

## WORLD TRADE ORGANIZATION AND THE DYNAMICS OF TRADE BETWEEN NIGERIA AND THE EURO AREA

**Chibuike R. Oguanobi, Ph.D**

*Department of Economics, Chukwuemeka Odumegwu Univeristy Igbariam*

**Chibueze A. Aniebo, Ph.D**

*Department of Economics, Madonna University Okija*

**Anthony A. Akamobi, Ph.D**

**Chukwunonso S. Ekesiobi**

*Department of Economics, Chukwuemeka Odumegwu University Igbariam*

### Abstract

*This paper is an attempt at examining the extent to which Nigeria has enhanced its trade relations with member countries of the European Union, given the guidelines of the world trade organization. Data on the country's exports to and imports from these countries of the Euro Area were collected for the period 2004 to 2014. Applying a simple descriptive statistics, it was found that the total trades between these countries were insignificant over the period. I went further to highlight some of the possible causes of poor trade between these countries, which revolve around tariff and non-tariff barriers to trade. It is finally recommended among other things that the authorities of all countries especially of Nigeria and the Euro Area should ensure that the guidelines of the WTO are comprehensively adhered to in their efforts to restrict trade.*

**Key words:** Euro Area, Nigeria, Trade, WTO.

**JEL Classification:** F10, F13, F15.

### 1. INTRODUCTION

In the era of globalization and the accompanying openness of national borders, countries of the world are expected to relate in different ways. In view of this, over the decades, studies (both theoretical and empirical) relating to international economics have been dominated by studies on the extent of interdependencies among different countries of the world. The basis for inter-relationships between countries of the world has been traced back to the works of Adam Smith and David Ricardo in their Classical foreign trade theories. According to them, trade between countries enhances the growth of individual countries and the world economy at large, as specialization that accompany comparative advantage ensures that countries utilize their productive resources at full potentials.

No economy is an island. As such, neither Nigeria nor any country of the *Euro Area*<sup>1</sup> is an exception. Nigeria is indeed an open economy with international exchange of goods and services constituting a highly significant proportion of its formal and informal activities, both economic and otherwise. Over the years, there has been tremendous increase in the rate of international transactions between Nigeria and other countries including countries of the Euro Area. Countries of the Euro Area are characterized by similar trends as the region is significantly dependent on export earnings for their growth and development.

Over the past decade, there has been tremendous amount of trade flows between Nigeria and the Euro Area. However, both Nigeria and countries of the Euro Area have not attained their peak with respect to growth and development. While most countries of the Euro Area are seen as advanced, Nigeria is a developing country still making *efforts aimed at enhancing export*<sup>2</sup>, though within the guidelines of the World Trade Organization (WTO). Countries of the Euro Area, though advanced, in an effort to advance further, are also making efforts to enhance productivity and growth.

In the light of the above, this paper is an attempt at x-raying the extent of trade flows between Nigeria and the Euro Area, amidst the guidelines of the WTO. The paper will also ascertain if the objective of establishing the WTO have been reasonably achieved in the exchange of goods and services between the two entities.

## **2. WORLD TRADE ORGANIZATION: A BRIEF OVERVIEW**

As reported by Wikipedia, the General Agreement on Tariffs and Trade (GATT) was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation, notably the Breton Woods institutions of the World Bank (IBRD) and the International Monetary Fund (IMF). A comparable international institution for trade, named the International Trade Organization (ITO) was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the U.S. and a few other signatories and never went into effect.

Eventually, The GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995. Despite attempts in the mid-1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for almost half a century as a semi-institutionalized multilateral treaty regime on a provisional basis.

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<sup>1</sup> The EU members are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and The United Kingdom.

<sup>2</sup> To see these efforts, check the functions and achievements of the Nigerian Export Promotion Council.

The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by *123 nations*<sup>3</sup> on 15 April 1994. The WTO deals with regulation of trade between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round of 1986–1994.

### **2.1 Functions of the WTO**

Among the various functions of the WTO, the following are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of trade agreements between member countries.
- It provides a forum for negotiations and for settlement of disputes.

Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training. Specifically, below are the five additional functions of the World Trade Organization.

- The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of the multilateral Trade Agreements.
- The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement.

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<sup>3</sup> The 123 and others who joined later are: Albania, Angola, Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Bahrain, Bangladesh, Barbados, Belgium, Belize, Benin, Bolivia, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Canada, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Cyprus, Czech Republic, Democratic Republic of Congo, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, European Union, Fiji, Finland, France, Gabon, The Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Korea Republic, Kuwait, Kyrgyz Republic, Lao People's Democratic Republic, Latvia, Lesotho, Liechtenstein, Lithuania, Luxembourg, Macao, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Suriname, Swaziland, Sweden, Switzerland, Taipei, Tajikistan, Tanzania, Thailand, The former Yugoslav Republic of Macedonia (FYROM), Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates, The United Kingdom, The United States of America, Uruguay, Vanuatu, Venezuela, Vietnam, Yemen, Zambia and Zimbabwe.

- The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.
- The WTO shall administer Trade Policy Review Mechanism.
- With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

However, in the era of globalization, the necessity of an International Organization to manage the trading systems has been of vital importance. As trade volumes between countries increases, issues such as protectionism, trade barriers, subsidies, violation of intellectual property arise due to the differences in the trading rules of every nation. The WTO serves as the mediator between the nations when such problems arise. WTO could be referred to as the product of globalization and also as one of the most important organizations in today's globalised society.

### **3. NIGERIA'S TRADE WITH THE EURO AREA: A BRIEF STATISTICS**

In the past decade, Nigeria's trades with countries of the Euro Area have fluctuated severely. As shown in table 1 and figure 1, by 2005, Nigeria imported from countries of the Euro Area goods worth €6,014 million, a 13.3 percent growth from the 2004 figure of €5,310 million. In 2006, import grew by 16.4 percent. It grew further by 20.8 percent in 2007, 29.4 percent

**Table 1: Nigeria's Trade with the Euro Area, 2004-2014 (€Million)**

| <b>YEAR</b> | <b>IMPORT (€Million)</b> | <b>%<br/>GROWTH</b> | <b>EXPORT (€Million)</b> | <b>%<br/>GROWTH</b> |
|-------------|--------------------------|---------------------|--------------------------|---------------------|
| <b>2004</b> | 5310                     |                     | 5235                     |                     |
| <b>2005</b> | 6014                     | 13.3                | 8383                     | 60.1                |
| <b>2006</b> | 7002                     | 16.4                | 10805                    | 28.9                |
| <b>2007</b> | 8461                     | 20.8                | 10199                    | -5.6                |
| <b>2008</b> | 10947                    | 29.4                | 15723                    | 54.2                |
| <b>2009</b> | 9255                     | -15.5               | 10416                    | -33.8               |
| <b>2010</b> | 10792                    | 16.6                | 14505                    | 39.3                |
| <b>2011</b> | 12922                    | 19.7                | 24403                    | 68.2                |
| <b>2012</b> | 11442                    | -11.5               | 33045                    | 35.4                |
| <b>2013</b> | 11731                    | 2.5                 | 28678                    | -13.2               |
| <b>2014</b> | 11549                    | -1.6                | 28156                    | -1.8                |

Source: Eurostat Context-Statistical Regime 4 as reported by the  
for Trade, European Commission.

Directorate-General

in 2008 before falling by 15.5 percent in 2009. By 2010, the country experienced a 16.6 percent growth in its import which later grew further by 19.7 percent in 2011 before falling by 11.5 percent in 2012. There was however insignificant growth in import in 2013 as it grew only by 2.5 percent before falling by 1.6 percent in 2014.

However, Nigeria exported goods worth €5,235 million to countries of the Euro Area in 2004 (see table 1). This grew by 60.1 percent in 2005, 28.9 percent in 2006, -5.6 percent in 2007 and 54.2 percent in 2008 before falling by 33.8 percent in 2009. The country's export unimaginably grew by a staggering 39.3 percent in 2010. It grew again by 68.20 percent in 2011, 35.4 percent in 2012 before going down twice again by 13.3 percent and 1.8 percent in 2013 and 2014 respectively.

#### **4. RECONCILING THE OBJECTIVES OF WTO AND THE EXTENT OF TRADE: THE JOURNEY SO FAR**

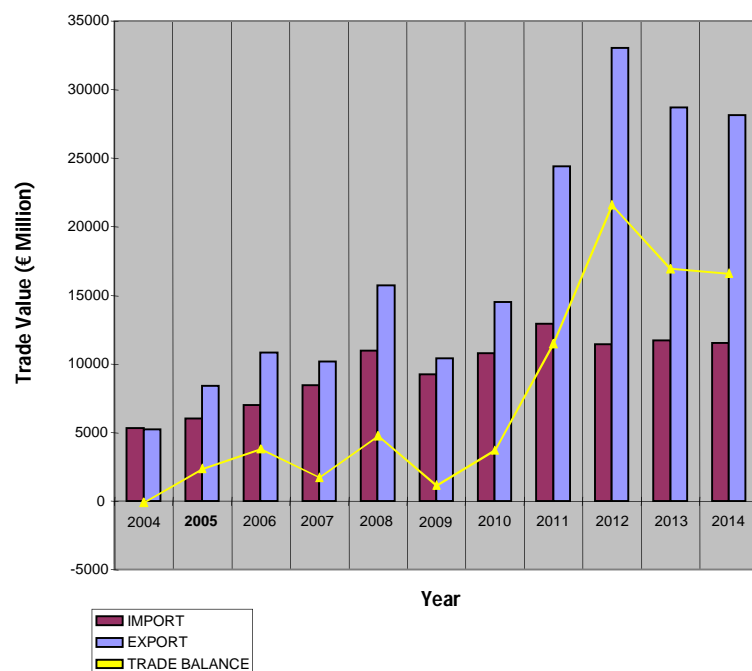
The broad objective of establishing the WTO was to enhance the smooth exchange of goods between member countries. Evidence from table 2 and figure 1 have shown that trade between Nigeria and the Euro Area have not grown consistently over the years under review.

**Table 2: Nigeria and the Euro Area: Total Trade and Trade Balance, 2004-2014 (€Million)**

| <b>YEAR</b> | <b>TOTAL TRADE</b> | <b>TRADE BALANCE</b> |
|-------------|--------------------|----------------------|
| <b>2004</b> | 10545              | -75                  |
| <b>2005</b> | 14396              | 2369                 |
| <b>2006</b> | 17807              | 3803                 |
| <b>2007</b> | 18661              | 1738                 |
| <b>2008</b> | 26670              | 4776                 |
| <b>2009</b> | 19671              | 1162                 |
| <b>2010</b> | 25297              | 3714                 |
| <b>2011</b> | 37325              | 11481                |
| <b>2012</b> | 44487              | 21604                |
| <b>2013</b> | 40409              | 16948                |
| <b>2014</b> | 39706              | 16607                |

*Source: Eurostat Context-Statistical Regime 4 as reported by the Directorate-General for Trade, European Commission*

Figure 1: Nigeria's Trade Flow with the Euro Area, 2004-2014



Source: Author's estimation using data from tables 1 and 2

Generally, during this period, Nigeria experienced a favourable balance of trade. Table 2 shows that with a total trade worth of €10,545 million in 2004, the country recorded a deficit trade balance of €75. As total trade grew to €14,396 in 2005, trade balance became surplus at €2369. By 2006 when total trade grew to €17807, trade balance grew to €3803. In 2010 when total trade stood at €25297, trade balance recorded a surplus of €714. In 2011 when total trade increased to €37325, Nigeria recorded a trade surplus of €1,481. Between 2012 and 2014 when total trade increased to €44487, €40409 and 39706, trade balance stood at €21604, €16948 and €16607 respectively. The flow of trade between Nigeria and the Euro Area is better understood by studying the percentage of total export and import flowing from one entity to another (see table 3 below).

Table 3: Nigeria's Trade with the Euro Area: SITC Product Grouping, 2014

| SITC Product Groups      | Export           |        | Import           |        |
|--------------------------|------------------|--------|------------------|--------|
|                          | Value (€Million) | %Total | Value (€Million) | %Total |
| <b>Primary Products</b>  | 27,906           | 99.1   | 5,344            | 46.3   |
| -Agricultural            | 626              | 2.2    | 1,457            | 12.6   |
| -Fuels and Mining        | 27,279           | 96.9   | 3,888            | 33.7   |
| <b>Manufacturing</b>     | 237              | 0.8    | 6,070            | 52.6   |
| -Iron and Steel          | 5                | 0.0    | 231              | 2.0    |
| -Chemicals               | 8                | 0.0    | 1,180            | 10.2   |
| -Other semi-manufactures | 160              | 0.6    | 572              | 5.0    |

|  |    |     |       |      |
|--|----|-----|-------|------|
| -  | 51 | 0.2 | 3,492 | 30.2 |
| <b>Machinery and Transport Equipment</b> |    |     |       |      |
| -Textile                                 | 4  | 0.0 | 104   | 0.9  |
| -Clothing                                | 0  | 0.0 | 25    | 0.2  |
| -Other Manufactures                      | 9  | 0.0 | 446   | 3.9  |
| <b>Other Products</b>                    | 13 | 0.1 | 110   | 1.0  |

*Source: Eurostat Context-Statistical Regime 4 as reported by the Directorate-General for Trade, European Commission*

From table 3, we observe that as at 2014, about 99.1 percent of primary products imported into the European Union originated from Nigeria. A significant proportion of these Nigeria's primary product exports to the Euro Area are petroleum products (raw crude). Nigeria on the other hand got about 46.3 percent of all primary products exported by countries of the Euro Area. Similarly, a significant proportion of these Nigeria's primary product imports from the Euro Area are refined petroleum and manufactured products (machinery and transport equipment). Nigeria got about 52.6 percent of all European Union's export of manufactured goods, of which 30.2 percent are machinery and transport equipment while 10.2 percent are chemicals. Unsurprisingly, Nigeria is not an exporter of manufactured goods (table 3 was very clear on this).

From the foregoing, it is obvious that while Nigeria exports its primary products (mostly crude petroleum) to the Euro Area, it imports manufactured goods from the European Union. However, the magnitude of trade generally and Nigeria's import from the Euro Area in particular is expected to be of great concern to the government of countries concerned, the WTO and authorities of the European Union as an entity. This is because trade flow between these two entities is still below the desired level. Consequent to this, it is important to review some of the constraints impeding the flow of goods between Nigeria and countries of the European Union.

## **5. CONSTRAINTS ON TRADE FLOW BETWEEN NIGERIA AND THE EURO AREA**

In general, there are a lot of problems militating against the smooth flow of goods and services across national borders. Some of these problems include distance, language barriers, communication and transportation difficulties, inadequate knowledge of foreign businessmen, transit risk, difficulties in studying foreign markets, long processes of documentations by importers and exporters, unhealthy competition arising from the neglect of comparative advantage principles and the accompanying non-specialization of countries, frequent changes in international markets, deep poverty in many developing countries, financial crises in most economies, trade restrictions and exchange rate problems among others. However, the two major problems obstructing trade flow are trade restrictions and exchange rate issues.

In studying the theory of international trade and from happenings around the world today, it is obvious that the best trade policy for the world as a whole is free trade. Under this policy, each country will specialize in the production of the commodities that it can produce efficiently and, by exporting some proportions of them, be able to earn revenue which it will spend acquiring some other commodities it could not produce domestically. In reality however, almost all countries impose restrictions on the flow of trade. They charge customs duties on imports of goods and

services with a view to protect their home industries. Similarly, tariff rates are put on exports of raw materials. Importers and exporters have to face tariff restrictions. In Nigeria today, the federal government have placed embargo on the importation of several products which it thinks Nigerians can comfortably produce. In addition to embargo placement, the government has introduced some foreign exchange policies. Under these policies, the Central Bank of Nigeria can sell foreign exchange only to individuals trying to acquire equipment needed to embark on domestic production. This makes foreign exchange very scarce and indeed expensive. The unavailability of foreign exchange to importers makes it extremely difficult to import into the country, though the net effect is severe inflation. The prices of consumer goods have risen unimaginably as the Nigerian government never ensured adequate domestic production before introducing the restrictive policies.

Evidence from existing literature on international finance have shown exchange rate to have exhibited excessive fluctuations and volatility across the globe. There has been serious disequilibrium in exchange rate of most world economies, especially the developing economies. This we know disrupts the pattern of international trade and specialization. Recently, series of reforms and monetary policies in Nigeria have targeted the foreign exchange. The Nigerian government has tried to control the amount of foreign exchange in circulation within the country. This activity has created scarcity of foreign currencies in the country, and the result has been serious disequilibrium in exchange rate and imports not enough to meet the demand of Nigerian consumers. This has also resulted in severe demand-pull inflation in the country.

## **6. ENHANCING TRADE FLOW BETWEEN NIGERIA AND THE EURO AREA: THE WAY FORWARD**

Enhancing international trade has been the major objective of floating the World Trade Organization. But following the statistics given in this paper, one would find it not unwise to believe that the level of trade between Nigeria and countries of the Euro Area has been insignificant, at least during the period examined. The low level of trade flow between Nigeria and the Euro Area has been attributed to some institutional and regulatory barriers as outlined in section 5 above. Having known the causes of low trade between the two entities in particular and all other countries in general, I hereby recommend as follows:

- The governments of Nigeria and countries of the Euro Area must make the processes of business registration very simple and less expensive.
- Nigeria and other countries must ensure that their average custom tariffs are in conformity with the provisions of the WTO agreements.
- To reduce the cost of movement of people and goods, governments must ensure that the cost (time and money) of obtaining travel visa and other documents is reasonably bearable.
- At every point of contact for internationals (business people and government officials), there must be provision for speaking and understanding all the major languages of the world. This will go a long way in enhancing fast movement of people and goods across national borders.
- The Nigerian government and ECOWAS as a region should ensure that good economic relationship are maintained with the European Union in particular and the global economy in general. They must ensure that favourable trade agreements are entered into. It should

be recalled that Nigeria rejected the EU-Africa *Economic Partnership Agreement (EPA)*<sup>4</sup> because they considered it unfavourable.

- The governments of Nigeria, countries of the Euro Area, ECOWAS and indeed all countries of the world should be careful about the monetary policies they implement. They should desist from implementing policies capable of bringing disequilibrium and instability in exchange rate. With stability and equilibrium in exchange rate, trade between countries of the world will be boosted.

## **7. CONCLUSION**

Taking into consideration the broad objectives of establishing the WTO, this paper examined the extent to which trade between Nigeria and the countries of the Euro Area have geared towards achieving those objectives. After examining the data collected for the purpose of this verification, we found that trade between Nigeria and the countries of the Euro Area have been insignificant over the period examined. After highlighting the possible causes of insignificant trading between them, this paper made some recommendations as seen in section 6 above. The paper therefore conclude that if the content of section 6 (recommendations) are comprehensively implemented, trade between these countries would be enhanced and the objectives of WTO achieved.

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<sup>4</sup> This agreement is a framework designed to create free trade areas between the European Union (EU) and the African, Caribbean and Pacific Group of States (ACP). This framework came in response to massive criticisms that the non-reciprocal and discriminating preferential trade policies implemented by the EU are incompatible with WTO guidelines.