

*African Continental Free Trade Area
(AfCFTA) Treaty: Opportunities and
Directions for Nigerian Businesses
and Government.*

Mr Desmond Guobadia, 7 August, 2019

Background

▶ Abuja Treaty 3rd June 1991

OBJECTIVES

- ▶ Establishment of a free trade Area
- ▶ Common external tariff
- ▶ Gradual removal of obstacles to free movement of persons, goods, services, capital
- ▶ The right of residence and establishment

AfCFTA

- ▶ AfCFTA
- ▶ Came into force 30 May 2019
- ▶ Operational /Implementation phase of the AfCFTA Launched in Niamey July7, 2019

Presidential Committee

- ▶ *The Presidential Committee on Impact and Readiness Assessment of AfCFTA was inaugurated by the President on October 22, 2018 to independently assess the benefits and risks of AfCFTA to Nigeria and to propose short, medium and long-term measures to manage them.*

Scope

- ▶ **IMPACT ASSESSMENT:**

- ▶ the potential impact of AfCFTA on Nigeria's national development objectives, government revenue, fiscal and monetary policies,
- ▶ the effects of smuggling, dumping and other predatory trade practices,
- ▶ the implications for intra-Africa trade patterns,
- ▶ legacy bilateral and multilateral trade agreements, and
- ▶ the implications of associated free movement of persons on national security.

- ▶ **READINESS ASSESSMENT:**

- ▶ The assessment of Nigeria's trade capacity, infrastructure and operating environment to establish her preparedness for AfCFTA and to
- ▶ identify critical projects, policies, reforms and compliance actions needed over 5-10 years to realize the benefits and mitigate risks.



AfCFTA

- ▶ *The AfCFTA is in furtherance of the Abuja Treaty which Nigeria signed on 3rd June 1991. The Abuja Treaty had among its objectives; the strengthening of Africa's regional economic communities; **establishment of a free trade area**; common external tariff and common market; gradual removal of obstacles to free movement of persons; goods; services; capital and the right of residence and establishment.*
- ▶ *AfCFTA proposes the elimination of duties on 90% of tariff lines in 5 years and in 10 years for the elimination of tariffs on products on the Sensitive List. However, duties on products on the Exclusive List can remain indefinitely.*
- ▶ *Sensitive List covers specific products whose tariff lines will not be liberalised until after ten years of implementation of the AfCFTA.*
- ▶ *Exclusive List covers products whose tariff lines will be completely exempted from liberalisation.*

LIBERALIZATION

- ▶ *By removing import duties on 90% of tariff lines, AfCFTA expects to make African products cheaper and more preferred in the African market and will hopefully, displace imports from outside Africa.*
- ▶ *AfCFTA also includes the liberalization of five services sectors namely: transport, tourism and travel-related, financial, communications and business services. The Agreement also includes a protocol for dispute settlement among members.*
- ▶ *By Article 5 of the AfCFTA Agreement, countries can opt-in at a later stage and enjoy same privileges **but shall abide by all commitments and obligations agreed by early members.** Variable Geometry.*

AfCFTA

- ▶ *Negotiations are still ongoing in the following areas: (i) schedule of tariff concessions; (ii) rules of origin; (iii) customs cooperation and mutual administrative assistance; (iv) trade facilitation; (v) transit trade and transit facilitation; (vi) technical barriers to trade; (vii) sanitary and phytosanitary measures; (viii) non-tariff barriers; (ix) trade remedies; (x) schedule of specific commitments; (xi) Most Favoured Nation (MFN) exemption; and (xii) Air transport.*
- ▶ *Nigeria prior to Niamey was able to participate as an “Observer” in the AfCFTA negotiations, in her capacity as Chairman of ECOWAS.*

AFRICA'S TRADE PATTERNS

| REC Name | GDP (\$Bn) | % of Africa GDP | Population (Mil) | % of Africa's Population | GDP per capita (\$) | Global Trade (\$Bn) | Intra-Africa Trade (\$Bn) | Global Trade balance (\$Bn) | Intra-Africa Trade balance (\$Bn) |
|-----------------------|------------|-----------------|------------------|--------------------------|---------------------|---------------------|---------------------------|-----------------------------|-----------------------------------|
| ECOWAS | 565.09 | 24.9% | 359.8 | 28.9% | 1,537.40 | 165.9 | 25.9 | 4.8 | 5 |
| SADC | 680.02 | 30.0% | 316.9 | 25.4% | 2,146.20 | 327.1 | 73.4 | 18.4 | 2 |
| EAC | 169.66 | 7.5% | 185.5 | 14.9% | 914.5 | 45.7 | 9.8 | -18.5 | 0.9 |
| UMA | 360.35 | 15.9% | 99.4 | 8.0% | 3,625.80 | 221.1 | 11.1 | -28 | 0.6 |
| ECCAS | 180.74 | 8.0% | 89.5 | 7.2% | 2,019.00 | 54.7 | 12.1 | 6.5 | -1.7 |
| COMESA | 714.56 | 31.5% | 528.7 | 42.4% | 1,351.50 | 237.3 | 35.6 | -66.4 | -6.2 |
| | | | | | | | | | |
| Africa (Total) | 2266.68 | 100% | 1246.2 | 100% | 1818.9 | 930.65 | 135.4 | -77.7 | 6.5 |

AFRICA'S TRADE

- ▶ *Africa's total trade in goods with the world was US\$930.65bn in 2017 (\$504.17bn of imports and \$426.48bn of exports). 2.63% of Global trade*
- ▶ *Total intra-African trade in goods was \$135.4 bn in 2017, representing 14.6% of Africa's total trade. It should be noted that intra-EU trade is 69.8%, intra-American trade is 46% and intra-Asian trade is 59.6% of the trade within their respective regions.*

TRADE PATTERNS AMONG REC'S

- ▶ *Trade patterns among Africa's Regional Economic Communities (REC) vary. For example, SADC accounted for 54% of intra-African trade in 2017. COMESA followed with 26% intra-African trade. UMA and ECOWAS had 8% and 19% of intra-African trade, respectively. ECCAS and EAC accounted for 9% and 7% of intra-African trade respectively.*
- ▶ SADC - Southern Africa Development Community, COMESA - Common Market for Eastern and Southern Africa, UMA - Maghreb Arab Union consisting of Algeria, Tunisia, Morocco, Libya and Mauritania, ECOWAS – Economic Community of West African States, ECCAS - Economic Community of Central African States, EAC- East African Community

TOP 10 INTRA AFRICAN TRADING COUNTRIES

- *The top ten intra-African trading countries ranked by value of trade were South Africa (23.5%), Namibia (5%), Zambia (4.9%), Nigeria (4.4%), Egypt (4.1%), Cote d'Ivoire (3.6%), Botswana (3.4%), Congo Dem. Republic (3.1%), Kenya (3%) and Morocco (2.8%). These 10 countries accounted for 58% of total Intra-African trade in 2017, equivalent to \$78.3bn per annum.*

TOP 10 MOST TRADED PRODUCTS AMONG AFRICAN COUNTRIES

- *The top ten most traded products among African countries are crude oil, natural gas, refined petroleum products, gold (in raw and semi-processed forms), and non-industrial diamonds, frozen fish, ships and light vessels, sugar, vehicles (for transport of people and goods) and cement.*

TRADE IN SERVICES

- *Trade in services, at \$263bn in 2015, Africa accounted for 2.7% of the world's total trade, similar to its global share of trade in goods.*

WTO CLASSIFICATION

- ▶ *The WTO classifies services into the following 12 sectors: business services, communication services, construction and related-engineering services, distribution services, educational services, environmental services; financial services (bank and non- bank financial services); health-related and social services, tourism and travel-related services, recreational, cultural and sporting services, transport services (road, air and maritime services); and other services.*

TRADE IN SERVICES

- ▶ *Trade in services is also classified into 4 distinct categories based on the mode of service supplier. These modes include (1) **cross border trade** which does not require the physical presence of the service supplier, e.g. consultancy, tele-medicine, distance learning and architectural drawings; (2) **consumption abroad**, such as tourists, students and patients consuming the respective services outside their territory; (3) **commercial presence** requiring the presence of the service supplier in the territory of another member country, e.g. affiliate of a bank, hotel group, construction company; and (4) **presence of natural persons** of a Member country in any other Member country, e.g. employees of a foreign service firm, health workers, consultants.*

TRADE IN SERVICES(LEADERS)

- ▶ *Egypt's global trade in services, valued at \$37.4bn in 2017, was the highest in Africa, followed by South Africa (\$31.9bn), Morocco (\$27.1bn), Nigeria (\$23.2bn), and Ghana (\$16.5bn). However, on a per capita basis, Morocco occupies a premier position on the Africa's trade in services league table with \$758.25 followed by Ghana (\$572.32), South Africa (\$562.41), Egypt (\$383.39) and Nigeria (\$122.11).*
- ▶ *African countries are still far from achieving self-sufficiency across all sectors as over 85% of their total trade (exports and imports) is with countries outside the continent. The low level of intra-African trade points to low capacity of African countries to produce the quantity and diversity of finished products they need as well as high tariff and non-tariff barriers to trade.*

NIGERIA'S TRADE

- ▶ *Nigeria's total trade in goods in 2017 was \$92.2bn (\$51.5bn exports, \$40.7bn imports) comprising of \$75.8bn from formal trade (\$44.5bn exports and \$31.3 bn imports) and \$16.4bn from informal trade (\$7bn exports, \$9.4bn imports). Informal trade involved unrecorded cross-border transactions in agricultural products, livestock, and parallel trade including trans-shipments and smuggling.*
- ▶ *Nigeria's trade with Africa in 2017 of \$6 bn (\$4.9bn exports, \$1.1bn imports), represented 8% of its total trade in goods, making her the 4th highest intra-African trader in goods after South Africa (\$31.8bn), Namibia (\$6.8bn) and Zambia (\$6.7bn).*
- ▶ International Trade Center Trade Map 2017
- ▶ Informal trade was estimated based on ITC's mirror data (i.e. comparison of records of exporters of goods to Nigeria and records of Nigeria's imports)
- ▶ World Trade Organization (WTO)

NIGERIA'S TRADE

- ▶ *Crude oil and gas accounted for 95% of Nigeria's formal exports to the world in 2017, while agricultural commodities and manufactured products accounted for 2.5% and 2% respectively.*
- ▶ *The main importers of Nigeria's goods in Africa are: South Africa, Togo, Côte d'Ivoire, Senegal, and Cameroon while the major African exporters to Nigeria are South Africa, Morocco, Côte d'Ivoire, Swaziland and Egypt.*
- ▶ ***Nigeria's global trade in services of \$23.25bn in 2015 made her the 3rd highest African country in trade in services, after Egypt (\$36.06bn) and South Africa (\$30.58bn).***
- ▶ *Although Nigeria maintained the same value in its trade in services in 2017 (\$23.26bn), She was pushed down to the 4th position by Morocco which grew her services trade from \$22.6bn in 2015 to \$27.06bn in 2017.*

NIGERIA'S TRADE IN SERVICES

- ▶ *In addition, Nigeria has been experiencing an unfavourable balance of trade in services vis-à-vis other African countries. For example, in 2017, Nigeria's imports of services, at \$18.2bn, far outweighed exports, at \$5bn, resulting in a huge balance of trade deficit of \$13.2bn. On the other hand, Egypt and Morocco achieved trade surp* Nigeria's trade in services is dominated by **transport, travel and other business services**, which together accounted for 86% of services imports and 76% of exports.
- ▶ *For example, in 2017, travel services, which include citizens' expenditure for business and personal travel on short term trips abroad (<1 year) for education, health, leisure, etc., amounted to \$8.33bn or 36% of Nigeria's total trade in services .*

FINANCIAL SERVICES

- ▶ *In contrast, the **financial services sector** (including insurance and pension), which is seen as an area where Nigeria possesses a **comparative advantage**, contributed a mere \$1.7bn (\$1.35bn imports and \$0.36bn exports) to Nigeria's total trade in services.*

NIGERIA'S TRADE

- ▶ *The five sectors to be liberalized by AfCFTA account for 89% of Nigeria's services exports and 92% of imports with travel and other business services contributing the most.*

PREDATORY TRADE PRACTICES

- ▶ *Predatory trade practices against Nigeria (smuggling and abuse of rules of origin) have persisted despite active ECOWAS protocols, bilateral trade and customs cooperation agreements, due to lack of capacity and will of African countries to enforce their borders.*
- ▶ *The effect of this is that N2.69 trillion worth of imports were undeclared in 2017. e.g. import of parboiled rice by Benin Republic has risen by 495% since Nigeria increased tariff in 2013, clear evidence of smuggling.*
- ▶ Based on Mirror trade data on ITC's Trade Map
- ▶ Presentation to Economic Management Team

NIGERIA'S EXPORTS TO AFRICA AND THE MAJOR DESTINATIONS

- ▶ *The product composition of Nigeria's exports to Africa is: crude oil (82%), natural gas (4.2%), electrical energy (2.1%), cigarettes (2%), vessels (1.8%), and other products (7.2%).*
- ▶ *The major destinations of Nigeria's goods in Africa are: South Africa, Togo, Côte d'Ivoire, Senegal, and Cameroon while most imports originate from South Africa, Morocco, Côte d'Ivoire, Swaziland and Egypt. Nigeria's top imports from Africa include polypropylene, fertilizers, refined petroleum products, chemicals, apples, frozen fish, and palm oil.*

IMPLICATIONS OF AfCFTA FOR NIGERIA / OPPORTUNITIES FOR BUSINESS

- ▶ *Africa's imports are mainly manufactured products, the focus of Nigeria's development agenda. AfCFTA therefore provides Nigeria with the opportunity to realize her economic growth and diversification aspirations based on the African market.*
- ▶ *Aiming to export 10% of Africa's total import needs from Nigeria would be the equivalent of doubling Nigeria's total global exports. For instance, Africa imports over \$1bn per annum of refined petroleum, iron/steel, plastics, crude oil, gas, rubber, fishery, aluminum, cement, leather, soya, auto & parts, textile, chemicals, sugar, rice, oil palm, fertilizer, cotton, beef and livestock. These are key products captured in Nigeria's backward integration agenda.*

SHORT-TERM IMPLICATIONS OF AfCFTA IMPLEMENTATION FOR NIGERIA

- ▶ *In the short term, the implementation of the AfCFTA may lead to:*
 - ▶ *a decline in government revenue by 1.5%;*
 - ▶ *a decline in GDP and government savings by 0.14% and 4.8%, respectively;*
 - ▶ *a decline in the balance of trade with Africa as imports will grow faster (2.75%) than exports (0.29%). But this will be partially offset by the rise in price of exports due to rising demand.*
 - ▶ *a decline in consumer prices due to imports which will cause lower inflation.*
- ▶ *The increase in imports will be significant across most manufacturing sub-sectors in Nigeria, especially for products currently at 20% and 10% tariff rates, due to complete elimination of tariffs after 5 years of AfCFTA implementation.*
- ▶ *Government revenue was estimated at N8776.13bn based on average of revenue for 2010 to 2016 (Source: African Union (2018) African Trade Statistics Yearbook)*

SHORT TERM IMPLICATIONS

- ▶ *The lack of production capacity in Africa will inadvertently create strong incentive for traders to disguise goods from non-African countries as African goods so as to qualify for duty-free movement across borders of African countries.*
- ▶ *This risk is high for Nigeria considering that 92% of Nigeria's imports come from the rest of the world. The threat is further complicated by the lack of capacity, resources and will on the part of African countries, to effectively and comprehensively enforce their borders as evidenced by the high rate of informal trade, under-reporting of imports and smuggling.*

SHORT TERM FEARS

- ▶ *Employment will grow in 5 manufacturing sub-sectors (Pulp, Paper, Printing and Publishing; Basic Metal, Iron and Steel; Non-metallic; Textile, Apparel and Footwear; and Chemical and Pharma) but will decline in 5 sub-sectors: Wood and Wood Products; Electrical and Electronics; Motor Vehicle and Assembly; Food, Beverage and Tobacco; and Plastic and Rubber.*
- ▶ *Output will grow in 4, and decline in 6 sub-sectors. The output growth will be significant in Chemical and Pharma and marginal in Pulp, Paper, Printing and Publishing; Basic Metal, Iron and Steel; and Food, Beverage and Tobacco. On the other hand, output decline will be experienced in Wood and Wood Products; Textile, Apparel and Footwear; Non-metallic, Electrical and Electronics; Motor Vehicles and Assembly; and Plastic or Rubber Products.*

SHORT TERM FEARS/EXPECTATIONS

- ▶ *Investments will grow in 4 and decline in 6 sub-sectors. Textile, Apparel and Footwear; Electrical and Electronics; and Pulp, Paper, Printing and Publishing will witness growth in investments. But Plastic and Rubber, Non-metallic and Chemical and Pharma. Wood and Wood Products and Basic Metal, Iron and Steel sub-sectors will witness a drop in investments.*
- ▶ *The rise in employment and output in (i) Basic metal, Iron and Steel and (ii) Chemical and Pharma sub-sectors, despite decline in investment, could be attributed to cheaper inputs from Africa, labour market rigidities and/or substitution of labour for capital as part of the coping mechanism.*
- ▶ MAN STUDY

LONG TERM IMPLICATIONS OF AFCFTA FOR NIGERIA

- ▶ *In the long run, the short-term consequences can be addressed by broadening the income tax base which will increase government revenue by 2.71% (N237.8bn).*
- ▶ *Agriculture trade (both import and export) with Africa and non-African countries will rise.*
- ▶ *Manufactured goods exports will also rise due to higher investments in the productive sectors.*
- ▶ *Interest rates will likely rise due to higher demand for credit to satisfy the export market but will modulate in the long-term as foreign investment increases in response to the rise in rates. .*
- ▶ *The exchange rate will be pressured in the short term as imports will grow faster than exports but in the long-term, it will appreciate as demand stabilizes and exports overtake imports*
- ▶ *Increase in production and service capacities and trade within and outside Africa will also create job opportunities for both low and highly skilled persons.*
- ▶ *Ease of movement of persons, services, capital and goods which will eventually result from the AfCFTA will improve productivity and specialization through improved mobility of skills.*



READINESS STATUS OF AFRICAN COUNTRIES

- ▶ *The key indicators used in assessing the readiness of African countries for AfCFTA are: size of manufacturing, diversity of exports, size of services sector, current account balance and score on global trade indices such as the Enabling Trade Index and Global Competitiveness Index.*
- ▶ *In terms of manufacturing value-added, Nigeria ranked 4th in Africa with \$35.45bn, after Algeria with \$72.2bn, South Africa (\$42.7bn), and Egypt (\$42.2bn). It should be noted that the average manufacturing value-added of the top 20 African countries is \$5.28bn. This underscores the lack of productive capacity in Africa as a whole.*
- ▶ *On current account balance, the measure of a country's ability to withstand financial shocks. Oil and gas producing nations maintained the highest current account balances. Nigeria ranked first with \$10.12bn surplus, followed by Libya (\$6.2bn), Angola (\$2.45bn), Gabon (\$2.33bn) and Botswana (\$ 0.72bn). South Africa, Egypt and Morocco recorded the considerable current account deficits of \$13bn, \$7.7bn and \$5.6bn respectively.*
- ▶ *The Enabling Trade Index measures the factors, policies and services that facilitate international trade in goods. It is made up of four sub-indexes: (i) market access; (ii) border administration; (iii) transport & communications infrastructure; and (iv) business environment.*
- ▶ *Based on average score over 10 years (2008 – 2017)*
- ▶ *World Bank national accounts data, and OECD National Accounts data files.*

READINESS

- ▶ *On the Enabling Trade Index, Morocco ranked top among African countries followed by South Africa, Botswana, Namibia, and Kenya. Zambia and Cote d'Ivoire are in the mid-tier range while Egypt, Congo and Nigeria rank the lowest.*
- ▶ *On the global competitiveness index, South Africa and Morocco ranked in the top band among African countries. In the mid-range were Botswana, Algeria, Egypt, Namibia, Rwanda and Cape Verde, while Senegal, Cote d'Ivoire, Nigeria, Zambia and Ethiopia were in the bottom band of the competitiveness index.*
- ▶ *On average of all the readiness indicators, only South Africa and Morocco can be adjudged reasonably ready for AfCFTA, while Egypt, Nigeria, Kenya and Botswana can be regarded as moderately ready. All the other 51 African countries have not met the readiness criteria.*

NIGERIA'S READINESS REQUIREMEN TS FOR AfCFTA / DIRECTION FOR GOVERNMENT

- ▶ *Nigeria's readiness for AfCFTA can be classified under trade capacity, trade infrastructure, trade environment, and trade rules enforcement.*
- ▶ ***Trade Capacity***
- ▶ *In terms of trade can facilitate the realization activity, Nigeria needs to:*
 - ▶ *of investments in her priority productive and service sectors in order to grow capacity for export;*
 - ▶ *upgrade its quality ecosystem, including policies, institutions and services including: (i) approving and implementing the draft National Quality Policy; (ii) operationalizing the quality institutions (NiNAS and NMI); (iii) growing grow number and capacity of conformity assessment companies; and (iv) promoting awareness to drive offtake of quality services; and*
 - ▶ *define and execute strategies to improve Nigeria's credit rating, provide low cost financing, tackle the scourge of piracy and promote Nigeria's products and services internationally.*



READINESS

- ▶ ***Trade Infrastructure***
- ▶ *Readiness of trade infrastructure will involve access to stable power, good quality transport network (rail, road, and air) to agricultural, industrial and commercial clusters. This will involve:*
 - ▶ *securing funding and implementing projects in the power transmission and distribution expansion plans and concluding/implementing the tariff revision programme;*
 - ▶ *completing the rehabilitation of critical roads that would facilitate local and international trade;*
 - ▶ *Rail projects to facilitate cargo movement;*
 - ▶ *Installation of adequate warehousing and cold room facilities for perishable cargo at major airports and other critical trade enhancing projects in the Aviation Master Plan; and*
 - ▶ *completion of critical port efficiency enhancement projects (access roads, transit trailer parks, bulk loading terminals, scanners installation for goods inspection, etc.)*

READINESS

- ▶ *Trade Environment*
- ▶ *Readiness in trade environment would involve:*
 - ▶ *achieving single digit interest rate and sustaining financing incentives for agriculture, mining, manufacturing and services;*
 - ▶ *updating Nigeria's exchange rate policy to promote export oriented economic growth;*
 - ▶ *conclusion of critical trade facilitation projects including reducing dwell time at the ports, implementation of a national single window and the Inter-State Road Transit scheme*
 - ▶ *sustained implementation of Nigeria's Ease of Doing Business Action Plans and other public reform programmes to reduce incidence of bribery, number of check points, among others;*

READINESS Trade Rules Enforcement

- ▶ *Trade Rules enforcement*
- ▶ *Readiness in terms of trade rules enforcement will involve:*
 - ▶ *resolving issues delaying full implementation of existing Customs cooperation agreements, harmonizing data requirements and updating existing bi-lateral agreements between Nigeria, Chad and Niger to include coordinated border management;*
 - ▶ *Securing the inclusion of import quotas in the Schedule of Concessions for the ECOWAS Customs Union and reflecting import quotas in the AfCFTA Annexures as part of the mechanisms for addressing predatory trade especially from non-African countries; and*
 - ▶ *developing and implementing a common trade policy for ECOWAS and AU.*



Strategy

- ▶ *Harnessing the huge opportunity that Africa and AfCFTA offer, should therefore be pursued with robust and enforceable safeguards against the risk of abuse of rules of origin and smuggling.*
- ▶ *Attracting investment in the priority productive and services sectors is critical to building the capacity to harnessing the huge market opportunities in Africa.*
- ▶
- ▶ *Nigeria has built significant capacity and competitive advantage in financial services (including insurance and pension) so the sector's contribution of \$1.7bn (\$1.35bn import and \$0.36bn exports) or 5% of total services export points to spare capacity which can be deployed in Africa.*
- ▶ *Nigeria can also utilize the opportunity of the AfCFTA to practices.*
- ▶ *A strategy is required to attract private financing for some of the critical trade enabling projects.*
- ▶ *ow her local service capacity in education, health and transport sectors in order to tackle the huge deficit in its balance of trade in services with the world.*
- ▶ *Sustaining ECOWAS reforms initiated by Nigeria as Chairman of ECOWAS will provide Nigeria with a solid foundation for its engagement with Africa especially on tackling predatory trade*

AfCFTA AND NATIONAL DEVELOPMENT

- ▶ *AfCFTA can complement Nigeria's national development agenda and can act as a catalyst for Nigeria's growth.*
 - ▶ *it offers Nigerian products and services, preferential access to the huge African market which currently sources over 85% of its products imports from outside the continent. Preferential market access to Africa is particularly important to Nigeria as lack of access to foreign markets was identified as a key constraint to export of Nigeria's non-oil products to Africa and the world.*
 - ▶ *It provides huge opportunities for manufactured products including Nigeria's priority export products defined in the ERGP and the Industrial Revolution Plan and supports the backward integration agenda, both of which will create significant number of jobs across skill levels.*
 - ▶ *It provides immense opportunities for Nigeria's service companies to expand to Africa, especially those in financial services, e-commerce and the digital economy, where Nigerian companies have built critical capacity and have long desired to expand to Africa but were constrained by trade barriers which AfCFTA will remove.*
 - ▶ *AfCFTA will also liberalize education, health and transport services which account for 87% of Nigeria's services imports, equivalent to net imports of \$13.2bn in 2017. Liberalizing these sectors will provide impetus for investment and skills to flow in, which will in turn will improve quality of services and create jobs. The ease of movement of persons will also improve productivity and specialization through mobility of skills.*

RISKS AND UNDESIRABLE IMPACTS

- ▶ *AfCFTA is not without major risks and undesirable impacts, the most significant of which is the potential rise in smuggling and abuse of rules of origin, as it will provide incentives for traders to disguise goods imported from outside the continent as made-in-Africa goods, to qualify for duty-free treatment. As the free trade area covers the continent, it is foreseeable that the entry routes of smuggled and undeclared goods will extend beyond ECOWAS manned and unmanned borders to include all neighbouring countries. This risk is high for Nigeria considering that:*
 - ▶ *smuggling, under-reporting of imports and other forms of abuse of rules of origin remain a major challenge facing Nigeria in ECOWAS;*
 - ▶ *92% of Nigeria's imports come from the rest of the world which means that should this threat materialize, both government revenue from import duties (from non-African goods) and measures to protect local industries will be threatened. The threat to local industries is the potential surge of imports beyond what Africa can produce and trade as part of AfCFTA.*

AFRICAN COUNTRIES LACK OF CAPACITY AND WILL

- *The threat is further complicated by the lack of capacity, resources and will on the part of African countries, to effectively and comprehensively enforce their borders. Tackling this threat will require collective efforts at the highest level of ECOWAS and African Union and will involve rules-based import quota restrictions, synchronizing Sensitive and Exclusive Lists, among other initiatives.*

other potential short term consequences

- ▶ *A decline in government revenue by 1.5% (equivalent to N131.6bn per annum) and a decline in savings and GDP by 4.8% and 0.14% respectively;*
- ▶ *Interest rates will likely rise in the short term due to higher demand for credit to satisfy the export market. The exchange rate will also be pressured as imports grow faster than exports.*
- ▶ *Imports growing faster than exports may lead to deterioration of Nigeria's balance of trade with Africa. But this is likely to be partially offset by the rise in price of exports due to rising demand. The rise in imports may also cause consumer prices and inflation to fall*
- ▶ *There will likely be a surge in imports across all segments of the manufacturing sector. The surge will result in decline in output, employment and investment in some of the segments, growth in some others and will have no effect on some segments.*
- ▶ *There will be significant adjustment costs to manage the negative impacts and to take advantage of the opportunities. The adjustment costs will include retraining workers in declining sectors to be able to take up employment in growing sectors, providing capital to business owners to retool their plants to remain operational and attracting investments to growing sectors in order to produce goods and services to export to Africa.*

BROADENING THE TAX BASE

- ▶ *Over time, the short-term consequences can be addressed by broadening the income tax base which will increase government revenue by 2.71% (N237.8bn). Trade (import and export) with Africa and non-African countries will rise which will attract further investments in the productive sectors. Interest rates which will rise in the short term will modulate in the long term as foreign investments increase. Exchange rate pressured in the short term will recover and appreciate as demand stabilizes and exports overtake imports.*
- ▶ *The increase in production and service capacities and trade within and outside Africa will also create job opportunities for both low and highly skilled persons.*

IS NIGERIA READY FOR AfCFTA

- ▶ *In terms of readiness for AfCFTA, the assessment concluded that on the basis of the current state of Nigeria's productive and trade capacity, infrastructure and operating environment, Nigeria is "Not Ready" for the AfCFTA.*
- ▶ *In relative terms, South Africa and Morocco rank the highest in terms of readiness for AfCFTA. But despite their high ranking in Africa, they still rank at mid-tier level, globally and would need to undertake additional work in some critical areas. For instance, South Africa needs to sort out its power sector and human capacity challenges.*
- ▶ *Egypt, Nigeria, Kenya and Botswana are somewhat ready but require considerable additional work to optimize the benefits of AfCFTA. All other African countries are not ready for AfCFTA and, in joining the AfCFTA, their strategy is to use the AfCFTA as a driving force to implement their readiness requirements.*

IS NIGERIA READY?

- ▶ *For Nigeria, the constraint of lack of productive capacity can be mitigated by positioning the services sectors especially financial services and the digital economy as the arrowheads for Nigeria's expansion in Africa, while efforts are intensified to attract private sector investments to the productive sectors.*
- ▶ *Furthermore, the AfCFTA agreement specified that Member States have a 5 year window to achieve the trade liberalization ambition of zero tariffs on 90% of tariff lines and 10 years to remove tariffs on items in the Sensitive List. So, a significant number of the readiness projects can be completed or progressed significantly within the life of the current administration*

ECOWAS REFORM

- ▶ *As Chairman of ECOWAS, Nigeria has launched a reform program for ECOWAS which will provide her with a solid foundation for its engagement with Africa especially in tackling predatory trade practices, and expanding trade and investment opportunities for Nigerian exporters of goods and services.*
- ▶ *Negotiations on the Annexes of the AfCFTA Protocols on trade-in-goods, trade-in-services and dispute resolution are ongoing and provide the opportunity for Nigeria to pursue robust safeguards against the risk of abuse of rules of origin and smuggling. Currently Nigeria attends these negotiations in Observer Capacity, as Chairman of ECOWAS*

PRACTICAL IMPLEMENTATION ISSUES

- ▶ *lack of reciprocity, for instance, Nigerian business continue to experience non-tariff barriers to trade and obstacles to visa procurement and free movement of persons despite existing protocols as evidenced by regulations targeted at Nigerian traders in Ghana, bureaucratic delays and regulations that have constrained Nigerian banks from establishing subsidiaries in Angola and South Africa and similar complaints by Nigerian airlines operating in the sub-region.*
- ▶ *preference of African countries to trade with countries outside of Africa due to colonial ties and other economic and political considerations and alignments which will impact the market access promised by AfCFTA*
- ▶ *Yet another consideration is the growing wind of nationalism and protectionism, some of which can be traced to the unintended consequences of globalization and multilateral trade arrangements such as job losses, decline of production capacity in some countries due to cheaper imports and high incidence of migration. The United States, the erstwhile foremost champion of free trade has pulled out of the Trans-Pacific Partnership Agreement, renegotiated the North American Free Trade Agreement with Mexico and Canada and is currently engaged in a ferocious trade war with China. In Europe, the United Kingdom continues to struggle to unwind her membership of the European Union. If not properly managed, the free movement of persons that will result from AfCFTA could exacerbate the xenophobic tendencies being exhibited in South Africa and other African countries.*

CONCLUSION

- ▶ Substantial business opportunities lie in wait for Nigerian businesses in Africa in the wake of our signing up to the AfCFTA.
- ▶ Government and Business must play their roles.



THANK

YOU