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Review Article

Nigeria's Trade with the European Union: New challenges for Nigeria.

Abiola Esther Ogunmokun
Department of Economics and International Affairs Bucharest University of Economic Studies (PhD Student) Bucharest Romania.

*Corresponding Author
Abiola Esther Ogunmokun

Abstract: This paper gives an overview of the interrelatedness that exists amongst economies through trade. It analyzes the impact of Nigeria's merchandise trade with the European Union upon the former country's economic growth. This study tends to examine a proposed correlation between Nigeria's economic growth and her merchandise trade export to the European Union using Spearman's rank correlation coefficient. As much as trade relationship is beneficial to the Nigerian economy, it brings about new economic challenges and increased competition. The study recommends the development of strategies that will promote exports and high technology trade as this will bring about increased productivity and efficient production.
Keywords: Foreign trade, Exports, European Union (EU), Economic Partnership Agreement (EPA).

1. INTRODUCTION

Due to the world economy that has become global in scope, there is a developing propensity for economies to transact across national boundaries since it brings about market expansion across the territory. In order to encourage trade relationships with other nations, Nigeria has been involved in various trade and economic partnership agreements, though beneficial but comes with its challenges. Trade agreements, regardless of whether limited or broad are proficient systems intended to support business trades among countries, adding to their efforts to sustain economic growth. Trade agreements mirror countries' straightforward frame of mind regarding the possibilities to turn to account their economic potential and draw benefits from international specialization. It becomes a little miracle that trade agreements have multiplied on all continents of late, Africa notwithstanding. Trade agreements membership enables African countries not only to give superior use to their natural resources, which they possess in plenty but also to upgrade their technological capabilities that are critical in their struggle against underdevelopment and poverty. The European Union Economic Partnership Agreement (EPA) between the European Union and African, Caribbean and Pacific (ACP) countries intended to promote economic integration in the sub-region. The European Union's trade with ACP countries represents more than 5 per cent of the EU's imports and exports which makes the EU a major trading partner for ACP countries.

In the 1970s and early 1980s, the very best proportion of total FDI within the African region came to West Africa; additionally, the North African sub-region has received a high proportion of total FDI next to the West African sub-region within the same period. The Southern sub-region also had the highest percentage proportion of total FDI in the year 1974, 1997, and 2001. Overall, the West African sub-region benefited the highest proportion of total FDI with a percentage of 31.3 per cent, followed by the North African sub-region, with a proportion of 29.1 per cent. The proportion of West and North Africa put together amounted to over 60 per cent of total FDI for the entire African countries, which implies that the two sub-regions together had a greater share than the other three sub-regions put together. Like East Africa, the Central African sub-region in all has also received only a very low percentage of total FDI flow into Africa. Nigeria happens to be the largest trader in West Africa which makes her maintain a huge influence over the West African region, both politically and economically. In 2016, the EU absorbed about 30 per cent of all Nigeria's exports. Fossil-fuel products are by far the dominant export followed by agricultural products while imports include manufactured goods, chemicals, machinery and so on. Oil has been a dominant source of

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government revenue since the 1970s, however, Nigeria still engages in the export of some agricultural produce. Over the years, Nigeria's economic growth has been driven by increased exports of agricultural produce, telecommunications and services. These possibilities are limped by such a large number of imperatives including smuggling, high cost of doing business, inadequate infrastructures, lack of standardization, and unfavorable international trade rules and practices, insecurity and corruption.

2. Aftermath of the Trade Policies on Exports from Africa

Africa's participation in trade agreements with trade partners has made a positive contribution to the world's output (Abiad A *et al.*, 2012). In as much as these commercial relations amongst economies are beneficial, it is faced with some obstacles. The ability for Africa to be able to successfully export to the EU trade is been hindered by regulations like General Agreement on Tariffs and Trade (GATT) and the Generalized System of Preferences (GSP). Inability to comply with the set regulations or standards leads to African producers being excluded from international value chains. The effect of this exclusion for less developed or developing region will be an inability to attain sustainable growth and reduce chronic poverty failing their interaction and integration with the rest of the world, which obviously entails making strong efforts to comply with the social and environmental policies (Oluwasola O, 2014). This is a major setback to economies whose sustainability is dependent on the export of these products. Standards initially emerged in developed countries, but a growing number of new standards are now being created in developing countries. These standards emerged as a market instrument to tackle multiple sustainability issues that cannot be resolved through compliance with national enactment and obligatory market necessities. Standards used in global business can be set by non-governmental organizations (NGOs), private enterprises and consortiums of organizations. In any case, the quantity of accessible benchmarks is a lot higher in larger and richer countries where there is an expanded interest for certified products. Be that as it may, major overall brands have coordinated their manageable sourcing responsibilities into their corporate techniques.

Although many studies have explored the nature of these standards and their effects on various stakeholders, there is no large scale empirical evidence on how accessible and user-friendly these standards are for producers. These regulations have hindered some key exports, especially those in which some developing countries and particularly Africa have a comparative advantage, which restricts trade flows. As a result of these trade obstructions, African nations have found it difficult to take full advantage of the opportunities embedded in international trade (Jabati M.C, 2003). More so, African producers especially SMEs are often poorly informed and may not possess the technical knowledge or have access to modern technologies necessary to implement the set policies or regulations. These limitations can make it very difficult for them to compete in global markets. Some outcomes of these unmet measures on exports from Africa are;-

- Inability to attain economic growth by economies that solely depend on these exports for sustainability.
- Exclusion from the global market which leads to denied access to developed markets.
- Lengthy and unfair bans on some products without sufficient scientific evidence.

In addition, due to the fact that developed economies have adequate facilities and access to improved technology they are more advantaged than the other economies. More so, this facility makes it possible to test the quality and safety of products. With this, developed regions are able to set high standards which are difficult or impossible to meet by developing and less developed regions.

3. Overview of the trade relationship

3.1Introduction

The act of exchange of goods and services among countries contributes to developing productive capacity. An increased trade export to the EU stimulates investment in Nigeria which can lead to decreased level of unemployment. Regional integration of Nigeria with European countries is likewise reinforced due to these commercial relations. Foreign trade is of great significance to the growth of any economy because it covers up for the economies that are disadvantaged in some resources. More so, it enables economies to have easy access to resources they have an absolute or comparative disadvantage in. As for the trade relationship that exists between Nigeria and the EU countries, both parties benefit from this action. For the EU, it gives them the opportunity to have access to products from Nigeria thereby increasing consumer choice. On the other hand, it creates an enabling environment to showcase products which Nigeria has an absolute and comparative advantage over thereby leading to new markets or business opportunities. Also, revenues are generated from exports of these products which lead to an increase in economic growth and living standards. The tables below give an overview of Nigeria's foreign trade with the EU in comparison with the global trade.

TABLE 1: Nigeria's Merchandise trade with the World

Year	Import € Billion	Export € Billion	Balance of trade € Billion
2009	23.3	38.6	15.3
2010	27.8	61.1	33.3
2011	37.2	79.4	42.2
2012	32.6	83.1	50.5
2013	37.9	74.3	36.4
2014	39.5	74.8	35.3
2015	35.0	52.2	17.2
2016	28.7	36.4	7.8
2017	31.9	43.5	11.6
2018	35.4	61.4	26.0

Source: Eurostat

TABLE 2: EU Merchandise trade with Nigeria

Year	Import € Billion	Export € Billion	Balance of trade € Billion
2009	10.4	9.3	-1.1
2010	14.5	10.8	-3.7
2011	24.4	12.9	-11.5
2012	33.0	11.4	-21.6
2013	28.7	11.7	-17.0
2014	28.1	11.6	-16.5
2015	18.5	10.8	-7.8
2016	10.9	9.0	-1.9
2017	15.2	10.1	-5.1
2018	22.5	11.9	-10.6

Source: Eurostat

From Table 1 above, Nigeria was able to generate an income of € 61.4 billion from its global export of merchandise in the year 2018; while in Table 2, **€**22.5 billion revenue was expended on imports by the EU from Nigeria in 2018 which is about 37 per cent of global export revenue gained by Nigeria. Also, in the same year 2018, Nigeria spent **€**11.9 billion on imports from the EU. Trade relationship also exists in services between the EU and Nigeria, but the focus of this study is on merchandise trade. "Figure 1" below provides a clearer view of the European Union's merchandise trade with the Federal Republic of Nigeria. The chart shows that the EU is importing more from Nigeria than it is exporting to Nigeria. This implies that Nigeria's merchandise export is of great benefits to the EU. From the year 2013, there was a decline in the EU's import from Nigeria which later increased in the period 2017 - 2018; exports to Nigeria also slightly increased within the period.

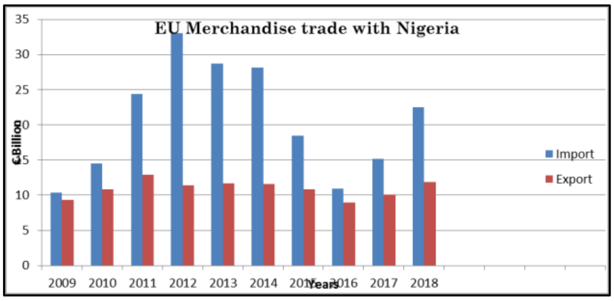

FIGURE 1
Source: Eurostat/Researcher's compilation

3.2 New challenges for Nigeria

In as much as trade relationship between countries is to an extent beneficial to economic growth and development, Nigeria is yet to sign the West Africa EPA which aims to remove or reduce customs tariffs in bilateral trade. As such Nigeria is faced with two trade policy alternative options:

1. **To decline to sign the EU trade agreement, this would imply harder future access of Nigerian exports on the EU market. This will most likely produce these adverse effects;**

   - It will worsen Nigeria's terms of trade, thereby lessening the nation's possibilities to speed up economic development.
   - It will curtail the country's long-term growth prospects in terms of technological progress and export competitiveness.
   - It will slow or even hamper the regional integration process unfolding in the Regional Economic Communities (RECs) of the ACP countries (to which ECOWAS belongs).

2. To Sign The Agreement And Become Part Of The EPA ECOWAS.

This policy option is expected to bring about significant advantages and benefits to Nigeria in the medium and long run (broader access to the EU markets, increasing inflows of foreign investment by the EU firms, accelerated technological development through cooperation with the EU's firms, booming exports of services etc.).
From a broader perspective, it is expected to:

- Contribute to economic growth, because increased export to the EU will stimulate investment which positively affects the nation's growth and development.
- Bring about poverty reduction and regional integration of Nigeria with European countries is strengthened.

However, this also raises certain controversial problems such as for instance, the impact of the EPA on unemployment.

Subsequently, mutual benefit or gains tend to arise from the trade relationship between the EU countries and Nigeria. This will bring about increased consumer choice in the EU market because there is access to products from Nigeria. Likewise, it will create an enabling environment to showcase products which Nigeria has an absolute and comparative advantage over thereby leading to new markets or business opportunities.

4. Is there any relationship between the exports to the EU and the growth of the economy?

To ascertain if any relationship exist between the variables, spearman's rank correlation coefficient was used to examine and identify the correlation between Nigeria's export to the EU and economic growth for the period 2009- 2018. The real GDP growth rate and Export growth rate[1] are used as macro-economic indicators.

FIGURE 2

Year	Export Growth rate R1[1]	Real GDP growth rate R2	R1	R2	D=R1-R2	D^2
2009	-33.8	9	8	2	6	36
2010	39.3	10	4	1	3	9
2011	68.2	4.9	1	5	-4	16
2012	35.4	4.3	5	6	-1	1
2013	-13	5.4	7	4	3	9
2014	-2.1	6.3	6	3	3	9
2015	-34.2	2.7	9	7	2	4
2016	-41.1	-1.5	10	10	0	0
2017	39.5	0.8	3	9	-6	36
2018	48	1.9	2	8	-6	36
∑	106.2	43.8	55	55	0	156

Source: Eurostat/ Researcher's calculation

The correlation coefficient (p) is given as;

$$\rho = 1 - \frac{6\sum d_i^2}{n(n^2-1)}.$$

Where: R1 is the rank for FDI growth rate

R2 is the rank for real GDP growth rate

D = the rank difference between R1 and R2

D^2 = the square of the deviation

n = the number of variables

n^2 = the square of the number of variables

Therefore, $\sum D^2 = 156$, $n = 10$, $n^2 = 100$

$$1 - \frac{6(156)}{10(10^{2}-1)}$$

$= 1 – 0.95$

$= 0.05$

The above result implies that a positive correlation of 0.05 exists between the rate of export to the EU and the real GDP growth rate in Nigeria within the specified period under study (2009-2018). This means that an increase in export on merchandise trade to the EU is to an extent responsible for the increase in real GDP growth rate. And it shows that as export increases, the real GDP growth also increases. It is also essential to note that the correlation coefficient does not prove or imply causality. Generalizations on the effect or impact of one variable on the other cannot be drawn; it only indicates that a positive relationship exists between the variables. However, since the result of the correlation is farther from 1.0, it indicates the presence of a weak relationship between the variables.

5. CONCLUSION

Nigeria's trade relationship with the EU is of great significance to the economy because it leads to market expansion across the territory. It also leads to increased savings and investment which has a multiplier effect on the nation's growth and development. Though domestic producers who compete with the EU imports might face a decline in their business, local consumers and firms who purchase intermediate goods or machinery for production will benefit from the relation. This brings about the question as to whether EPAs are good for development because African manufacturers worry about European competition because nascent industries are "prone to being overrun" by imports (Segun Ajayi-Kadir, 2017). The real GDP growth rate was used to represent economic growth, a correlation between real GDP growth rate and export growth rate was ascertained from this study which implied the presence of a positive relationship. Also, the impact of Nigeria's foreign trade with the EU was examined.

Foreign trades effectively affect the economy's growth and for Nigeria to achieve sustainable growth and development; there is a need to develop strategies that will promote exports and high technology trade as this will bring about increased productivity and efficient production. Also, increased levels of exportation imply greater openness to trade which can help local manufacturers adopt new technology that can aid production. There is a need for significant investment in research, science and technical knowledge by the Nigerian government. This will help improve innovative capacities which will thereby lead to increased productivity which in turn can lead to job creation which would have a multiplier effect on the nation's growth and development.

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[1] %Growth: relative variation between the current and previous period.

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