

The political economy of the Nigeria–China bilateral currency swap agreement: Asymmetric gains and in who's best interest?

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Abstract

This paper examines the political economy of the 2018^[4] Bilateral Currency Swap Agreement (BCSA) between the Central Bank of Nigeria (CBN) and the People's Bank of China (PBoC), valued at RMB 15 billion (NGN 720 billion / USD 2.5 billion) and subsequently renewed in 2021 and late 2024. Positioned by policymakers as a strategic monetary tool to mitigate US dollar shortage pressures, decrease transaction costs, and stabilize foreign exchange reserves, the arrangement reflects deeper structural shifts in global monetary governance and South-South economic integration. Utilizing a political economy framework combining structural realism, dependency theory, and international monetary relations, this study evaluates the domestic driving forces, institutional mechanisms, and long-term distributional consequences of the agreement. We argue that while the swap deal successfully offered temporary FX liquidity relief to Nigerian importers and advanced Beijing's strategic campaign for Renminbi (RMB) internationalization, it ultimately exacerbated Nigeria's trade asymmetry with China. Rather than catalyzing structural transformation or export diversification, the swap facility reinforced Nigeria's status as a consumer market for Chinese manufactured goods, highlighting the limits of monetary mechanisms in overcoming underlying real-sector productivity deficits.

Keywords: Nigeria–China, Bilateral Currency, Internationalization, and Political Economy

Introduction

The evolution of the post-2008^[5] global financial architecture has been marked by expanding discontent with US dollar dominance, driving emerging and developing economies to seek alternative monetary arrangements to buffer their financial systems against external shocks, Federal Reserve tightening cycles, and persistent foreign exchange illiquidity. Within this landscape, the People's Bank of China (PBoC) has aggressively expanded its network of Bilateral Currency Swap Agreements (BCSAs) across the Global South. A key milestone occurred on April 27, 2018^[4], when the Central Bank of Nigeria (CBN) executed a landmark three-year BCSA with the PBoC valued at RMB 15 billion (NGN 720 billion / USD 2.5 billion), which was subsequently renewed in 2021 and 2024. Positioned by policymakers as a strategic monetary mechanism to relieve severe dollar shortages, reduce transaction costs, and stabilize foreign exchange reserves, this agreement highlights broader structural realignments in global monetary governance.

While conventional evaluations treat currency swaps narrowly as technical mechanisms for trade clearance and liquidity provision, this study applies a political economy framework synthesizing structural realism, international monetary hegemony, and dependency theory. The paper critically addresses three central questions:

1. What structural drivers and domestic imperatives motivated Nigeria and China to establish this arrangement?
2. How do the institutional mechanics of the CBN's RMB auctions operate, and to what extent have they achieved their macroeconomic goals?
3. What are the broader political economy implications regarding economic sovereignty, structural trade asymmetries, and the global monetary order?

The study synthesizes several distinct bodies of literature to interrogate these dynamics. Grounded in trade cost optimization and dynamic gravity frameworks (Anderson & van Wincoop, 2003; Olivero & Yotov, 2012), currency volatility and conversion fees are viewed as trade frictions that direct local-currency liquidity channels aim to mitigate. From a monetary perspective, swap lines serve as strategic instruments for currency internationalization and global reserve diversification (Eichengreen, 2011b; Cohen, 2012)^[3, 22]. As demonstrated by Mohammed (2019a, 2019b, 2019c, 2019d), Chinese swap arrangements play a dual role by facilitating trade clearance and advancing Beijing's geopolitical and financial integration across emerging markets. Furthermore, literature on exchange rate pass-through in Nigeria (Mohammed, 2016a, 2016b; Mohammed *et al.*, 2017)^[61, 62] emphasizes that direct currency swap auctions can help cushion domestic price stability against dollar-induced inflationary shocks.

However, the empirical literature on financial development and structural trade dynamics (Manova, 2013; Horn *et al.*, 2023; Mohammed *et al.*, 2023)^[19, 41, 59] cautions that local credit market imperfections, administrative allocation bottlenecks, and severe trade imbalances can constrain the net benefits of swap agreements. In the Sino-Nigerian context, because Nigerian exports to China remain minimal relative to its substantial industrial imports from China, the currency flow remains largely one-directional.

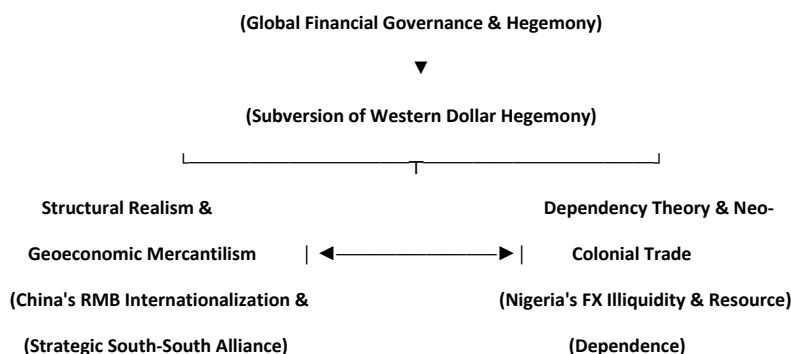
The remainder of this paper is organized as follows. Section 2 expatriates the theoretical and empirical literature. It provides the conceptual foundation, drawing on structural realism, monetary hegemony, and dependency theory while reviewing empirical studies on liquidity, trade flows, and financial development. Section 3 discusses the political economy drivers, which analyzes the domestic imperatives in Nigeria—specifically severe oil price shocks, foreign

exchange depletion, and commercial import pressures—alongside China's strategic push for Renminbi internationalization and the establishment of non-Western payment systems like CIPS. Section 4 discusses Institutional mechanisms and implementation analysis, it examines the operational framework of the CBN's bi-weekly RMB special auctions, evaluate performance metrics, and highlight utilization bottlenecks such as trade asymmetry, administrative constraints, and currency pricing friction. Section 5 further discusses the political economy assessment which investigates the distributional consequences of the deal, evaluating whether the facility fosters mutual gain or reinforces asymmetric dependency and primary-commodity

reliance. Section 6 Conclusion and Policy Recommendations which summarizes the core empirical and political economy insights and presents targeted recommendations—including non-oil export value addition, SME access expansion, RMB-denominated FDI incentives, and direct market-making—to align the facility with Nigeria's long-term economic sovereignty.

Theoretical and Empirical Literature

To interrogate the political economy of the Nigeria–China BCSA, this paper synthesizes three distinct theoretical traditions.



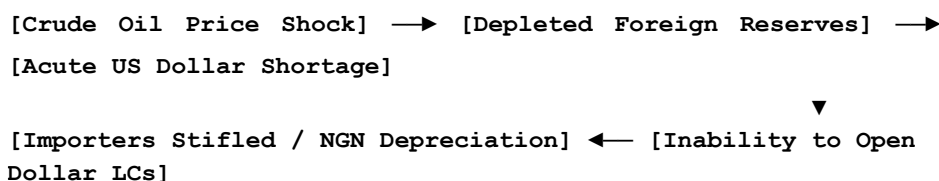
First, the structural realism and geo-economics theory, state actors deploy financial and monetary instruments as weapons of statecraft. For China, local currency swaps act as institutional vehicles to bypass Western-dominated payment messaging networks (e.g., SWIFT) and hedge against dollar weaponization. Secondly, International Monetary Hegemony theory, developed by scholars of IPE (International Political Economy), this dimension explains how currency internationalization confers "exorbitant privilege" upon the issuing state. China's push to establish RMB clearing centers and swap lines reduces global transaction costs in RMB, laying the groundwork for a multipolar monetary order. And third, the dependency theory and asymmetric interdependence, originating from structuralist economics, this framework posits that peripheral states risks replacing Western economic dominance with new forms of primary-commodity dependency on rising powerhouses. In bilateral trade between unequal partners, monetary facilities can

inadvertently subsidize the inflow of manufactured goods while leaving the peripheral nation's primary export structure unaltered. Existing literature on China-Africa economic engagements has extensively analyzed infrastructure finance, debt sustainability, and direct foreign investment. However, political economy analyses specifically examining monetary cooperation instruments—such as central bank currency swaps—remain underdeveloped.

Political Economy Drivers: Why Nigeria, Why China?

1. Nigeria's Structural Fragility and Domestic Political Imperatives

Nigeria's macroeconomic landscape is characterized by heavy dependence on crude oil for government revenues (65-80%) and foreign exchange earnings (90%). The collapse of global oil prices in 2014–2016^[18, 42] plunged Nigeria into a severe recession, depleting foreign reserves and causing acute dollar shortages in the Nigerian Foreign Exchange Market (NFEM).



Facing intense domestic pressure from local manufacturing associations and commercial importers who could not obtain US dollars to finance critical capital imports and raw materials, the CBN under Governor Godwin Emefiele sought structural alternatives. Because China constituted over 30–35% of Nigeria's total import bill by 2018, establishing a direct Naira-Renminbi exchange mechanism served two immediate political goals. First, it bypassed the intermediate dollar conversion layer, reducing transaction

costs and FX conversion friction. Second, it eased structural pressure on Nigeria's US dollar reserves by shifting a segment of non-essential and essential capital imports directly into RMB liquidity.

2. China's Strategy: RMB Internationalization and Geo-economics Expansion

For Beijing, the agreement was not merely a diplomatic gesture of "win-win South-South cooperation," but a

strategic imperative of its RMB Internationalization Strategy (*Renminbi Internationalisation Plan*). Following the Inclusion of the RMB in the IMF's Special Drawing Rights (SDR) basket in 2016 ^[65], the PBoC accelerated the rollout of bilateral swap agreements to:

1. Promote the global use of the RMB in trade settlement, cross-border investment, and official central bank reserve holdings.
2. Secure supply chains and export destinations for Chinese state-owned enterprises (SOEs) and private exporters by reducing foreign exchange risk in emerging markets.
3. Build institutional scaffolding for the Cross-Border Interbank Payment System (CIPS) as an alternative to the US-dominated CHIPS/SWIFT infrastructure.

3. Theoretical Foundations: Gravity Models and Currency Internationalization

The theoretical literature grounds currency swap agreements in trade flow optimization and monetary regionalization. Standard international trade theory, built upon structural gravity frameworks (Anderson, 1979; Anderson & van Wincoop, 2003) and dynamic gravity extensions (Olivero & Yotov, 2012), posits that trade costs significantly hinder trade volume. Currency volatility and intermediary conversion fees act as distinct trade frictions (Wei, 1999; Broll *et al.*, 2015). By establishing direct RMB-NGN liquidity channels, swap agreements reduce transaction costs and exchange rate uncertainty, lowering bilateral trade barriers.

On the Parallel, monetary theory addresses central bank swap lines through the lens of currency internationalization and global reserve architecture (Eichengreen, 2011b; Cohen, 2012; Destais, 2016) ^[3, 22, 24]. Bowles and Wang (2013) and Liao and McDowell (2015) ^[48] emphasize that PBoC's expanding network of bilateral swap agreements is a strategic mechanism to promote the Renminbi as an international invoicing and settlement currency. Within this body of work, Mohammed (2019a, 2019b) demonstrates that Chinese currency swaps serve a dual role: enhancing trade clearance mechanisms while advancing China's long-term geopolitical and financial integration across emerging markets.

4. Empirical Evidence on Liquidity, Reserve Management, and Trade Flows

Empirical evaluations of swap lines examine their efficacy as international liquidity backstops and trade facilitators. Central bank swap arrangements provide liquidity during dollar-shortage crises,

(Obstfeld *et al.*, 2009; Rose & Spiegel, 2012; Aizenman & Pasricha, 2010) ^[6]. In emerging market contexts, Aizenman *et al.* (2011, 2018) ^[3, 4] argue that swap lines act as substitutes or complements to foreign exchange reserve accumulation, allowing resource-constrained central banks to preserve hard-currency buffers.

In the specific context of the China-Nigeria BCSA, Mohammed (2019c, 2019d) provides empirical evidence on trade clearance, demonstrating that RMB liquidity provision directly supports import financing and stabilizes bilateral trade flows. Furthermore, studies focusing on exchange rate pass-through in Nigeria (Mohammed, 2016a, 2016b; Mohammed *et al.*, 2017) ^[61, 62] highlight that domestic price stability remain highly vulnerable to exchange rate shocks. Lowering reliance on US dollar-dominated import invoices through direct local currency swap auctions helps mitigate inflation pass-through risks associated with dollar volatility.

5. Financial Development, Structural Asymmetries, and Implementation Challenges

A critical body of literature explores the nexus between financial development, structural trade imbalances, and the net efficacy of bilateral swap lines. Financial development literature (King & Levine, 1993; Levine, 2004; Beck *et al.*, 2000) establishes that mature local financial systems are required to efficiently allocate capital and absorb international liquidity shocks. Manova (2013) and Ju and Wei (2011) ^[3] demonstrate that credit market imperfections can restrict the trade-creating benefits of trade agreements. Applied to the Sino-Nigerian context, scholars identify structural limitations that restrict the swap's full potential for the following reasons:

1. **Trade Asymmetry:** Nigeria's structural trade deficit with China implies high demand for RMB among Nigerian importers relative to low demand for NGN among Chinese traders.
2. **Liquidity and Allocation Constraints:** As noted by El-Aal (2021) and Perez-Saiz and Zhang (2023) ^[30, 67], currency swaps face operational bottlenecks if domestic commercial banking channels lack deep offshore RMB clearing infrastructure.
3. **Debt and Macro-Fragility:** Horn *et al.* (2023) ^[41] categorize Chinese swap arrangements as sovereign backstops. Studies on debt servicing risks in Nigeria (Mohammed *et al.*, 2023) ^[60] caution that bilateral swap lines must be matched with structural export diversification to prevent escalating financial vulnerabilities.

Table 1: Synthesis of the Literature

Research Stream	Key Theoretical & Empirical Focus	Primary Authors
Gravity & Trade Costs	Reducing trade frictions and exchange rate risk in bilateral trade.	Anderson & van Wincoop (2003); Baier & Bergstrand (2007); Mohammed (2019a)
Monetary Sovereignty	RMB internationalization and alternative reserve architectures.	Eichengreen (2011b); Bowles & Wang (2013); Mohammed (2019b)
Macro-Stabilization	Liquidity backstops, reserve preservation, and inflation pass-through mitigation.	Aizenman <i>et al.</i> (2011); Rose & Spiegel (2012); Mohammed (2016a)
Financial Frictions	Structural trade imbalances, banking sector absorption, and debt constraints.	Manova (2013); Horn <i>et al.</i> (2023); Mohammed <i>et al.</i> (2023)

Existing literature confirms that while the China-Nigeria currency swap offers significant theoretical advantages for reducing dollar reliance and easing trade clearance, its empirical effectiveness is contingent upon domestic financial development, banking infrastructure, and structural trade balance alignment.

Institutional Mechanisms and Implementation Analysis
The operationalization of the BCSA required establishing

formal clearing structures and bi-weekly foreign exchange sales by the CBN.

1. The Mechanics of the Swap Facility
Under the agreement, the CBN holds a designated account with the PBoC containing RMB 15 billion, while the PBoC holds an equivalent sum of NGN 720 billion (calculated at the prevailing benchmark exchange rate of ~NGN 305/USD at execution).

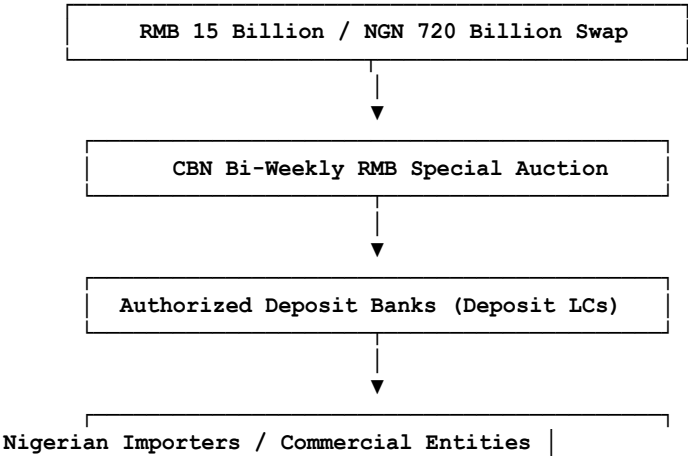


Fig 1: Mechanics of the Swap Facility

Auctioning Framework: The CBN issued guidelines for transactions with Authorized Dealers in Renminbi, establishing direct auctions where Nigerian importers submit bids for RMB-denominated Letters of Credit (LCs). **Eligible Uses:** Funds were strictly restricted to trade settlement for raw materials, agricultural machinery, and

industrial inputs originating from China, explicitly excluding finished consumer items on the CBN’s trade restriction lists.

1. Performance Evaluation and Utilization Bottlenecks
Despite initial optimism, the practical utilization of the swap facility faced significant systemic friction:

Table 2: Performance Evaluation and Utilization Bottlenecks

Variable	Structural Reality	Macroeconomic Consequence
Trade Asymmetry	Over 90% of bilateral trade consists of Chinese exports to Nigeria; Nigerian exports to China remain minimal (mostly raw materials).	Flow of currency is strictly one-directional. PBoC holds little practical demand for Naira liquidity.
Invoicing Currency Preferences	Chinese exporters traditionally prefer invoicing in USD due to capital controls in mainland China and hedging ease.	Reluctance by Chinese vendors to accept RMB directly from African buyers without price markups.
Pricing Transparency	Absence of a direct, liquid NGN/RMB spot market necessitated dual-triangulation via USD cross-rates.	FX conversion spreads often eliminated predicted transaction cost savings for Nigerian businesses.
Administrative Allocation	Complex CBN auction mechanisms limited access primarily to large conglomerates, excluding SMEs.	Chronic under-utilization of the total RMB pool relative to annual import volumes from China.

Data from CBN annual reports indicated that while drawdowns occurred consistently across 2018–2024, the total volume auctioned represented only a fraction of total bilateral trade value, rendering the agreement an auxiliary liquidity channel rather than a structural game-changer.

Political Economy Assessment: Asymmetric Dependence vs. Economic Sovereignty

Evaluating the agreement through the lens of distributional gains reveals a pronounced asymmetry in benefits between the two nations.

1. The Structural Imbalance of Trade

The foundational political economy challenge of the BCSA is the stark trade deficit Nigeria maintains with China.

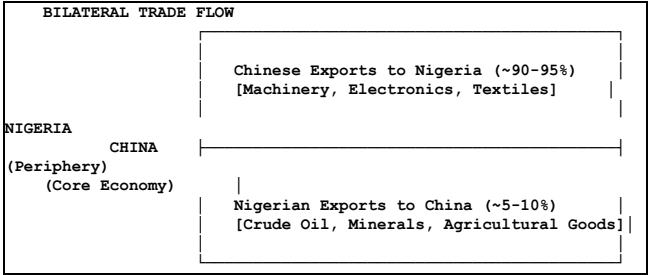


Fig 2: Structural Imbalance of Trade

Because Nigeria does not export high-value manufactured goods to China, the RMB acquired through the swap facility is spent exclusively on Chinese imports. Concurrently, China has little incentive to drawdown its Naira reserves to

purchase Nigerian commodities, which are typically priced globally in US dollars. Consequently, the facility acts as a subsidized trade credit line for Chinese manufacturers seeking guaranteed access to the Nigerian consumer market. It risks exacerbating de-industrialization in Nigeria by making Chinese inputs and goods cheaper relative to domestic alternatives or non-Chinese imports.

2. Geopolitical Realignment and Sovereignty Implications

From a geopolitical standpoint, the BCSA reinforces Nigeria's strategic pivot toward Beijing, aligning with broader shifts across the Global South. By institutionalizing non-dollar bilateral trade mechanisms, Nigeria modestly hedges its exposure to Western financial sanctions and dollar liquidity squeezes.

However, this transition does not signify absolute monetary autonomy. Instead, it represents a shift from a unipolar monetary dependency on the US dollar to a hybrid dependency, wherein Nigeria remains structurally reliant on external currencies to finance basic consumption and industrial inputs.

Conclusion and Policy Recommendations

The Bilateral Currency Swap Agreement between Nigeria and China represents a pragmatic institutional response to acute foreign exchange illiquidity and a significant milestone in the internationalization of the Renminbi across Africa. From a political economy perspective, the agreement successfully provided alternative trade liquidity, reduced transaction friction for select industrial sectors, and advanced China's strategic objective of expanding non-dollar monetary architecture.

However, the agreement reveals the inherent limits of monetary mechanisms when deployed in isolation from real-sector reforms. The fundamental constraint facing Nigeria is not merely the choice of invoicing currency (USD vs. RMB), but its underlying structural trade deficit and lack of industrial export capacity. So long as Nigeria remains an exporter of unrefined primary commodities and an importer of manufactured goods, local currency swap facilities will disproportionately benefit the manufacturing core (China) over the raw-material periphery (Nigeria).

Policy Recommendations

1. **Promote Non-Oil Export Value Addition:** The Nigerian government must leverage industrial policies to incentivize processing and manufacturing, target Chinese supply chains, and utilize RMB liquidity to export processed agricultural and solid mineral products to East Asian markets.
2. **Expand RMB Access to Small and Medium Enterprises (SMEs):** The CBN should streamline the administrative framework for RMB auctions, enabling small-scale importers and local entrepreneurs to access direct RMB settlement and lower transaction costs.
3. **Incentivize Renminbi-Denominated Foreign Direct Investment (FDI):** Rather than using the swap solely to clear import bills, Nigeria should negotiate terms that encourage Chinese firms to deploy their Naira liquidity

into local, import-substituting manufacturing plants within Nigerian Special Economic Zones (SEZs).

4. **Develop Direct Market Making:** The CBN and PBoC should establish direct bilateral market-making for the NGN/RMB currency pair to reduce reliance on USD cross-rate triangulation, enhancing exchange rate discovery and market efficiency.

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