goods that China imports from Nigeria (FSDH, 2918) this is the surest way for Nigeria to maximize the benefits from the currency swap agreement with the Chinese as the currency swap agreement would boost the Nigeria economy (Yelwa, 2016).

**Sino-Nigeria Currency Swaps Deal and the Diversification of Nigeria Foreign Reserve: Implications for Nigeria External Economic Relations**

Since the era of the oil boom in 1970s, Nigeria has adopted two principal Foreign Exchange Regime Systems; direct administrative control exchange rate before 1986, and market regulated system introduced by General Babangida administration as component of Structural Adjustment Program in 1986. However, the emergence and development of foreign exchange market system in Nigeria has been influenced by some factors like the structure of international trade, internal economic dynamics and of some political changes in the country (Ojinnaka, 2016, 416).

Nevertheless, the highest stage of international financial democratization in the contemporary times is currency swapization (Chima, and Mmadubike,2018) Nigeria government currency swap deal with China holds both bright prospect and grave implication for Nigeria external economic relations in an era of foreign reserve diversification. In view of the fact that China is Nigeria's largest trading partner, the currency swap agreement is aimed at facilitating enhanced trade between the two countries. Not only that the diversification of Nigeria foreign reserve would help to smoothing the bilateral trade and investment relations between the two countries, it will improve speed, convenience and volume of transactions between them. Thus the diversification of Nigeria foreign reserve will broaden the capacity of foreign investors to invest in Nigeria and reduce the demand for dollar and eliminate the difficulties associated with it (Ojinnaka, 2016:334).

The currency swap deal implies that the Chinese Reominbi (Yuan) is free to flow among different financial institutions in Nigeria, and has been included in the foreign exchange reserve of Nigeria (Songtion, 2018), just as the case with the US dollars, Euro and Pounds Starlings and to that end Nigeria business could transfer funds to China in local currencies without the hassles of passing through Bureau de Change or creating unnecessary stress for the Central Bank of Nigeria (NANTS, Reports, 2018). This is a marked advantage because every existing trade relationships have their incumbent currencies. As Nigeria agrees to enter into currency swap deal with China, the major challenges facing Nigeria external economic relations in the acceptance of payment in

Chinese Yuan is where the money can be readily invested outside China, except where Yuan is considered as default reserve currency and / or settlement currency like some African countries, Ghana, South Africa and Zimbabwe (KPMG Report, 2017).

The inclusion of Chinese Yuan as part of Nigeria reserve currency in 2012 by Mr. Sanusi, the former Governor of the Central Bank of Nigeria, is principally to diversify Nigeria foreign reserve and reduce the currency risk associated with the US dollar. This policy action was taken at a time when the US economy was particularly vulnerable due to the weakness of their economy after global financial crisis triggered by sub-prime Mortgage (Chukwu, 2016). Because of this policy, the Nigeria external economic relations with some countries will be smoothened as the swap agreement will make available enough local currency liquidity to Nigeria and Chinese businessmen and investors who are willing and able to do business in each other territory.

However, it would be recalled that because of Nigeria's high volume of imports from China and other countries, particularly, western countries, the country has been experiencing foreign exchange rate crisis that has led to uncritical dollarization of the Nigeria economy. This did not only undermine Nigeria external economic relations, drastically reduced the standard of living of the Nigerian people, but drag the country into deep recession from 2015 to 2018. Due to grave implications and challenges arising from Nigeria-China currency swap deal, some critical intellectuals are opposed to the policy because the Nigeria-China trade and investment relations are broadly in favor of China. For instance in 2017 Nigeria imports from China stood at #1.8 trillion representing 18.7% total imports, while China exports to Nigeria stood at #220.6 billion, a mere 1.6% of total exports. (Okwurume and Onuoha, 2019)

Also, statistical records from Intelpoint.co (2025), UN Comtrade (2025) and Trading Economics (2025) as cite in Ojinnaka, Okere & Ozor (2025) shows that China recorded a $17.8 billion trade surplus with Nigeria in 2023, as exports outpaced imports by a ratio of 8.5 to 1. The UN Comtrade (2025) statistics indicate that in 2023; China's exports to Nigeria totaled $20.18 billion, while imports from Nigeria reached only $2.37 billion. China's trade surplus with Nigeria amounted to $17.8 billion. China exported $20.18 billion in goods and services to Nigeria, representing 89.5% of the total trade volume of their bilateral trade (Ojinnaka et al, 2025). While, Nigeria exported only $2.37 billion to China, just 10.5% of the total (UN Comtrade, 2025). According to Ojinnaka et al, (2025) the trade imbalance underscores Nigeria's strong and unhealthy dependence on Chinese goods and industrial inputs. Thus for every $1 Nigeria exports to China, it imports $8.50 worth of Chinese products (Intelpoint.co,2025).This significant trade imbalance in favour of China sustains the asymmetry China-Nigeria relations and constitutes serious constraint to the Nigeria indigenous capacity for development(Ojinnaka et al, 2025). Thus the China and Nigeria trade dynamics have shown severe disparity in China-Nigeria trade relations, which have negatively affected Nigeria economic development and furthered its underdevelopment (Ojinnaka et al, 2025). This disparity has been due to Nigeria's uncritical reliance on Chinese-manufactured products, machinery, finance, and consumer goods and services, while mostly supplying raw materials and other natural resources to China (Ojinnaka 2016:199). A flow in Nigeria imports from China without corresponding increase in China's import from Nigeria has undermined Nigeria economy and results in trade deficit in favor of China. If unchecked and unregulated, it may increase to an unprecedented level due to the increasing demand for Chinese goods and services by Nigerians without reciprocal increase in demand of made in Nigeria goods by the Chinese (Ojinnaka et al, 2025). Evidently, the currency swap deal therefore could widen the already large deficit while ultimately accelerating Chinas vision to internationalize its currency (Okwurume and Onuoha, 2019).

Again the swap agreement was not consummated between the two countries apex banks, but between the Central Bank of Nigeria (CBN) the Industrial Commercial Bank of China Ltd (ICBC) the world largest lender by total assets and market capitalization. While this may not affect the swap deal in any way, it raises some fundamental sovereign issues (anonymous stakeholder, 2016 as cited in Ojinnaka,2024).The major drawback to the swap policy is that an unrestricted access to Yuan will certainly encourage importation and stifle local production of goods and services. Given Nigeria's increasing appetite for imported Chinese goods, the Nigeria – China currency swap deal will lead to surge in the volume of goods and services imported from China. This will negate the federal government import substitution policy, stifle domestic production and place local industries in pitiable and vulnerable conditions with attendant effects that would deflect government effort at job creation (Okwurume and Onuoha, 2019).

However, the effectiveness of monetary policy in Nigeria has long been constrained by lack of financial depth. Though the policy of financial swap deal is largely driven by deregulation, liberalization and increasing wave of economic globalization, the resultant rapid financial sector development without solid base for industrialization and economic growth may incapacitate Nigeria productive capacity. The structural changes in financial markets have equally exposed them (Nigeria financial institutions) to various risks and posed several challenges for the supervisory authorities (Chima, and Mmadubike,2018).It is expected that the Nigeria-China swap deal will adversely affect the Nigeria–EU trade relations in favor of Nigeria because Nigeria trade focus will completely shift to China. As a result, the imperialist West may subtly try to frustrate the swap agreement (Ojinnaka 2024).

Nevertheless, the federal government of Nigeria hopes that the deal has potential of shoving up the value of Nigeria naira in the foreign exchange markets through a concomitant emergent bidding sachem with strategic reduced demand for dollar and other major currencies. It is agreed in the deal that the Central Bank of Nigeria can lend the proceeds of the swap against collaterals adequate to commercial banks in Nigeria to provide them temporary liquidity in foreign currencies (Ojinnaka 2024). The deal will lead to economic dependency resulting from the influx of Chinese goods into Nigeria. Replacing Nigeria dependence on Europe and America with dependence on China is not a good thing for the Nigerian economy. It will not only enhance China competition with Nigeria local industries, but could undermine the growth of the local firms (Ojinnaka 2024).

Evidently, the swap deal may improve Nigeria foreign exchange stability and aid external reserve management to a certain extent. It presents downside risks because removing trade barrier between the countries may increase Nigeria imports from China without corresponding exports which will further increase trade deficit with the country. Also high exchange rate of the US dollar discourages foreign investors in the Nigeria economy. Thus the deal will significantly reduce the ever increasing pressure on the US dollar in Foreign exchange Market which would bring down the value of dollar in Nigeria Foreign Exchange Market and attract foreign investors, especially, investors from China and other Asian countries.

In another hand, the Nigeria –China currency swap agreement would help China to have access to the supplies of its needs of industrial raw material resources such as Crude Oil and minerals for its expanding industrial sector. In the light of the unfavorable balance of trade between Nigeria and China, the reality of the swap deal may lead to Channelization of the Nigeria economy through excessive importation of Chinese goods into the country. Nigeria government have to sit up and aggressively pursue export base economic policies, reliable, predictable and secure business environment as well as reliable trade policy capable of attracting the confidence of the Chinese and other investors (Okwurume and Onuoha, 2019). On the whole, the deal will would gradually strengthen the Nigeria naira against the US dollar, thereby enhancing Nigeria external economic relations.

**V. Discusions and Analysis**

The Nigeria–China Currency swap agreement will facilitate trade and other business transactions between the two countries, and other Asian countries interested in doing business with Nigeria using the Chinese currency, as a currency of settlement in international transaction. The swap policy is intended to bypass the use of the US dollar and facilitate the direct exchange of Naira and the Renminbi in relation to business transactions between Nigeria and China. This will significantly decrease the strain on the Nigeria foreign reserve denominated in dollars and insulate the Nigeria economy from further external shocks resulting from the volatility of the dollar in international economic relations. To this end, the Chinese Remminbi is set to take an important place in global trade and shall boast reciprocal beneficial business deal in Nigeria external economic relations.

The isolation of dollar as a default currency of settlement in international trade is viewed as a significant endorsement and support for Chinese global ascendancy and significant trust between Nigeria and China in an effort to dethrone American global hegemony. The policy is driven by both political and economic considerations and has strong concentration in the Asian Pacific and Central Asia which suggests Nigeria abandonment of her traditional trading western nations, with the implications of Nigeria reprioritizing her external economic relations to Asia. The empirical observations by this paper are in accordance with the view that Nigeria external economic policy preference in the contemporary era is align with Chinese emerging global economic network.

After Nigeria experience from speculative attacks that inflicted serious economic pains and financial crisis that undermined her foreign exchange market, her policy elites became skeptical of the viability of international monetary design that relies on a single supper sovereign reserve currency (dollar as the main medium currency for international transactions), whose shortage has restricted Nigeria trade and investment opportunities and undermine the nation's economic development. The swap agreement underscores the Chinese growing influence in Nigeria. And the acceptance of RMB in Asian markets as a currency of transaction will enable Nigeria to have a access to large Asian market, enhancing its competitiveness and providing expansive economic opportunities abroad for Nigeria business men and Asian investors in Nigeria. This calls for a rational market-oriented approach to avoid widening of Nigeria China deficit which is already in favour of China. The Yuan-Naira swap deal is meant to offer backstop liquidity without resorting to the dollar in Nigeria trade relations.

Notwithstanding the US dollar's dominant position in the global monetary system, the Nigeria- China currency swap offers a relief measure to Nigeria economy that has been under the intense pressure from dollars in terms of exchange rate exposure. In spite of the fact that the United State dollar is currently the dominant currency in trade settlement and in reserve composition of many sovereign states, the swap deal will lower the pressure and demand for dollar in Nigeria-China trade relations. Thus the agreement was intended not only to stabilize the international financial market, but also to facilitate bilateral trade and investment relations between the two countries. Though the deal has some balance of opportunities, its major drawback is that the challenges of an unrestricted access to Yuan will certainly encourage unrestrained importation which will stifle local production of goods and services. More so, it holds great advantages for appreciation of the value of naira, promotion of direct investment, finance and trade between Nigeria and China and maintains financial market stability to diversify Nigeria foreign reserve. It is expected that if the right steps are taken, the deal will help to mobilize and utilize available human and material resources for the purpose of improving the living conditions of the Nigerian people.

## VI. Conclusion

The Nigeria-China currency swap deal holds both bright prospects and grave implications for Nigeria's economic growth and external economic relations. In the wake of the crisis in Nigeria foreign exchange market caused by the shortage of the US dollars as a medium of international transaction, Nigeria and China signed bilateral local currency swap deal to smoothen trade and investment relations between the two countries. The policy is meant to reduce the dependence on the US dollar for settlement of international trade and investment and mitigate the danger inherent in operating US-centric global financial system.

The volume and intensity of trade between Nigeria and China, economic size, market potential, free trade agreement, and desire for strategic partnership and stability of international financial market among other considerations are the factors that strongly informed the decision of the two countries to sign the currency swap agreement. Again, the currency swap deal between Nigeria and China will encourage strong trade and investment relations between the two countries. On the whole, the currency swap deal have smoothened Nigeria external trade and investment relations with China and other eastern countries that accept the Chinese Yuan in international trade settlement and have stabilized Nigeria foreign exchange market and conserve her foreign exchange reserves. Thus the swap agreement has not only reduced Nigeria's excessive reliance on the US dollar as medium of transaction in its external economic transactions, but has resulted in the appreciation of the value of naira while lowering the demand for the US dollar at the Nigeria foreign exchange market.

The currency swaps deal has restored a huge level of stability in the Nigeria financial system. The economic and political gains that stand to be harnessed by the two countries through the bilateral swap agreement are numerous, especially as majority of goods imported into Nigeria is from China. Not only that the agreement has to some extent reduced Nigeria uncritical reliance on the US dollar as a medium for settlement of international transaction, the deal have enhanced Sino–Nigeria foreign exchange reserve management, and have also encouraged and protected their business interests from harsh effects of global currency fluctuations. Indeed, it is expected that on long run, the agreement will lead to the appreciation of the value of naira in relation to the US dollar in foreign exchange market. Both Nigeria and China will through the currency swap deal enhance their foreign exchange reserve management, ensure financial stability and protect their business interests from harsh effects of global currency fluctuations. This will significantly reduce the increasing pressure of dollar on Nigeria external economic relations by making Nigeria foreign trade and investment relations less vulnerable to unstable international financial system. With Chinese RMB assuming new status of Super-sovereign reserve currency to replace the US dollar in the Nigeria trade relations with China, it will ultimately strengthen Nigeria foreign reserve, and stimulate financial innovations.

Nigeria-China currency swap deal is a blueprint for the diversification of Nigeria economy through self-reliant economic development strategy. Thus Nigeria needs to reorder its external economic relations and lay emphasis on comparative advantage in order to enhance domestic production of goods and services and boast economic development. It is on this footing that the Nigeria external economic relations with China through the swap policy can lay the foundation for successful actualization of the objective of the Nigeria national economic development by leveraging on Chinese technological breakthrough particularly in the field of Information and Communication Technology (ICT).

To realize the full objectives of this policy Nigeria needs to develop strong economic ties with China to enable her to withstand short term pressure on its economy that will likely come from the replacement of the US Dollar the Chinese RMB assuming new status of Super-sovereign reserve currency in the Nigeria trade relations with China. Though, Nigeria and the US and her Western harmony of nations have long standing diplomatic, economic, trade and investment relations, especially in the Oil sector and solid mineral development, these relationships between Nigeria and the West rather than enhancing Nigeria's indigenous capacity for economic development, it have undermined Nigeria autonomous capacity for development. The west has been exploitative in their dealings with Nigeria. This is primarily the reason many Nigerians are in support of the government new found relations with China with the hope that Chinese engagement in Nigeria will necessarily displaced the domination of Nigeria's diplomatic, economic, trade and investment relations by the United States and its western harmony of nations.

Nevertheless, this study will constitute an inspirational therapy to those who may wish to embark on academic research on the resurgence of ethno-nationalism in South-East Nigeria; hence it will serve as a referral material for further research.

Against the background of the foregoing analysis, the Nigeria-China currency swap deal holds both bright prospects and grave implications for Nigeria's economic growth and external economic relations, due to the corrosive effects and dynamic nature of globalization. Above all, the core benefit of the Naira and Renmnib's swap deal will be realized if Nigeria adopts measures to reduce her gross importation of goods and services from China and earnestly embark on economic self–reliant measures of establishing domestic technological base and export induced /oriented external economic and trade relations.

## VII. Recommendations

Against the background of these grand narratives, this study has the responsibility of advising the Nigeria business men and policy makers; hence it makes the following recommendation:

*That Nigeria government should create an enabling environment for Foreign Direct Investment (FDI), monitor and regulate the activities of foreign firms in the country.*

*That the Nigeria government should reinvigorate the regulatory agencies like the NAFDAC and Son to strengthen their capacity to check and regulate the importation substandard goods from China.*

*That the government should formulate export base economic policies to restructure and align the Nigeria economy to the path of growth by evolving policies that could turn her from consumer to export based economy. Equally, aligning its monetary and trade policies with its industrial policies will ensures ease of transaction, promotes domestic production by reviving and encouraging local industries. This should be focused on the strategy that would require some of imports from China to be produced locally after a defined time, particularly, goods that Nigeria has relative or comparative manufacturing advantage over China. In this context Nigeria should focus on how to achieve economic and industrial self-reliance through the Naira value appreciation brought about by the currency swap agreement, rather than embarking on dangerous extensive importation of substandard goods and services from China without relative exportation of Nigerian made goods and services to China.*

*To achieve the primary objectives of the swap deal, the Nigeria and Chinese governments should evolve strategic policy steps that would reduce the demand of the US dollar as a global reserve currency and eliminate the difficulties associated with its usage as a medium of settlement in international transactions in both countries.*

*Again, the Central Bank of Nigeria (CBN) should develop mechanism for oversight and regulations to prevent possible depreciation of the Naira against the Yuan, which is likely to widen the gap of balance of trade and balance of payments between Nigeria, China and other countries willing to accept the Chinese Yuan as currency of settlement in international trade.*

*The Nigeria government should impose higher tariffs on imported products with local alternatives or domestic substitutes. This will push demand towards local produce goods and services.*

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