



BANK OF INDUSTRY

"While I believe firmly in open markets and free trade, I also believe an open market needs a level playing field."

– Philip Hammond

Potentials, Possibilities & Realities of AfCFTA to Nigeria: A Critical Narrative

Working Paper Series: No. 3, 27th August 2018

On 21st March 2018, 44 African Heads of State gathered in Kigali, Rwanda, to sign the African Continental Free Trade Agreement (AfCFTA), a landmark treaty whose primary aim is to liberalise trade across Africa. AfCFTA is the African Union's (AU's) first step in implementing Agenda 2063, its vision for an integrated, prosperous, and peaceful Africa. 11 countries, however, did not sign the agreement, Nigeria being one of the more conspicuous holdouts. Declining endorsement of the agreement, President Buhari cited the need for further consultations before committing Nigeria to an agreement that would have significant ramifications for its economy. The President's last-minute withdrawal followed a groundswell of opposition from both trade union groups and private sector organisations to the creation of a single market over fears of job losses following trade liberalisation. Critics of the AfCFTA note that **Nigeria's infrastructural deficits and the uncertainty that characterises the country's business environment** already hamstringing Nigerian manufacturers, who cannot compete on even terms with manufacturers in other countries, so a continent-wide consolidated market would make Nigeria a prime candidate for dumping goods.

The debate over the AfCFTA could not have come at a better time for policy makers, investors, academics, and other stakeholders who, given Nigeria's developmental history of oscillating between protectionism and free trade promotion, seek clarity regarding the country's economic trajectory.

The AfCFTA is expected to lead to the unification of the African community; following in the steps of the European Union, the AU aims to create a single continental market for goods and services by reducing (or possibly eliminating) trade barriers like tariffs and import duties.

As a flagship Agenda 2063 project, the AfCFTA will administer a market economy of 1.2 billion people across 55 member states, with a combined GDP of \$2.5 trillion.

With the aim of boosting regional business, integration, and growth, the treaty creates a "Single Africa Air Transport Market", a common currency, and free movement of goods, services, and people between member states.



Businesses currently face higher tariffs, averaging 6.1%, for exports within Africa than for exports outside the continent. To facilitate continental trade for African businesses, the treaty will progressively eliminate tariffs on 90% of goods (with the last 10% of "sensitive items" to be accommodated later), thereby minimising delays at borders and liberalising trade.

Proponents of implementing the AfCFTA cite important benefits, including **boosting industrial exports and SME growth, driving income generation, and promoting job creation, especially for youth.**

Assessing the impact of the AfCFTA on any one nation, however, is dependent on an understanding of the economic realities of that nation.

Consequently, any analysis of the AfCFTA's impact on Nigeria must consider how it aids the achievement, or surpassing, of goals defined in the country's Economic Recovery and Growth Plan (ERGP).

The shared focus of the AfCFTA and ERGP of promoting industrialisation, encouraging export orientation, and fostering economic competitiveness demonstrates, in theory, harmony between both plans; however, this congruence is not seamless in practice and requires certain conditions for Nigeria to fully maximise the benefits of ratifying the AfCFTA.

Nigeria has seen historical success in fuel export and primary agricultural production; However, the nation's path to becoming a continental trading power has been hindered by gaping infrastructural deficits, an unpredictable business environment, weak institutional mechanisms, etc., which have contributed to high production costs and limited competitiveness of national exports. While implementation of the AfCFTA would lead to cheaper inputs for enterprises that would otherwise pay import duties and taxes on these inputs, **it would also lead to unfettered competition from imported cheaper finished goods and would, subsequently, weaken local value-adding sectors.**

Hence, while implementation of the AfCFTA has its advantages, it must be tempered with careful strategies and initiatives that guarantee that Nigeria's developmental objectives are not lost in a sea of trade receipts.

To ensure that a positive balance of payments translates to a more competitive economy, strategies that cater to current realities of the Nigerian environment as well as its future possibilities must accompany and complement AfCFTA implementation.

Important strategies that will help safeguard Nigeria's achievement of AfCFTA objectives include the clear operationalisation of short and long-term growth and developmental targets, a short-term trade approach that allows the country to leverage its comparative advantages, and a long-term trade strategy that is dependent on the conversion of such comparative advantages into competitive advantages.

By implementing these strategies alongside concerted efforts to improve institutional and business environments and infrastructure, Nigeria may succeed in levelling the playing field for local enterprises.