Journal of Contemporary International Relations and Diplomacy (JCIRD)
Vol. 4, No. 1, 2023, pages 672-685 Doi: https://doi.org/10.53982/jcird.2023.0401.03-j

Published by the Department of International Relations and Diplomacy, Afe Babalola University, Ado-Ekiti (ABUAD), Nigeria.
E-mail: jcirdabuad@gmail.com

ISSN: 2714 -3414
e-ISSN: 2971 - 6470

Nigeria-China Bilateral Relations: Re-examining the Trajectory of the Nigerian Manufacturing Sector

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Abstract

Nigeria-China trade and investment relations are claimed to move to the advantage of China. Hence, the more their trade relation flourishes, the more Nigeria experiences trade deficits, and the more China records trade surpluses. In this scenario, Nigeria depends more on imports from China than China. That is why Nigerian market is overflowed with Chinese made products such as cell phones, television sets and so forth. The study examined how Nigeria-China relations impact on the manufacturing sector in Nigeria. The study employed secondary source of data collection and relied on 'content analysis' as a technique for data analysis. There has been recorded failure of Nigeria to compete favourably with China in terms of import and export of manufactured products. The manufacturing sector in Nigeria remains far behind to commensurately compete with China's. Over concentration on the oil sector is directly linked to over reliance of the Nigerian economy on oil sector. The study draws a paradigm shift from the argument that China relations with Nigeria is imperialistic, to a hypothesis that the failure of the Nigerian government to adequately reposition Nigerian manufacturing to a globally competitive status through research and development as well as human capacity building, is thus, mainly responsible. The disarticulated economic structures Nigeria is currently maintaining is less capable of guaranteeing the development of the manufacturing sector that can enjoy competitive advantages in the international markets. Policy actions that are geared towards human capacity building and provision of sustainable incentives to local investors are needed.

Keywords: Bilateral relations, manufacturing sector, export and import, economic growth, trade liberalisation

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Introduction

Despite decades of bilateral trade relations between China and Nigeria, is has been argued that there is no significant change in the manufacturing sector of the Nigerian economy. There had been an argument that Nigeria manufactured products export to China are low compare to that of China (Farayibi & Akpoilih, 2015). There is existence of a high possibility of increasing export by China and decreasing its import from Nigeria. Ibrahim and Sari (2019) reveal that Nigeria's trade intensity index shows a low possibility of increasing export to China and a high possibility of increasing import from China. China and Nigeria have different economic structures that produce different economic results. The diversification of Chinese economy with the help of scientific knowledge and technological advancements has impacted on manufacturing of China, while in Nigeria, oil industry is the prime sector. There are views that Nigeria-China trade relations have impacted positively on the economy of Nigeria. However, the defenders of this thought are yet to provide answer to what happens to technology transfer. As the fastest growing economy in this 21st century, China has the potentials to make a positive impact on the various sectors of the Nigerian economy. One of the issues that bothers critical thinkers is why Nigerian industrial sector has remained undeveloped despite years of Nigeria-China bilateral relations.

Nigeria and China as trading partners have come a long way in their co-operation, yet it is doubtful if such relation has, in strict sense, yielded any positive and significant result to the Nigerian economy in terms of manufacturing sector development. The mono-structural economy of Nigeria has paved the way for the dominance of imported manufactures from other countries, China inclusive (Ajakaiye et al, 2009). Despite China's public and private companies making forays into Nigeria's manufacturing, economic diversification model of the Federal Government of Nigeria has been apparently doubtful. The asymmetric trade relations between the two countries as well as the patterns of Foreign Direct Investment (FDI) inflow from China to Nigeria appear problematic (Oyeranti, et at. 2010). The domination of Nigeria's exports by oil and gas sector has attracted FDIs, with insignificant positive impacts on the local manufacturing. Technology transfer has remained questionable. Thus, sustainable human capability building is far to be realized.

Despite the status of Nigeria as a powerful actor in Africa, it has continued to suffer weak productive private sector, poor institutional business mechanisms, infrastructure decay and unhealthy economic climate. Although there are claimed incentives offered to industries in Nigeria, however, there is neither world standard industrialization nor competitive industrial advancement in the country. This suggests that challenges that characterized industrial development as well as redefining Nigeria-China relations should be critically examined. There has been no consensus agreement among scholars whether China-Nigeria relations are in favour of China or Nigeria. However, this study aligns with the position of

Ekesiobi, Ifebi, Ibekilo, and Onochie (2011); Agbebi and Virtanen (2017); Mlambo, Kushamba and Simawu (2016) who argue that the existing relationship between the two countries provides opportunities and favour for both China and Nigeria. The above argument is contrary to the views of scholars like Ron and Hannah (2011); Ayodele and Sotola (2014); Margret and Qi (2011); Oke, Oshinfowokan and Okonoda (2019); Onogwu (2019); Ibrahim, Sari, and Handoya (2020); Edgar (2014); Peter (2013); John (2012); Kabiru and Dyah (2019); Umo-Udo and Orifa (2018); Yemi (2017); Eneji et.al (2012); Handoyo (2002), who assertively maintain that Nigeria-Chine trade relations have been to the disadvantage of Nigeria. This study is set out close this gap, thus, the study is poised at examining the opportunities and challenges.

A Brief Outlook of China and Nigeria

History attests to the fact that China was a developing country during the 1980s, but like other East and South-East Asian countries, certain caustic factors enhanced her growth. China took deliberate and strategic steps to rewrite her economic history, while Nigeria was caught in the euphoria of abundance of natural resources in early 1970s as a result of oil boom. These factors in the eye of Adedeji (1998) argues that factors responsible for economic advancement of China were broad-based growth strategy with high human capital investment, acquisition of scientific knowledge through research and development (R & D), positive regional macroeconomic environment, political stability and softening authoritarianism through social justice. In pursuit of sustainable economic prosperity through reforms, China that was once classified as an underdeveloped economy eloped the clutches of a developing economy. Dèes (2001) benignly noted that China embarked on tremendous economic reforms in 1978. The take-off stage of Chinese economy in 1978 and early 1980s was hinged on the progress of the Chinese economic reforms. The Chinese reform agenda primarily targeted two main goals of how to market the internal economy and to open up towards the rest of the world (Dèes, 2001). Today, China is nicknamed the 'factory' of the world. The structural economic reforms that took place in China are a clear testimony that China strategically reconciled political authoritarianism and economic liberalism without allowing the former to hinder the progress of the latter. In fact, the widely perceived structural rigidity of Chinese economy guided by communist ideology of the famous Marxian doctrines was redefined by China. For instance, from 1949 till date, China has been ruled by the Communist party, but fundamentally Chinese economic structure has changed. In 1980s, the Chinese people did not have the freedom to choose what to wear or to travel out of China and return freely but today they can choose what to wear and travel out of China freely. Although, China has not increased political freedom of Chinese but the personal freedom of Chinese to own private firms and do business inside and outside China has continued to increase tremendously.

Nigeria started as an agriculture driven economy during the 1960s but later slipped into crude oil fortunes. In 1960s, the regional governments enjoyed high level of financial autonomy due to fiscal federalism practiced then. These regions (eastern region, the western region, the northern region and the mid-western region) were involved in economic activities that sustained the entire Nigerian economy. The accidental oil economy boomed during the 1970s changed the entire economic structure, hence, changing decentralised economic structure of Nigeria to a centralised one. Iwayemi (2013) while reflecting on the 1970s oil boom noted that oil revenues rose sharply from 26.3 percent in 1970 to 82.1 percent in 1974. However, the sad story remains that there was re-investment of the accruable oil revenues into enclave sectors characterised by corruption rather than the manufacturing sector (NEEDS; 2004, Nenbee and Kalu; 2013, Ekpo; 2015, Oakhenan and Aigheyisi; 2015).

To this end, the Nigerian economy was caught in the web of mono-cultural economic structure with no efforts, both military and civilian governments, to pursue economic diversification. Although, Nigeria claimed to believe in liberal economic ideology that allows individual freedom to own private businesses, there are evidences pointing to the fact that various governments seem to have made no concrete effort to invest in human capital. Research and development seems to be far from reach as Nigerian government has poorly promoted scientific knowledge development.

Trade Liberalization/Openness

According to Goldstein and Pevehouse (2011), the great volume of international trade reflects the fact that trade is profitable. They further maintain that the role of trade varies from one nation to another but trade is important to the Global South, so does the Global North. They argue that trade is not only an economic issue but a highly political phenomenon. Kegley and Blanton (2011) posit that trade plays a central role in the global system, as well has many implications for the global political system. This suggests that, there is a relationship between international trade and international politics. By and large, within the context of global political economy, among other concepts, trade remains the engine and most discussed phenomenon.

The benefits of free trade between countries in the modern world was first highlighted in the economics and development literature by one of the classical economists, Adam Smith, in his book entitled *The Wealth of Nations* (Ukwandu, 2015). Trade liberalization is the removal of tariff and non-tariff barriers in trade, basically international (Acharya, 2015). According to the author, several studies exist in analysing distributional impacts of trade openness. These studies have cross-country comparisons, country-specific partial analysis, and general equilibrium analysis. Trade openness has to do with import and export taxes, as well as explicit non-tariff distortions of trade or in varying degrees of broadness to cover such matters as exchange-rate policies, domestic taxes and subsidies, competition and other regulatory policies, education policies, the nature of the legal system, the form of government, and the general nature of institutions and culture (Baldwin, 2002).

Manufacturing Sector and National Economy

According to Loto (2012), manufacturing sector is an avenue for increasing productivity, expanding export, enhancing foreign exchange earning capacity, raising employment and expanding consumption pattern. Similarly, Aderibigbe (2004) argues that manufacturing sector serves as the import substituting industry that provides ready market for intermediate goods and contributes significantly to government revenue generation through tax. In this light, it is obvious that the authors perceive manufacturing sector as an internal mechanism that ensures that there are local arrangements which are geared towards increasing production base of a nation to possibly discourage or minimize level of importation as well as promote exportation. Through this, there would be foreign earning expansion that can contribute to increase in national GDP. However, the author overlooked mentioning the manufacture of finished products as part of manufacturing sector. Mbelebe (2012), manufacturing sector is involved in the process of adding value to raw materials by turning them into finished products. Mbelebe's point of view limits manufacturing sector to finished products, hence fails to incorporate the manufacture of intermediate products. Dickson (2010) succinctly avers that the final products can either serve as finished goods for sale to consumers or as intermediate goods used in the production process.

Arguably, manufacturing sector is responsible for the conversion or transformation of raw materials into finished goods or intermediate goods (Adenikinju, 2002). Eze and Ogiji (2013) stated that manufacturing sector is any economic unit that processes or creates new commodities through the transformation of raw materials or semi-finished goods into finished goods.

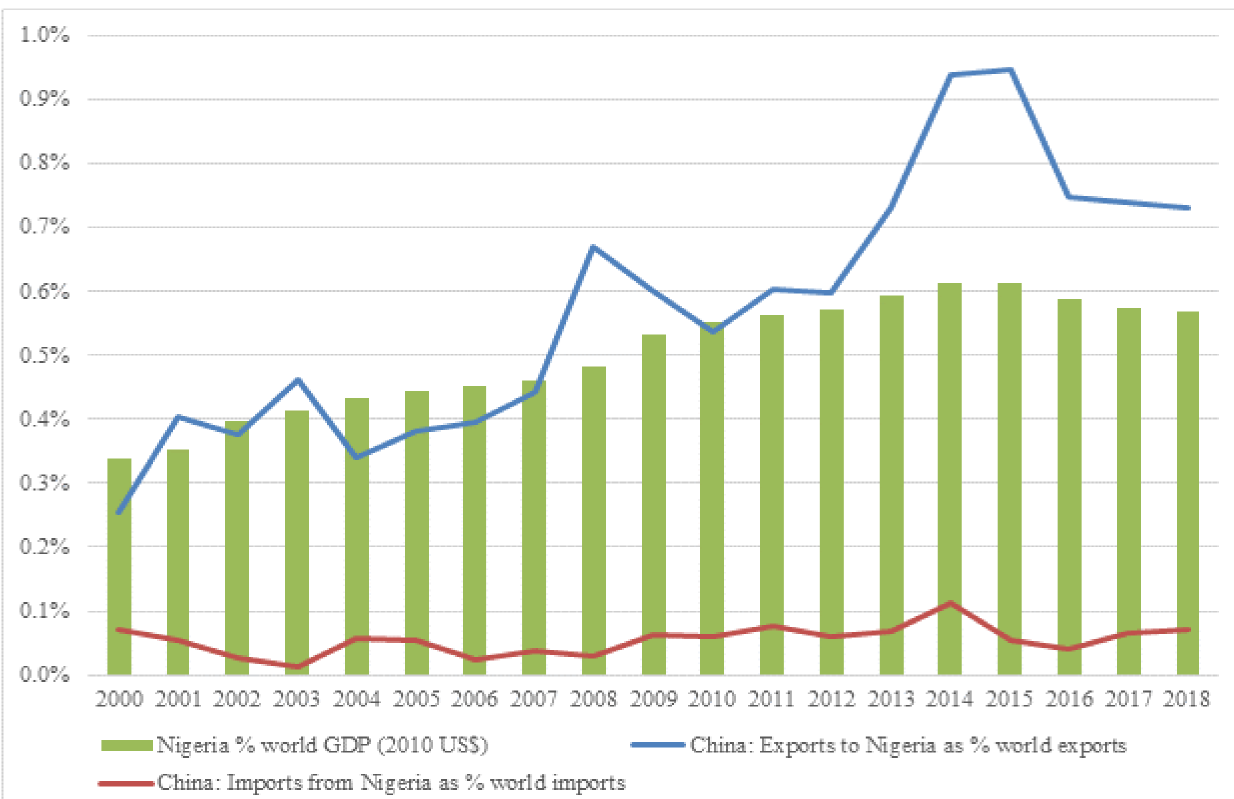
Going by the definitions advanced by various writers, this study agrees that manufacturing encompasses both the manufacture intermediate products and finished products. The emphasis of the study is on those products ready to be used by consumers whose processes and completion starts in the domestic industries. However, there is a conceptual shift. Manufacturing within the context of the study is human capital that transform raw materials and intermediate products into last stage of consumption. It is in view of this that labour that is technologically driven is the basis of continue manufacturing advancement.

China-Nigeria Relations and Manufacturing Output Growth in Nigeria

The causality trend runs from real gross domestic product to import from China to Nigeria which implies that real gross domestic product affects import from China to Nigeria (Opusunju, Akyuz and Inim, 2020). This is because of the low manufacturing product and overdependence on imported product, the Nigeria real gross domestic product is affected by the importation of goods from China to Nigeria. Former Director General of Standard Organisation of Nigeria (SON), Joseph Odumodu was cited as saying, "80 % of the fake items that come into Nigeria were originating from Asia, with China as real guilty party". This buttresses the allegation that China, a global economic power, is castrating Nigerian manufacturers by dumping poor and sub-standard items in the country (Obiorah, Kew and Tanko, 2008; Obiorah, 2006; Sanusi, 2013).

In their study relating to Nigeria-China trade relations, Oke, Oshinfowokan and Okonoda (2019) sampled the perceptions of Local Entrepreneurs and Government Officials regarding Nigeria-China trade relations, it was discovered that the development of small and medium enterprises (SMEs) has a relationship with China-Nigeria relations. In other words, China-Nigeria trade relations is having great impact in the SMEs creation and the sustainability of the SMEs in Nigeria. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Office Director said Nigeria trade with China had open up new businesses in Nigeria as Nigeria entrepreneur tend to satisfy the need of their partners in China. In an interview session, the SMEDAN officials in Abia state for instance attested that there was an increase in production of agricultural related products like ginger, cassava, as well as export of locally made sandals and shoes from Aba, Nigeria to China. However, Chinese textile industries in Nigeria are putting pressure on the indigenous ones in Nigeria. The increased purchase of already made goods at cheap prices from China is putting Nigeria local manufacturers out of business of production, (SMEDAN, 2021). From 1990 till date, it is evident that local textile industries are badly affected, forcing many to leave the textile production business or shrinking their industries with far-reaching implications.

Figure 1: China: Trade with Nigeria Compared to Nigerian GDP, 2000–2018



Source: GDP: World Bank, World Development Indicators 2019

The above figure clearly indicates that there is an asymmetrical import-export relation between Nigeria and China. The static dimension of Nigeria's export to China is an indication that Nigeria's manufacturing does not possess a seemingly comparative advantage over China in any productive sector. As the trend of the curve shows in the case of China's exports to Nigeria which were continuously upward, it is arguable that China has benefited far more in its export-import relations with Nigeria, while the sluggish manufacturing sector of Nigeria has kept the country at a disadvantage position. The reasons for this may not be far-fetched. In an empirical study conducted by Opusunju, Akyuz, and Inim (2020) argued that Nigeria-China relations is not beneficial to Nigeria since the Nigeria only exported limited goods to China such as oil and gas, ores, seeds, fruits, elegiac, woods, skins, leads, etc. They maintained assertively that their study revealed that from 1990-2018, Nigeria has not recorded any gain regarding its export-import relation with China. Although there are various factors responsible for poor performance of Nigeria's manufacturing, it is argued by Egbule and Zheng, that Nigeria's manufacturing sector is under-performing chiefly because of inadequate infrastructure, so China has taken advantage of this to export Chinese goods so as to fulfil a demand that would otherwise go unmet (Egbule and Zheng, 2011). Inadequate infrastructure development is one among other factors that affect the development of the manufacturing sector in Nigeria. For instance, poor human capital development has remained one of the fundamental factors responsible for inadequate technology transfer and technologically driven productive skills.

Facts about the Manufacturing Sector in China and Nigeria

The official reports have it that not less than 40.5 percent of China's Gross Domestic Product (GDP) comes from industrial output and the highest on the worldwide industrial output (International Monetary Fund-IMF, 2015). Till date, it is evident that there have been continuous achievements recorded by China regarding industrial output growth as a result of years of deliberate policy actions and strategic investment approaches that gear toward sustainable industrial development and economic development. At instance of this approach, China adopted economic model that places emphasis on human capacity building and industrialisation. Today, China has diversified its economy and industrialised the production space to an enviable height. Among the industries in China, machine-building and metallurgical industries were claimed to be the key drivers of the country's economy as they accounted for about 20-30 percent of the total gross value of industrial output (Florida Forestry China Trade Mission, 2018). Other critical areas which have also contributed to industrial output growth in China are machinery and transportation equipment and the energy industry (China Fact and Figures 2007: Machine Manufacturing, Automotive and Energy Industries Report). The trend has continued to improve in China with focused macroeconomic and monetary policy actions.

It is argued that the impressive facts regarding China's industrial development have serious implications for Nigeria's industrial output growth. World Development Indicators (WDI-2019) had clearly reported that imports from China accounts for more than 35% of total imports in Nigeria. However, the Nigerian National Bureau of Statistics (2019) reported that the above-mentioned figures changed in 2018, with Nigeria's imports from China declining to 26.4% and Nigeria's exports to China rose to 14.57%. This report from NBS seems not to justify the current trends in Nigeria considering the level of external economic shocks Nigeria has been experiencing as well as dominant influence of China's products in the Nigeria's internal market. China's economy is heavily diversified, with high capacity to export various value-added products to many countries and generate huge foreign exchange in contrast to Nigeria, which is still over dependent on primary sector such as oil as the commanding height of its economy (Raji and Ogunrinu, 2018).

Figure 1: A Trend of Nigeria-China Merchandise Trade Inflow, 1984-2018

Source: Nigerian National Bureau of Statistics (2019)

Looking at the upward trend of the Nigeria-China merchandise inflows from 1984-2018 as indicated in the figure above, it is evident that from 2011-2018 there was continuous and wide overtaking of Nigerian merchandise inflow by the Chinese products. Contrary to overlapping bi-directional trends of the two economies industrial output and merchandise inflows from 1984-2004, there was a clear difference in the industrial performance of the China and Nigeria from 2011-2018. This trend could be as a result strategic policy actions carried out by China, as well as serious expansion in human capital building in the said country, contrary to Nigeria's inability to initiate long term human capital development strategies and plans. It was expected that Nigeria's return to democracy in 1999 would revolutionalise some critical sectors in the country through deliberate policy actions, but after two decades the story has remained unchanged considering the trajectory of industrial development in Nigeria. Despite the asymmetrical trade relations between China and

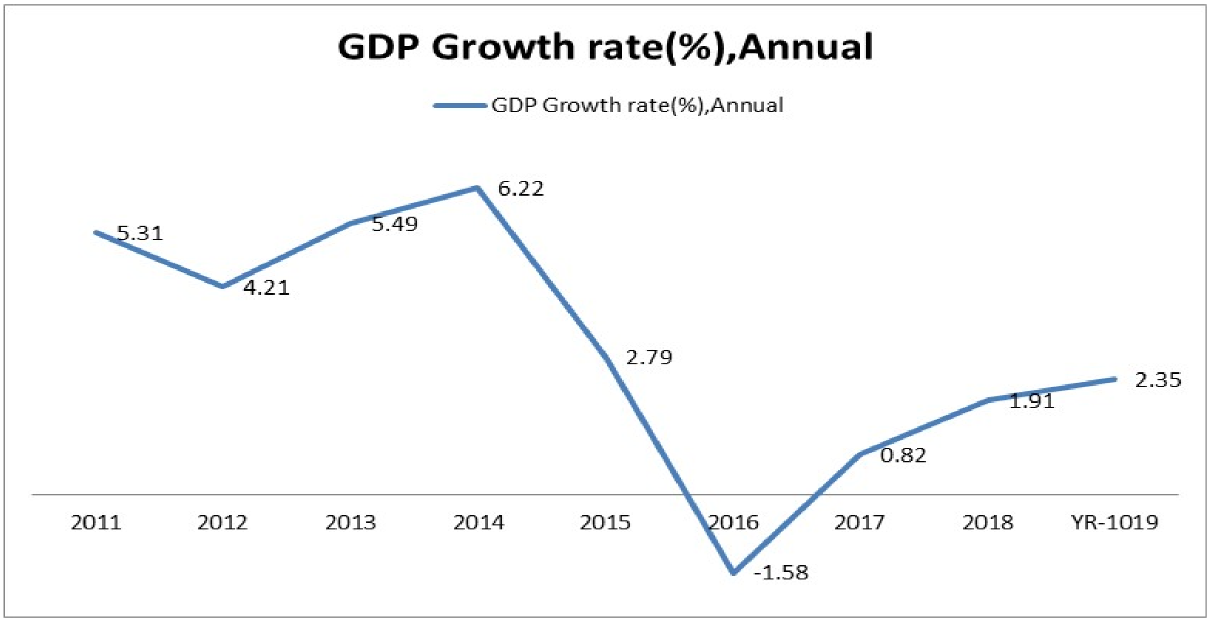
Nigeria, their relationship has taken a new dimension through loan giving and taking and other economic bonds.

In 2018, the Buhari administration signed a currency swap agreement between Nigeria and China, in which the Nigeria's naira is exchanged directly with China's yuan at their real value, instead of first converting them to dollar for their import and export business transactions (Raji and Ogunrinu, 2018). According to the Central Bank of Nigeria (2018), the currency swap agreement is to exchange cash flows in different currencies at some predetermined rates for a specified period. The aim was to provide adequate local currency liquidity to Nigerian and Chinese industrialists and other businesses, thereby reducing the difficulties encountered in the search for third currencies (Moses-Ashike, 2022). The deal has appeared to reduce the cost of importation from China to Nigeria and vice-versa, thus reducing the selling price of goods in both countries. However, from the figure above, there is increased demand for China's manufactured products in Nigeria. Therefore, more of Chinese currency would be demanded by Nigeria for exchange and settlement of transaction of goods and services between Nigeria and China. Raji and Ogunrinu put it that:

> The increase in demand for Yuan would likely cause Yuan to appreciate over time, and the exchange rate of Yuan - Naira rise above par. The pressure of rise in Yuan will fall on the Naira denominated products thereby, increasing the domestic prices of goods imported from China. The exchange rate pass-through mechanism will definitely transmit price increase and macro-economic instability from China and supply shocks to Nigerian economy. Similarly, the difference in exchange rate when dollar was to be used is significantly large. The products of China if it was to be dollar denominated will exact much more pressure on Naira as the relative scarcity of the green back stalls free flow of trade between Nigeria and China. Therefore, the currency pass-through effect on Naira will be much higher when it comes to domestic currency (Raji and Ogunrinu, 2018).

Undoubtedly, industrial development is a route to achieving sustained economic growth (Todaro, 2000 and Orji, 2019). Industrial sector lies at the heart of manufacturing sub-sector. Manufacturing in most developing economies (including Nigeria) is still at a teething stage. In Nigeria, as reported by the NBS (2019), the manufacturing sector comprises of thirteen activities. They include: Oil Refining; Cement; Food, Beverages and Tobacco; Textile Apparel, and Foot Wear; Wood and Wood Products; Pulp Paper and paper product; Chemical and Pharmaceutical Products; Non- Metallic Products, Plastic Rubber Products; Electrical and Electronic, Basic Metal, Iron and Steel; Motor Vehicles and Assembly; and other Manufacturing (NBS,2019). An examination of the above stated parts of manufacturing sector in Nigeria perhaps provides more insight regarding the performance of the said sector. It may seemingly exhibit a case of underperformance and can be traced to the discovery of crude oil in Nigeria. Manufacturing contribution to Gross Domestic Product (GDP) as reported by the NBS (2013) rose to 72% in 1970 but declined to 7.4% in 1975. It later nosedived to all-time low of 5.4% in 1980 before rising marginally to about 10.7% in 1985. In 1990, manufacturing sector contributed only 8.1% to Gross Domestic Product (GDP) but thereafter dropped to 7.9% in 1992 and 6.7% in 1995.The downward trend persisted till 2000 with all-time low of 3.4%. However, activities of the manufacturing sector began to increase in its growth trajectory in recent times due to some policy interventions of government and ban on some imported products (CBN, 2011; Fred-Young and Evans,2018). Sequel to government's policy measures, the manufacturing sector in Nigeria witnessed a significant growth compared to year 2000s performances (NBS, 2019). However, more still need to be put in place. This is because the current performance of manufacturing sector in Nigeria cannot compete with that of China.

Figure 2: A Snapshot of Trend of Nigerian Manufacturing GDP growth (%), 2011- 2019



Source: National Bureau of Statistics (2019)

The above figure shows the poor and weak performance of the Nigerian manufacturing sector. In 2011, the manufacturing GDP growth rose to 5.31%. but came down in 2012 on 4.21%. In 2013, 5.49% was recorded and 6.22% was recorded in 2014, which was the peak during this period. Sadly, in 2015, the curve sloped downward to 2.79%, indicating a bleak future. By this year prior to the economic recession, unemployment and underemployment rate had reached a peak of 29% (World Bank's Human Development Indicators (HDI) Report, 2017). This period, the country was seriously on the verge of economic recession. In 2016, curve took a very bad direction. This was the year Nigeria experienced economic downturn with attendant high inflation rate. The manufacturing growth rate came down to -1.58%; rose 1.91% in 2018, when Nigerian government claimed that Nigerian economy was no longer into recession. In this very year, 2019 when NBS published the report, the growth rate moved further to 2.35%. Although, Nigerian government claimed that the economy was out of recession, there has been no significant improvement in the living standard of the people as well as growth in the manufacturing in Nigeria.

There are evidences that the manufacturing sector in Nigeria has performed optimally low when compared with the country's world contemporaries. For instance, countries such as Malaysia, Singapore, China, and so on, have developed their industrial sectors to competitive levels. The economic structure of Nigeria does not align with the global diversification trends, as such, more than 50% of the total GDP is being contributed by a single primary sector of the economy (Chete, Adeoti, Adeyinka and Ogundele, 2014 in Afolabi and Laseinde, 2019). For instance, data extracted from the National Bureau of Statistics (NBS) indicate that non-oil exports as a percentage of total exports averaged 7%, while the manufactured and processed products as a share of total imports increased from 31% in 2014 to 38% in 2017 (The Nigerian Economic Summit Group, 2018). In 2021, it was recorded that about 15 percent of Nigeria's Gross Domestic Product was generated by the manufacturing sector. The largest contribution was from the food, beverage, and tobacco sector, which accounted for nearly five percent of the GDP that year, as well as cement and textile industries (Sasu, 2022).

Conclusion

The increase in the Nigeria and China trade relations has often tilted to the advantage of China. By implication, the more their trade relation flourishes the more Nigeria experiences trade deficits and the more China records trade surpluses. In this scenario, Nigeria depends on imports from China more than China depends on exports from Nigeria. This explains why Nigerian market is overflowed with Chinese made products, while Chinese market is free from made in Nigeria products. Further, the failure of Nigeria to compete with China in terms of import and export of manufactured products are attributed to the failure of the manufacturing sector in Nigeria to hold the Nigerian economy. The manufacturing sector in Nigeria remains undeveloped to compete with China. Despite years of trade relations between China and Nigeria, the relationship has not served as a booster to the Nigerian manufacturing sector.

Over the years, the failure of successive Nigerian governments to sincerely formulate a long term policy framework that can effectively and efficiently revolutionize critical sectors in the Nigerian economy, has sadly provided an explanatory cause for the poor and weak competitive capacity of the country's real sector. In addition, lack of sustainable internal policies that can effectively diversify the economy is a factor that deserves mentioning. Arguably, over concentration on the oil sector is directly linked to over reliance of the Nigerian economy on oil sector; and over reliance of the economy on oil sector is directly linked to overconcentration of the political leaders of Nigeria on one source of income generation, which is oil. Based on the situation, the study draws a paradigm shift from the argument that China relations with Nigeria is imperialistic, to a new hypothesis that the failure of the Nigerian government to adequately reposition Nigerian manufacturing to a globally competitive sector through research and development as well as human capacity building, is thus, fundamentally responsible for the current trade deficits and uncompetitive position of the Nigerian manufacturing sector.

Given the market size of Nigeria, with attendant opportunities, it is recommended that there is the need to change the narrative, and revolutionise the environment of real sector productivity. The disarticulated economic structures Nigeria is currently maintaining is less capable of guaranteeing the economic development of Nigeria in the international system, where there seems to be stiff competitions among independent economies, China inclusive. There is the need to deliberately diversify industrial development through policy actions. This suggests that the overconcentration of productive industries in urban areas, leaving rural areas to farmers is counterproductive. If there would be systemic industrialisation in Nigeria, which provides opportunities for both rural and urban areas to be well industrialised, there is every possibility that import from China will simply be to complement the locally manufactured products in Nigeria. Thus, both national and state governments are to formulate investment policies that would not only encourage local investors but also spur them into believing in the diversification of investment locations. A nation like China has adopted the strategy of industrialising both the urban and rural areas, hence increasing employment rate and as well as level of productivity.

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