EU-African Partnership, new Strategy and Nigeria's Economy

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Abstract

In line with recent proposed EU-African partnership, basis for a new strategy on five essential areas of green evolution and efficient energy use; digital transformation; viable growth and jobs; peace and governance; and on migration and mobility which is validated at the European Union – African Union Summit October 2020. The European Union (EU) has maintained a relationship with Nigeria that cut across good governance, developmental cooperation, security and energy, as well as trade. In this development, this study examine the link among trade relations, new investment strategy, energy use, financial sector performance and economic growth in Nigeria by employing ARDL method from 1980 to 2019. The short-run estimated outcome reveals a positive link among trade, new strategic investment and energy on economic performance in the nation. Nonetheless, financial progress decreases the level of GDP growth. The long-run estimates illustrates that trade relations, new investment and financial progress accelerates economic performance. However, energy utilization reduce GDP growth in Nigeria. Therefore, the study suggest that policymakers should design capable domestic policies as well as all avenue that will promotes international relations, bilateral trade agreements and diplomatic ties with other nations of the world. This could be achieve through liberal agreements, release of trade barriers and restrictions. It is also recommended that Nigeria should join and grip the trade integration to exploit the benefits of the Africa

Continental Free Trade Area (AfCFTA) and the proposed EU-African partnership basis for a new strategy. Nigerian government should create a good business environment devoid of corruption, insecurity, and other anti-business policies that will impact on the welfare of households, reduce poverty and unemployment. A leveraged digital technology to diversify the economy and create employment for young workers is highly recommended.

Keywords: Trade relations, new strategic investment, Nigeria, EU-African partnership, ARDL.

1. INTRODUCTION

For the past years, EU member countries are African biggest investment as well as trade partners that sponsor the African Continental Free Trade Area with €72.5 million mobilized by the end of 2020 (AfCFTA, 2020). In this regard, The European Commission and the High Representative for Foreign Affairs and Security Policy proposed the basis for a new strategy with Africa on the 9th of March 2020. The proposal is to strengthen collaboration through partnerships in five essential areas of green evolution; digital transformation; viable growth and jobs; peace and governance as well as migration and mobility. This new strategy endorsed at the European Union – African Union Summit in October 2020 with the aim to targets green transition, digital transformation, communication and youth, women consideration in the continents (AU-EU summit, 2020). Africa is Europe's next neighbor and both continents face a growing number of shared challenges, including climate change and the digital transformation. The need for the European Union (EU) and African partnership is to address the challenges of the 21st century together and to further their common interests and future cannot be overemphasized. Africa's prospects and challenges are budding from economic, political, social, technological, demographic, climate and environmental changes hence the need for the partnership (AfCFTA, 2020).

A total of €235 billion worth trade transaction occur in 2018 among 27 EU member nations and Africa representing almost 32% of the African total. This consist of €125 billion for China (17%) and €46

billion for the US (6%) (World Bank, 2019). In 2017, the twenty-seven EU Member States had foreign direct investment stock in Africa worth €222 billion more than five times either the US €42 billion or China €38 billion (World Bank, 2019). Nigeria as the most populous and the largest economy in the continent of Africa contributed more than 32% of this trade and investment partnership with the EU. Over several decades the balance of trade between Nigeria and other nations has been in favor of developed countries and is likely to grow and continue with recent booming trade relations until Nigeria increase its competitiveness in the world markets (IMF, 2019). The main reason behind this trade imbalance in favor of industrialized nations is due to different economic structures of the countries as manufacturing is an important feature of Chinese and Indian economy and oil characterized Nigerian economy (Ibrahim & Gimba, 2018). Trade imbalance between Nigeria and other nations bilateral relations have left to unhealthy trade, unfair cooperation and increased exploitation (Umo-udo & Orifa, 2018).

Despite all these trade and investment relationships and the foreseen prospects in the proposed EU-African partnership, basis for the new strategy, Nigeria is yet to endorse the African Continental Free Trade Area, and to the Economic Partnership Agreement between West Africa and the EU. Hence, the study examines the influence of trade relations and new strategic investment on economic performance in Nigeria.

2. LITERATURE REVIEW

The link among trade, FDI, energy use, financial progress and economic progress have been discuss in the literature. For instance, Sakyi et al. (2014) emphasized that international trade increases economic growth in 115 emerging nations. Tahir and Azid (2015) investigate the association among trade openness with economic growth for 50 emerging nations by applying fixed effect technique from 1990 to 2009. Finding of the study shows international trade induces economic growth. Various studies found a positive association among trade openness and economic growth (Jawaid, 2014; Were, 2015; Yusoff & Febrina, 2014). Merale et al. (2015) maintain that trade openness increased economic progress in South East European nations. Keho (2017) applies ARDL approach to assess the association

among international trade and GDP in Cote d Voire from 1965 to 2014. The result indicates trade openness upsurges GDP. This outcome is in line with the finding documented by Huchet-Bourdon, Le Mouël and Vijil (2018). Liu, Zhang and Bae (2018) document that trade and consumption of energy are positively associated with economic progress in 15 Asian-pacific states. In addition, Khobai, Kolisi and Moyo (2018) ascertain how international trade affects GDP in Nigeria and Ghana. The study finds trade performance upsurges GDP.

However, Musila and Yiheyis (2015) examine the role of trade openness on GDP in Kenya from 1982 to 2000. The study that finds trade has a substantive negative effect on GDP. Eris and Ulasan (2013) analyze the connection among the GDP and trade in developing nations from 1960 to 2000. The study finds no relationship exists among the variables. Ulaşan (2015) investigates the contribution of international trade on economic progress in emerging nations. The outcome reveals international trade does not influenced economic progress. Nonetheless, Egbetokun et al.(2020) examine the link among GDP performance and FDI in Nigeria using ARDL approach. The outcome indicates FDI accelerates GDP growth.

In another development, Altaee et al. (2015) studied the influence of financial performance on economic progress in Bahrain, by using VECM technique. The study shows that indicators of financial progress are positively connected to economic progress. This outcome is consistent by the conclusion of Rafindadi and Yusof (2015) that FD contributes positively to GDP in Nigeria. Salahuddin and Gow (2016) conclude that FD enhances the level of economic growth in South Africa. Oyinlola and Adedeji (2019) use 19 SSA nation's data to explore the influence of FD on economic progress. The study finds that FD promotes economic performance. Moreover, Alshehry and Belloumi (2015) find a direction of influence from consumption of energy to GDP in Saudi Arabia. Bloch et al. (2015) confirm that consumption of energy is positively connected with economic progress in China. Another study by Inglesi-lotz (2015) examines the influence of consumption of energy on GDP in 34 OECD countries from 1990 to 2010. Result of the study indicates consumption of energy stimulates economic growth. Their outcome is in line with the study by Aslan and Oguz (2016) that consumption of energy enhances economic progress in New EU states. Based on the reviewed literature, several studies

have discusses the link among trade, FDI and GDP. However, none of these studies investigate the influence of trade relation, new strategic investment on GDP growth in Nigeria with emphasis on the EU-African nation's new partnership for development. Hence, the study examine the link among trade relation, new investment, energy use, financial sector performance and economic progress in Nigeria.

3. DATA AND METHOD

Yearly data on trade relations (total exports and imports), new investment strategy (FDI inflow) energy utilization (kg of oil equivalent), financial performance (credit % of GDP) and economic progress (GDP current USD) from 1980–2019 was utilized for the study analysis. All the data were sourced from WDI database.

3.1 Specification of the study model
The study utilized a modified model by Tahir and Azid (2015) for the model estimation as shown in equation (1)

$$GDP_t = \propto + \beta_1 TR_t + \beta_2 FDI_t + \beta_3 EU_t + \beta_4 FD_t + \varepsilon_t \ (1)$$

In equation 3.2, GDP illustrates economic progress, TR indicates trade relations, FDI denotes new investment strategy, EU shows energy use, FD is financial performance, α and β represent coefficients, t is the time and ε illustrates the error term. Thus, the study applies ARDL technique for the long-run estimation of the models variables and it is expressed in equation (2)

$$\Delta GDP = \beta_0 + \sum_{j=1}^{n} \beta_1 LGDP_{t-j} + \sum_{j=0}^{n} \beta_2 LTR_{t-j} + \sum_{j=0}^{n} \beta_3 LFDI_{t-j} + \sum_{j=0}^{n} \beta_4 LEU_{t-j}$$
$$+ \sum_{j=0}^{n} \beta_5 LFD_{t-j} + \alpha_1 LGDP_t + \alpha_2 LTR_t + \alpha_3 LFDI_t + \alpha_4 LEU_t$$
$$+ \alpha_5 LFD_t + \varepsilon_t$$

In equation 2 ε illustrates the error term, t shows the time and Δ denotes the change. The statistical nature of the variable is shown in table 1. It is indicated that GDP obtained highest mean value of 11.6. A maximum and minimum values of 13.1 and 10.46 units respectively.

Table 1 statistics nature of the data

Var	Mean	SD	Min	Max
LGDP	11.6	0.47	10.46	13.1
LTR	12.1	0.26	11.62	12.5
LFDI	2.7	0.33	2.2	3.6
LEU	6.14	0.71	5.03	7.8
LFD	1.56	0.12	1.4	1.8

4. RESULT

Table 2 illustrates the stationarity outcome of the model. It is reveals that result shows a mix stationarity among the variables. This implies some variable are found stationary at level while others at first difference.

Table 2 stationarity outcome

Stationarity test	ADF	ADF
Variables	Level	First Diff
LGDP	-4.793161*(0.0005)	-
LTR	-6.193425 (0.0001)	-
LFDI	-2.462427 (0.1341)	-4.931001* (0.0004)
LEU	-1.414574 (0.8365)	-7.012676* (0.0000)
LFD	-1.437033 (0.5541)	-5.995694* (0.0000)

 Notes*: * illustrates significant at 1 percent level

Based on the cointegration test outcome in table 3 it is shown the long association among the model variables as the value of F-stat (7.97) higher than the critical values (3.74 and 5.06) at 1 percent level.

F-stat	I(0)	I (1)
7.97	3.74	5.06

Table 4 illustrates the outcome of short and long run of the estimation. The short run analysis shows trade relation, new strategic investment and energy use accelerates the capacity of GDP performance. It implies that increase in these factors by 1 percent result to rise in GDP growth by 2.4 percent, 1.4 percent and 1.8 percent respectively. However, financial performance reduce the level of growth by 0.2 percent. Furthermore, the variable are adjusted toward long run condition to about 72.38 percent. Moreover, the estimated long run outcome indicates trade relation increase GDP growth in Nigeria. This means 1 percent increase in trade relations leads to 3.3 percent raise in growth performance. The finding is conform to the EU-African summit agenda. Similarly, the result

reveals that new investment strategy promotes economic performance in the nation. It shows that a 1 percent upsurge in investment strategy, growth performance rises by 0.06 percent. Similarly, 1 percent increase financial sector performance cause 2.2 percent rise in GDP growth. Nevertheless, energy use decrease economic progress by 0.3 percent in the country. The implication of these outcome indicate that trade performance, new strategic investment and financial sector enhancement accelerates GDP growth. Hence, policymakers should design capable domestic policies as well as all avenue that will promotes international relations, bilateral trade agreements and diplomatic ties with other nations of the world. This could be achieve through liberal agreements, release of trade barriers and restrictions as well as improvements and acceptance of international relations at higher degree. These finding is in line with outcome reported by Tahir and Azid (2015).

Table 4 Outcome of the estimated model

S.R	Coefficients	SD Errors	t-Statistics	Prob
ΔTR	2.440855*	0.752363	3.244250	0.0048
ΔLFDI	1.484847*	0.408317	-3.636506	0.0020
ΔLEU	1.830118	0.427574	-4.280234	0.0005
ΔLFD	-0.259677	1.317385	-0.197116	0.8461
ECT(-1)	-0.723840	0.161743	-4.475251	0.0003
L.R				
LTR	3.372094**	1.285498	2.623182	0.0178
LFDI	0.066781	0.844719	0.079057	0.9379
LEU	-0.353295	0.368904	-0.957690	0.3516
LFD	2.244602	1.446998	1.551213	0.1393
C	-31.076964	15.773345	-1.970220	0.0653

Notes: * and ** shows sig at 1 and 5 percent

Table 5 illustrates the post model validation tests. The outcome reveals that there is no issues Heteroskedasticity, serial correlation and the disturbance terms are normally distributed.

Table 5 Post validation tests

Test	F-statistics	Probability	Result
Breusch-Pagan Test.	1.235454	0.3367	No Heteroskedasticity
Breusch-Godfrey Test	0.570058	0.5773	No Serial Correlation
Jarque-Bera	1.354824	0.5079	Normally Distributed

5. CONCLUSION

This study examined the link among trade relations, new investment strategy, energy use, financial sector performance and economic growth in Nigeria by employing ARDL method. The short-run estimated outcome reveals a positive link among trade, new strategic investment and energy on economic performance in the nation. Nonetheless, financial progress decreases the level of GDP growth. The long-run estimates illustrates that trade relations, new investment and financial progress accelerates economic performance. However, energy utilization reduce GDP growth in Nigeria. This implies that trade relations and new investment are positively linked with the accelerated growth in the country. The outcome is smilar with findings of eariler studies (Omri, 2014; Salahuddin & Gow, 2014). Nevertheless, the study is limited with the fact that other factors bilarteral relations and doplomacy that might be associated with growth enhencement but were not been captured in the study model. Henec, futeure studies should incoroprate these factors in their model of analysis for policy elaboration.

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