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Nigeria-China Swapization and the Sinking Nigerian Currency

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Abstract

The paper examined the Nigeria-China swapization and the sinking Nigerian currency. The paper adopted qualitative research approach, with descriptive research design and content analysis. The findings revealed the effects of swapization to Nigerian sinking currency such as: liquidity, foreign reserve management, currency fluctuation, foreign exchange stability, alternative currency for super-sovereign reserve. The paper therefore, concluded that, swapization cannot guarantee the above mentioned effects on Nigeria, neither can it rescue the currency from free fall, at least for now, since China is not the only country Nigeria is trading with and dollar still remains the super-sovereign currency. The only effective solution to stabilize the sinking Naira is adequate diversification of the economy to encourage industrialization, which can enhance exportation rather than continues importation and encouragement of Chinese products through swapization. The paper recommended that there should be road map to develop Nigerian industrial sector with the provision of critical infrastructures and create enabling environment which guarantees ease of doing business, etc. Further studies can be empirically carried out to consider the correlation between the two variables swapization and sinking currency. The variable of swapization can be

proxied on liquidity, foreign reserve management, currency fluctuation etc, while the sinking currency can be proxied on exchange rate.

Keywords: *Swapization, Sinking Currency, Interest Rate Swap, Currency Swap*

Introduction

The turbulent Nigeria economy and the Naira exchange crisis has necessitated the need for swapization, which to many is to create Chinese currency liquidity, reduce pressure on foreign reserve and stabilize exchange risk. According to Nwokoma (2017), the exchange rate (of the Naira to various foreign currencies) in the parallel market has been deteriorating and for the US dollar, has hovered around N580 and N600 in recent times. The demand for foreign exchange has remained high and supply continuously diminished.

Nigeria from 1959 – 1973 adopted British pounds as an official exchange to Naira. The economy in 1971 was in devaluation dilemma either to devalue Naira or not. During the US dollar devaluation process which results in dollar appreciation, Naira remain strong as the exchange rate was at $2.80 - $3.80 to the Naira pound (Agu & Nwankwo, 2017). In 1973 Naira was devalued at the same rate with the US exchange rate at $1.52. in 1986 the exchange rate policy in Nigeria was transformed giving birth to the introduction of the structural adjustment programme (SAP) to address the structural imbalance in the economy (Ogundipe, Ojeaga & Ogundipe, 2013). In 1994, exchange rate was fixed at N22 to a US dollar which implies a shift from the flexible regime of 1986 to fixed regime in 1994 with the foreign exchange market liberalized in 1995 paving way for the introduction of autonomous foreign exchange market for sale and purchase of foreign exchange dedicated by the government. On October 25, 1999 the Inter-Bank Foreign Exchange Market was introduced with its operation experiencing similar problems and setbacks like the earlier market. The Central Bank of Nigeria (CBN) then, reintroduced the Dutch Auction System to replace the Inter-Bank Market (Okaro, 2017). Since then, there has being constant decline in the value of Naira, which has negatively

affects the economy by creating instabilities in exchange rates.

Oyetunji in Agu and Nwankwo (2017) observed that, Nigeria's currency has been battered and assaulted by speculators, rent-seekers, fraudulent importers, corrupt government officials and rogue bankers. The multiple exchange rates regime created official exchange rate to the dollar, banks lend to each other at what they called a second rate, the third rate is used by international money transfer companies and the black market. Also CBN maintained separate rates for religious pilgrims, particular type of product import, etc which resulted to currency confusion. They added that, the demand for dollar drives the value of Naira that is ubiquitous and weak. This is because Naira is allowed to float without any fixed exchange rate and global economic activities revolve around dollar. With the US dollars being the reserve currency of the world, it is needed for global trade. That is, if Nigeria wants to import from china, Nigeria would have to convert Naira to Dollars, which would later be converted to Renminbi to pay China. The round-tripping of the dollar by Nigeria and china makes the trade process more tedious. Due to the rise of trade value and volume between Nigeria and china, the continuous use of the US dollar for the completion of their trade transactions becomes somewhat needless, stressful, and time-wasting. The discontinuation of the US dollar for trade between Nigeria and china would relieve the pressure off Nigeria's foreign reserve in US dollars. Therefore, for Nigeria, swapization is an option of diversifying the Nigerian foreign reserve, which is mainly in US dollar (Moghalu, 2014).

Sawpization is a process where two countries in bilateral or diplomatic ties make available to each other, its currency liquidity to facilitate the election of either currency to denominate aspects of their mutual trade or direct exchange backed by their respective national currencies, rather than a third-party intermediary currency such as US dollar. The journey of swapization globally, is one of financial crisis resolution.

The global financial crisis of 2008 resuscitated the currency swap agreement as the USA Federal Reserve system initiated the swapization structure to establish central bank liquidity swaps. Chan and fiona (2008) in Ajugwe (2020) noted that in these, the Federal Reserve and the central banks of developed or stable emerging nations economy agree to exchange domestic currencies at the current prevailing market exchange rate and agree to reserve the swap at the same exchange and at a fixed future date. The critical objective of the swap transaction by the Federal Reserve and the Central Banks was to provide

liquidity in US dollars oversees market. Over thirty (30) developed and emerging economies engage in swapization with PRC from 2009-2017. Such is evidence in the short-term liquidity problem associated with the financial crisis and multiple year swap agreements of Renmnibi (herein referred to as RMB) with Argentina, Belarus, Brazil, Hong Kong, Indonesia, Ghana and Malaysia, Russia, Singapore, United Kingdom, Uzbekistan that perform a similar function to Central Bank liquidity swaps and owing to shortage of the US dollar by the Central Banks to meet their international trade demands (Ajugwe, 2020; Kanu, Nwali, Nwoke, Ogbaekingwe & Ugwuoke, 2020).

In October 2013, South Korea signed a one-rupiah currency swap deal worth $10billion. It was agreed that the two countries can exchange up to 10.7 trillion won or 115trillion rupiah for 3years. The 3-year currency swap could be renewed if both sides agree at the time of expiration. Japan and India has been one of the largest in swapization (Ajugwe, 2020). Generally, it should be noted that swapization in most often than not are commercial transactions driven by comparative advantage, promote bilateral trade and strengthen financial cooperation for the economic development of the nations involved.

In 2017, Nigeria signed the historic Bilateral Currency Swap Agreement (BCSA), (hereinafter 'swapization') with the People's Republic of China (PRC), which marked the continuation of two years of negotiation between the two nations that started with the official state visit of the Nigerian President Mohammadu Buhari to the PRC in April 2016. The deal which started in 27th April 2018 allow both countries instead of trading with US dollar alone, the country will get some RMB/Chinese Yuan value (CNY15Billion) which the value in Naira is N750billion. The US dollars equivalent at $2.5billion at an exchange rate of N305 – US$ and the Chinese Yuan at the rate of N47 – 1Yuan. The CBN choses four banks: Stanbic IBTC, Zenith Bank, First Bank and Standard Chartered Bank to act as settlement/ correspondent banks for setting the trade transactions between importers and exporters from both countries accordingly to the CBN, the four banks were selected based on their footprints in mainland China. Stanbic IBTC has a direct link with the Industrial and Commercial Bank of China (ICBC), which owns 20% stake in Standard Bank while Standard Bank owns 64% of Stanbic IBTC, other three banks have representative offices in Beijing (Ajugwe, 2020). However, the mechanics of the swapization was promoted when central bank of Nigeria regulation on transactions with authorized dealers in RMB was released. The bidding is done

bi-weekly and the fund is utilized within 72hours from the value date or returned to the CBN for repurchase at the bank's buying rate. The modes of payment are limited to letters of credit transactions and bills for collection transactions. The 41 items noted in the June 2015 circular of the CBN are not valid to access the RMB at the official FX market (Adebanjo & Soyibo, 2018).

Statement of the Problem

The public investment and economic activities of Chinese in Nigeria have gained prominence in recent time, particularly in the trade relations. More worrisome is skewed balance of payments position which has consistently been in favour of China (Ogunkola, Bankole & Adewuyi, 2010). Therefore, the swapization is just an easier way to lubricate the trade pattern that widens the trade deficit gap by by-passing dollar. On the relevance of the US dollar sustaining its global position as one of the most used reserve currencies of the world, Van (2014), comments that the effect of China's currency swap agreements with other countries on US economy will have a significant effect on the dollar. In his words, this will arise as a result of the global community reduced dependence on the dollar for foreign trade. Thus, the dollar's reserve currency status will be diminished (Ejiro & Oseghe, 2019). Durden (2014) in Ejiro and Oseghe (2019) corroborates by stating that China's currency swap agreement with other countries may threaten the influence of the US dollar as a reserve currency. This he attributed to the imported inflation countries who hold foreign exchange reserves in dollar experience from time to time.

Thus, these swapizations between countries, help to facilitate bilateral trade settlements using their national currencies, instead of a third-party currency, in this case, the US dollar, which is the dominant global reserve currency. According to Seyi Bella et al (2018), the swapization between China and Nigeria will remove the need to first source for the 'greenback' (US Dollars) before transactions involving the two countries can be made. Similarly, Adebanjo and Soyibo (2018), with the increasing volume of trade between Nigeria and China, the tripartite arrangement where Nigerian businesses involved in the importation of finished products or raw materials from China had to first convert their Naira currency into US dollars, and then into the Chinese RMB for payment to their Chinese business counterparts was unsustainable, as the practice piled huge pressure on the Nigeria's foreign reserve. With the swapization, Nigerian entrepreneurs can now import products,

raw materials, and parts from the PRC and pay directly with the RMB obtained from an authorized dealer under the currency exchange deal. Conversely, Chinese investors seeking to buy raw materials from or invest in Nigeria, may obtain Naira or Naira denominated loans from Chinese banks to pay for their imports or investments.

In other words, Nigeria's vulnerability to external shocks and issues with maintenance of its external reserves as a result of over dependence on oil, Nigeria largest foreign exchange earner is welled researched and documented. Faced with a need to create an alternative to her over-dependence on the petrodollar, the swapization allows for direct currency exchange between traders and investors in Nigeria and china thereby utilizing the liquidity of the swap deal (Adebanjo & Soyibo, 2018). For Kanu et al (2020), exchange between the Naira (₦) and the US Dollars ($) causes a considerable pressure on foreign reserve. The intensive pressure on the US dollars as the major and third party bilateral currency caused increase in the use of RMB in 2009 and trade between china and other countries. The economic cord between Nigeria and china is as a result of Nigerian economic/ financial vulnerability to external shocks in 2016-2017, shortfall of the US dollars to finance global trade with china and other trading partners, diminishing Nigerian foreign earning due to excess reliance on the income from oil value in US dollars, and foreign exchange unpredictability.

Many have researched on the Nigeria – China bilateral relationship focusing on the challenges and prospects (Aneto et al, 2018), cost-benefit analysis (Ejiro et al 2019), positive impacts on the economy (Ajugwe, *2020),* economic implications and prospects (Kanu, et al, 2020), development and implications (Yunnan, 2018), economic relations (Ogunkola, et al, 2008), infrastructure projects (David, 2019), China's commercial interests (Page, 2018), investment and its implications (Shiitu & Adenike, 2018), implications and opportunities (Adebanjo & Soyibo, 2018), a powerful south-south alliance (Egbula & Zheng, 2011), challenges and opportunities (Anaeto, 2018), benefits and dangers (Atkins, 2016) exchange rate volatility, management and to improve value of Naira (Aliyu, 2009; Asimiyu, Eze & Ucheaga, 2018; CBN, 2011; CBN, 2017; CBN, 2018), effect on dollars and swap agreement (Adhikari, 2016; Adu & Ahmed, 2018; CNBC Africa, 2019). This paper tend to deviate from this studies and focus more on the exchange rate, which is almost in support with the work

of (Aliyu, 2009). The paper will also review the implications from the extant literature before arriving at the conclusion.

Review of the Related Literature

Conceptual Review

The Concept of Swapization

Swapization is a financial derivative constructed as a series of forward exchange rate contracts and a form of hedging aimed at relieving counterparties from the burden of global currency reserve foreign exchange and facilitates trade relationship of such counterparties. For Nzotta (2004), is a contract between two counterparties who agree to exchange payments based on the value of one asset, in exchange for a payment based on the value of another asset. It is simply a standardized, liquid and cost-effective alternative to trading cash assets. According to Saxena and Vallar (n.d.), it is a contract in which the parties agree to a stream of payments determined with reference to the price of an asset over time. CBN (2016) defined a swap transaction as an agreement between two parties to exchange sequences of cashflows for a set period. For Farouk and Abdullahi (2016) is an over-the-counter contract that involves the exchange of cashflows between two parties at a series of specified future dates. They are used to reduce the cost of capital, manage risks, exploit economies of scale, arbitrage world of capital market, enter new markets and create synthetic instruments (Onuorah & Ozurumba, 2019). There are two main types of swaps: interest rate and currency.

While interest rate swap is a bilateral agreement between two counterparties to exchange a stream of future interest payments on a principal amount based on specified interest rates for a set period; currency swap is n arrangement between two parties to exchange cashflows in different currencies at certain predetermined rates for a specified period (Aneto et al, 2018 in Chima & Obiah, 2018). Currency swaps enables organizations to leverage on business opportunities that are available in some countries (CBN, 2016). Currency swaps can vary, the swap document clarify the rate of exchange that will be used – there will be the deal date (i.e., when the contract is signed), but the swap may not begin until the effective date. Normally one currency is recorded as the fixed principal amount, with an agreed rate of exchange for calculating the amounts in the second currency. One of the objectives of the currency swap, therefore,

is to take advantage of lower interest rates and to restructure the currency base of a nation's trade liabilities on imbalance (Chima & Obiah, 2018).

Sinking Currency

Sinking currency means a nominal depreciation or decline of value of currency as a result of prevailing exchange rate. Kaminsky et al (1998) in Agu and Nwankwo (2018), defines sinking currency as when a weighted average of monthly percentage depreciations in the exchange rate and monthly percentage declines in exchange reserves exceeds its means by more than three standard deviations. Naira today is in a sinking sand due to depreciation of value of the exchange rate. Little wonder, swapization emphasize currency exchange rate. To Aneto et al (2018), swapization is a process whereby two nations elect to denominate aspects of their mutual trade on a direct exchange between their respective national currencies, instead of a third-party value standard that is extraneous to them, which in the present global system is the US dollar. The transaction is when a country gives a loan to another country in its domestic currency and allow the country (borrower) to deposit agreed amount in its own domestic currency as a plead for the loan granted in other currency (Destais, 2013). Equally, swapization, Judit, Zsolt and Csaba (2011) opines, is a concurrent activities of granting credit borrowing and lending operation whereby two parties exchange specific amount of two currencies at the outset at the spot rate. In other words, the easiest type of swapization transaction is to buy the currency in the spot market and sold in the forward market. The parties undertake to reverse the exchange rate after a fixed term at a fixed exchange rate.

Nigeria-China by this economic bond can exchange their currencies at the agreed rate, thus negating the need to buy dollars and with the agreement that they will reverse the exchange rate that prevailed at the expiring date. This trade arrangement gives opening for the interested parties reconcile and settle their surplus and shortage in the use of the two different currencies and reduce payment imbalance. The Nigeria-China swapization encourages only trade importation from China and continually discourages local production, which means many local industries will still liquidate, while Chinese goods continue to compete with domestic products on cheap price and low quality basis. Contrarily, many have seen the move as a good direction for the survival of

Nigerian sinking currency and provision of liquidity to ensure financial stability.

Theoretical Framework

Although people often talk as if theory and practice are different things, as if is only theoretical, nothing is more practical than a good theory. Theory helps make sense of complex situations by directing attention to key issues and by guiding methods of analysis (Kummerow, n.d.). Therefore, this work utilizes portfolio theory and dependency theory.

Portfolio Theory

Prior to modern portfolio theory, practitioners would often speak of risk and return, but the failure to quantify these important measures made the goal of constructing an optimal portfolio highly subjective and provided no insight about the return investors should expect (MGrant, 2001). However, Harry Markowitz (1952), an American economist in the 1950s developed a theory of 'portfolio choice', which allows investors to analyse risk relative to their expected return. For this work Markowitz, a professor at Baruch College at the City University of New York, shared the 1990 Nobel Memorial Prize in Economic Sciences with William Sharpe and Merton Miller. Markowitz's theory is today known as Modern Portfolio Theory (MPT). The MPT is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets (Omisore, Yusuf & Nwufo, 2012). Thus, Markowitz marks the beginning of MPT, where for the first time, the problem of portfolio selection is clearly formulated and solved. Earlier contributions of Keynes (1936), Marschak (1938) and others only tangentially analyse investment decisions. Markowitz's focus is the explanation of the phenomenon of portfolio diversification (Constantinides & Malliaris, 1995). In other words, MPT is the philosophical opposite of traditional asset pricking. It is the creation of economists, who try to understand the market as a whole, rather than looking for what that makes each investment opportunity unique (Kierkegaard, Lejon & Persson, 2006). Therefore, a journey that originated from the classical works of H. Markowitz (1952); J. Tobin (1955) and W. Sharpe (1970), MPT has gone a long way in its development, and has become an independent scientific domain, which gives

both theoretical and very useful practical results. Portfolio theory development resulted in delivering special academic courses, in publishing textbooks, which indicate the importance of this scientific area (Sukharev, 2020).
The MPT of Markowitz has pioneered the quantitative analysis of financial economics. The most important idea proposed in this theory is that government should focus on the trade-off between expected return and the risk measured by the standard deviation. Using quantitative models and historical data, it defines expected portfolio returns and acceptable levels of portfolio risk, and shows how to construct an optimal portfolio. Again, having developed a mathematical structural procedure that would produce the set of theoretical best portfolios, Markowitz gave a complete characterization of the efficient frontier for trade-off of the return and risk. Mathematically, the MPT leads to a quadratic optimization problem with linear constraints (Maier-Paape & Zhu, 2018). Although the MPT is widely used in practice in the financial industry, in recent years, the basic assumptions of the MPT have been challenged. Being that swap is one of the derivatives upon which portfolio is structured, the paper adopts this theory.

Dependency Theory

This is a social science tool of explanation that is predicated on the notion that resources flow from a "periphery" of poor and underdeveloped states to "core" wealthy states, enriching the latter at the expense of the former. The theory maintains that underdevelopment or the conditions of poverty can only be understood as a historical process. Dependency theory originates from two papers published in 1949 – one by Hans Singer, the other by Raul Prebisch, in which the authors observe that the terms of trade for underdeveloped countries, relative to the developed, had deteriorated overtime because of the exploitative nature of the relationship between the two worlds.
The theory arose as a reaction to the modernization theory; an earlier theory of development, which held that all societies progress through similar stages of development and that today's underdeveloped areas are thus in a similar situation to that of today's developed areas sometime in the past, and that the best strategies to bail the underdeveloped countries out of poverty is to accelerate them along this supposed path of development shared with the West through acceptance of foreign direct investment, technology transfer and closer integration into the world market. Dependency theorists rejected this view and

rather opined that what is causing the underdevelopment in poor countries is the exploitative relationship that have characterized the interactions between the poor nations and the developed ones from the colonial times until our days. It is a central contention by the dependency theorists that poor states are impoverished and rich ones enriched by the disadvantaged way the former states are integrated into the world system.

Dependency is thus a situation in which a certain group of countries has its economy conditioned by the development and expansion of another, in which the former is subservient. Offiong (1980) in Nwosu (2013), refers to dependency as a situation in which a certain group of countries have their economy conditioned by the development and expansion of another country. He argued that underdevelopment, far from being original or natural condition of the poor societies, is a condition imposed by the international expansion of capitalism and its alienable prtner, imperialism. Frank (1969), a major proponent of the dependency theory of development also argues that the main cause of underdevelopment in the third world states is the neo-imperialistic structure; that the metropolitan periphery relation in which third world states are the periphery of the metropolitan capitalist economies breeds underdevelopment (Nwosu, 2013).

The main African proponents of dependency theory are Santos, Walter Rodney, Samir Amin, and Claude Ake. Even though Nigeria and China have cooperated for mutual economic benefits, the relationship between Nigeria and China could better be explained within the dependency theoretical foundation, in which the trend of relations between the two countries favours China as the senior partner in the relationship, a position she has been using to condition Nigeria's development pattern to produce the raw materials needed for China's industrial growth in return for Nigeria's reliance on imported goods from China instead of producing its own, thus leading to balance of trade and balance of payment problems for Nigeria. In other words, Offing (1980) in Nwosu (2013), asserted that one must turn to the dependency model to place African underdevelopment in its proper perspective. The main emphasis of this theory is that of the unequal exchange in favour of the metropolitan countries; the repatriation of profits and capital to these countries and the consequent underdevelopment of the poor third world countries. The theory, in particular, argues that there exist in the dependent societies big spatial inequalities between the urban centres and rural areas in favour of the former.

The two theories of Portfolio and Dependency are very central to this paper because the central arguments from the two theories are that both weak and strong economies have something to gain in a relationship, no matter the proportion through functional and optimal swapization, even though the dynamics of unequal relations in international division of labour cannot be ignored in such relationship because of the dependant nature of international politics.

EMPIRICAL REVIEW

Adhikari (2016) studies the consequence of China and Indonesia currency swap on the Value of the US dollar. The study focuses on evaluating the effect of China's swap agreements with Indonesia vis a vis the US dollar's exchange rate with the Indonesian Rupiah. Variables used in the study are natural logs of the Indonesian real Gross Domestic Product (GDP), US real GDP, Indonesian money supply, U.S. money supply, and a dummy variable for the swap deal was adopted for the study. The outcome of the analysis suggests that China's swap agreement with Indonesia does not affect the exchange rate relations between the US dollar and the Indonesian Rupiah. Adhikari stated that a possible reason for this finding be that the amount entered in by the swap agreement might be too insignificant compared to the volume of Indonesia's annual trade volume to influence the exchange rate.

Agu and Nwankwo (2017), investigated the implications of 2016 Naira crash on economic sustainability and growth of Nigeria. The study adopted time series data from 2006 – 2017 from CBN Statistical Bulletin, which was subjected to Johansen Cointegration method of analysis. The multivariate co-integration result indicated that there is long-run relationship between the dependent and the independent variables. Also, the Foreign direct investment (FDI) has positive and significant effect on economic sustainability and growth of Nigeria.

Olayiwola and Fasoye (2019), examines the impact of China's currency swap agreements with Nigeria on the US dollar's exchange rate with naira. The study employed the Robust Least Squares (RLS) technique spanning 1999 and 2017. The study results indicate that the Nigeria China currency swap agreement will have a positive effect on the exchange rate value of the US dollar and Nigerian naira. That is, the naira will appreciate against the US dollar. However, the period adopted for this study might not be sufficient to analyze the impact of

Nigeria China currency swap agreements on the US dollar's exchange rate with naira as the bilateral currency swap deal was introduced and signed on 27th April 2018.

Okwurume and Onuoha (2019)**,** investigates the competitive advantage potential in the currency swap agreement between Nigeria and China and clarifies the concept and entrails of currency swap. The study employed the historical and descriptive design to establish the advantages and disadvantages of the currency swap deal. The paper recommends that Government should purposefully adopt export-based economic policies and technological transfer between China and Nigeria.

Kanu et al (2020) examined Nigeria and China Bilateral Currency Swap: Economic Implications and Prospects. Survey design was used to determine the impact of Nigeria – China economic ties on Nigerian imbalance of payment, foreign reserve, consumption of local products and job creation among others. The responses from the audience reveal that Nigeria and China Bilateral Currency Swap agreement will encourage job creation and importation activities in the country. While more than 50% of the respondents echoed that this agreement will increase imbalance of payment, reduction in foreign reserve and less consumption of domestic products.

Effects of Nigeria-China Currency Swapization

There are perceived effect of RMB accessibility in Nigeria by this arrangement which Ejiro et al (2019) and Adebanjo and Soyibo (2018) outlined.

1) **Liquidity:** Swapization is not good enough but, it is suitable option that enhances provision of liquidity when there is serious crisis in the market Chinese scholars added that the essence is to increase the supply of liquidity in the market (Kanu et al, 2020), and smoothen business transactions. Hence, swapization of Nigeria-China is designed to provide direct access of Naira liquidity to Chinese and RMB liquidity to Nigerians, thereby enhance the speed, convenience and volume of transactions between the two countries without the need of converting to US dollars. Global transactions that required invoices in US dollars for their completion can quickly be issued, using the Naira or the RMB (Ejiro & Oseghe, 2019; Adebanjo & Soyibo, 2018).
2) **Currency Fluctuation:** The constant fluctuation or volatility level of dollar to Naira has affected the sinking currency in the transactions of third party

denominated currency – dollar. Therefore, the swapization deal will mitigate the adverse effects of dollar volatility and the susceptibility to Naira fluctuations. The arrangement allows the respective central banks to obtain each other's currency at a pre-determined exchange rate which would not be susceptible to fluctuation of the currencies.

3) **Foreign Reserve Management:** As the nation's external reserves tumbled drastically in recent times, hitting fresh new lows despite steep rise in crude oil prices in the global markets; the operationalization of swapization will take-off the enormous pressure on dollar while allowing more dollar earnings to be retained in the external reserve. This will assist both countries in their foreign exchange reserves management and enhance financial stability. It will equally minimize currency losses emanating from the prior conversion of Naira to dollar and back to RMB.
4) **Alternative Single Super-Sovereign Reserve Currency:** The apex banks of countries china signed swapization deal may be able to consummate trade with other nations based on RMB rather than the US dollars. This will gradually position Chinese RMB as alternative single super-sovereign reserve currency in place of dollar. According to Ejiro and Oseghe (2019), global trade between Nigeria and other countries can be powered by the RMB, and will shield the Naira from its volatile relationship with the dollar. However, the challenge they observed, with such arrangement is that Nigeria does not currently have enough of the RMB to attempt global trade with other countries just yet.
5) **Foreign Exchange Stability:** The monetary authorities have maintained that the swapization will appreciate Naira, if dollar is side tracked in any transaction with China. It is a strategic attempt to achieve foreign exchange stability of the both currencies, and also help the economic planners to predict accurately well the direction of the economic metrics. More especially it will aid the entrepreneurs with parameters to reduce risk embedded in the fluctuation of the foreign currency, this will increase their profits, which if all things being equal will be plough back to their various enterprises finances to grow them (Ejiro & Oseghe, 2019). They warned that, though swapization will reduce the pressure on the dollar demand by Nigerian businesses and translate into a tool in ensuring the stability of the Naira, this might be a temporary fix when what is indeed needed is a robust and lasting solution. Therefore, there is a need to be careful of over-

dependence on interim measures to handle the volatile nature of the Naira in meeting our import volumes.

6) **Ease of Doing Business:** With swapization, completion of transactions by both countries become more manageable as the hassle of obtaining US dollars have been eliminated. Nigeria-China trade deals becomes effectively easier.
7) **Trade and Investment:** Adebanjo and Soyibo (2018) said, the Chinese public and private sector participation in the Nigerian economy has continued to trend upwards, probably on what Dollar (2019) regards as infrastructure connectivity the foundation of development through cooperation…. Evidence of Chinese investments are found in the Agriculture, manufacturing, telecommunication, construction, oil & gas, mining, etc. The availability and accessibility of Naira to Chinese investors is expected to improve the foreign direct and portfolio investment into Nigeria. The major attraction is not only the available liquidity to invest in the country, but the available RMB for repatriation of profit and capital back to China.
8) **RMB Denominated Loans:** It is envisioned that the Peoples Bank of China will use the available Nigerian currency to advance loans to Chinese investors, who have secured investment opportunities or intending to do business in Nigeria. This creates a unique and cheaper window for investors to import capital for their business interests in Nigeria (Adebanjo & Soyibo, 2018). According to Chen (2018), Chinese finance will go far in addressing Nigeria's large infrastructure gaps. China's loans are largely provided from its two policy banks, the China Development Bank and the Export-Import Bank of China (EXIM Bank) (Dollar, 2019).
9) **Foreign Direct Investment:** This is an investment made to acquire a lasting capital assets or interest in a foreign company with the purpose of having an effective voice in the management or stake in the business. It is a means of reducing cost of production if the labour market is cheaper and the regulations are less restrictive in the target foreign market. Nigeria can be Chinese investment destination if Naira is made available for the investors through swapization.

Conclusion

The Nigeria-China swapization and Nigerian sinking currency has been investigated with the primary objective of finding out the effects of the swapization on Nigerian sinking currency. Therefore, the effects of the

swapization can be found from the provision of liquidity by the both countries, foreign reserve management, currency fluctuation, foreign exchange stability, improvement on the trade and investment, providing loans and foreign direct investment, encouraging ease of doing business among others. It is the opinion of the paper that diversification and industrialization are the twin towers that can rescue Nigerian sinking currency. Thus, to hedge against exchange rate risk and to ensure stability of the Naira, the industrial sector must be developed to produce globally competitive products that would meet favourable balance of trade and appreciation of Naira.

Recommendations

We have seen that swapization allow organizations to exploit the global capital markets more efficiently, because they are an integral arbitrage link between interest rates of different developed nations and exchange rate of developing nations. Against this backdrop, the paper recommends the following:

- There should be a road map to develop Nigerian industrial sector with the provision of critical infrastructures and create enabling environment, which guarantees the ease of doing business.
- Central banks globally have as one of their core mandate the management of external assets in order to protect the domestic value of their various currencies, CBN should modify the financial assets in their portfolio to suit the changing circumstances in the global financial markets, as well as to meet their objectives instead of swapization only.
- Technology is driving all the sectors of the economy globally, China reached where they are today by exploiting the technological space, Nigeria can learn from the Chinese growth experience and the reforms undertaken, particularly in the key sectors of infrastructural development, industrialization, agriculture and oil and gas.

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