AFRICA INTERNATIONAL TRADE & COMMERCE RESEARCH

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AN INDEPENDENT STUDY ON THE POTENTIAL BENEFITS OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA) ON NIGERIA

STUDY REPORT

FOR

NIGERIAN OFFICE FOR TRADE NEGOTIATIONS

MAY 2018

ABOUT THE REPORT

This report documents the results and findings from an independent study to assess the potential benefits of the African Continental Free Trade Area (AfCFTA) agreement on Nigeria. It is an attempt to contribute to knowledge by bridging the existing gap in this area; one that has become topical in Nigeria's recent economic landscape. The report was compiled by a consortium of academics and research institutions.

ABOUT AUTHORS

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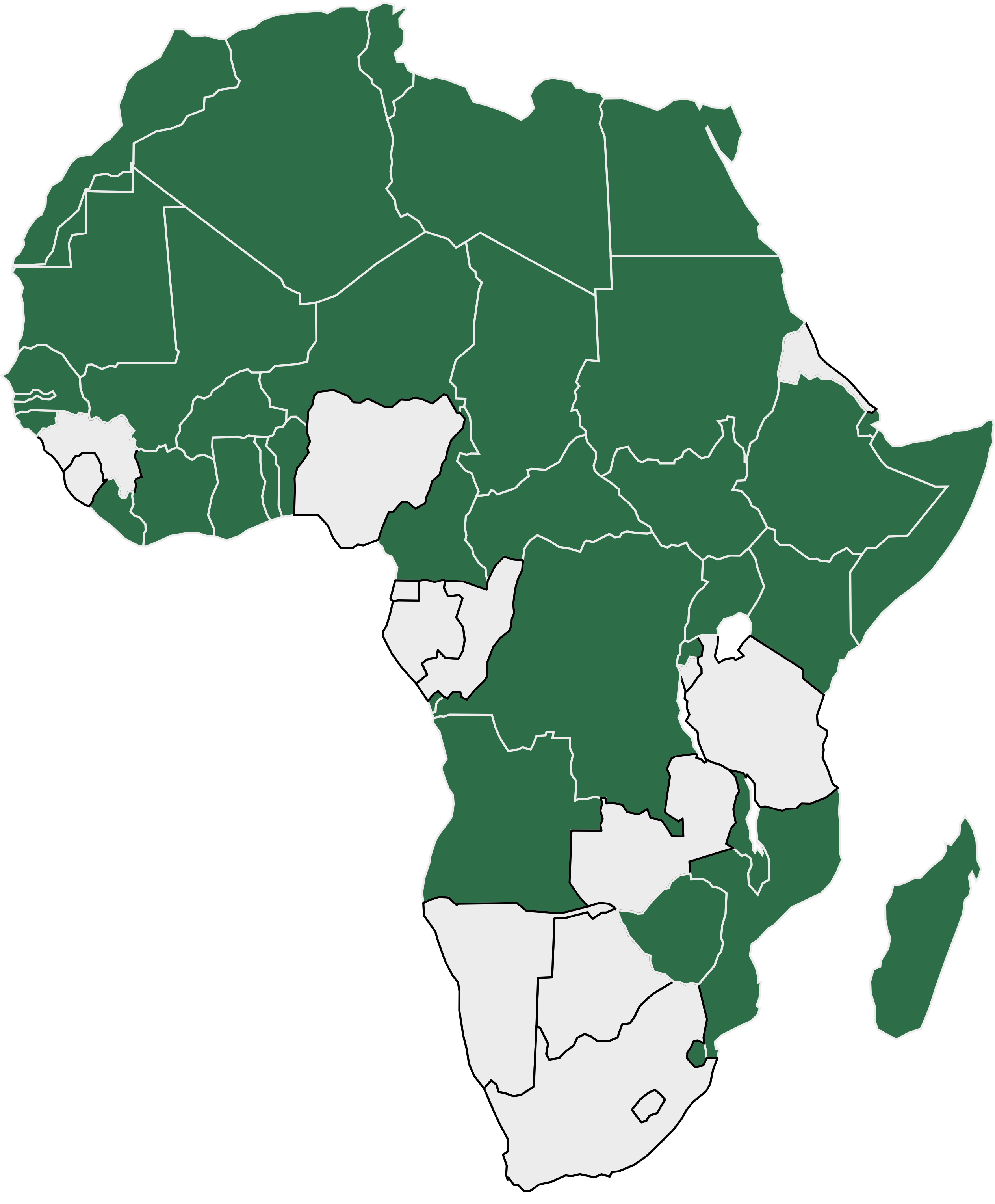
Map Showing The **44 Countries** That Signed Up To The **CFTA**



Source: **African Union**

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ABBREVIATIONS & ACRONYMS

AEC	-	African Economic Community
AfCFTA/ACFTA/CFTA	-	African Continental Free Trade Area Agreement
AfDB	-	African Development Bank
AGOA	-	African Growth and Opportunity Act
AMU	-	Arab Maghreb Union
AU	-	African Union
AUC	-	African Union Countries
BIAT	-	Boosting Intra-African Trade
BOT	-	Build, Operate and Transfer
CEN-SAD	-	Community of Sahel-Saharan State
CET	-	Common External Tariffs
CGE	-	Computable General Equilibrium
CM	-	Common market
COMESA	-	Common Market for Eastern and Southern Africa
CU	-	Customs Unions
EAC	-	East African Community
EBA	-	Everything-But-Arms
ECA/UNECA	-	United Nations Economic Commission for Africa
ECCAS	-	Economic Community of Central African States
ECOWAS	-	Economic Community of West African States
ERGP	-	Economic Recovery and Growth Plan
ES	-	Effect size
Etc.	-	Etcetera
EU	-	European Union
FDI	-	Foreign Direct Investment
FMCG	-	Fast Moving Consumer Goods
FTA	-	Free Trade Area
GSP	-	Generalized System of Preferences
GTA	-	Global Trade Agreement
IGAD	-	Intergovernmental Authority on Development
LCCI	-	Lagos Chamber of Commerce and Industry
MAN	-	Manufacturing Association of Nigeria
MFN	-	Most Favoured Nation
Mt	-	Metric Tonne
NAFDAC	-	National Agency for Food and Drug Administration and Control
NASME	-	National Association of Small and Medium Enterprises
NLC	-	Nigeria Labour Congress
OAU	-	Organization of African Unity
PMU	-	Political and Monetary Union
PPP	-	Public Private Partnerships
PTA	-	Preferential Trade Agreement
REC	-	Regional Economic Communities
SADC	-	Southern African Development Community
SON	-	Standard Organization of Nigeria
UNCTAD	-	United Nations Conference on Trade and Development
WTO	-	World Trade Organization

EXECUTIVE SUMMARY

Regional integration is inevitable for economic transformation and sustainable socio-economic development in Africa. On one hand, it is a development strategy aimed at aggregating Africa's small countries into one large market that can deliver economies of scale, improved competitiveness, foreign direct investment (FDI) and poverty reduction. On the other hand, regional integration helps in addressing non-economic problems such as recurring conflicts and political instability as well as increasing the continent's bargaining power in the multilateral front.

Despite the recent shift in the growth poles of the global economy from developed countries to emerging and developing countries, Africa lags behind and remains marginalized. This is partly because the continent remains a fragmented bundle of small resource-rich but commodity-dependent economies. For Africa to optimize its resource endowments and translate them into welfare gains for its teeming population, regional integration is inevitable. The eight regional economic communities are at various stages in the integration process, and it is not certain that all the obstacles could be addressed in order to achieve the African economic community (AEC) in line with the timelines of the Abuja Treaty. Meanwhile, African leaders and policymakers are showing more interests and making stronger commitments toward fast-tracking the AEC. To this end, the leaders agreed to establish the African Continental Free Trade Area (AfCFTA) by 2017 as a step toward this objective.

This study aims to assess the harmony between the AfCFTA and Nigeria's economic and industrial goals; evaluate the economic benefits and costs of the agreement to the Nigerian economy looking at output, trade and welfare; and harness the perspectives of the private sector on the benefits and costs of the agreement to businesses in all sectors and the overall macroeconomy.

AfCFTA and ERGP 2017-2021

The cornerstone of the CFTA is promotion of industrialization, sustained growth and development in Africa. The agreement is being pursued based on its potential to "boost intra-African trade, stimulate investment and innovation, foster structural transformation, improve food security, enhance economic growth and export diversification, and rationalize the overlapping trade regimes of the main regional economic communities"[1]. Similarly, the broad vision of the Economic Recovery and Growth Plan (ERGP) of Nigeria is to turn around the country's economic performance and lay the foundations for sustained inclusive growth. As summarized below, the congruence between AfCFTA and ERGP plan lies in their focus on industrialization, export orientation and improved economic competitiveness.

Nigeria's ERGP 2017-2021 Objectives	ERGP Sub-Objectives / Requirements	Corresponding provisions and expected benefits of AfCFTA
1. **Restoring growth through macroeconomic stability and economic diversification**.	• Improvement in external balance of trade and greater export orientation driven by agricultural value chains, manufacturing and key services.	• The CFTA provides opportunities to exploit new frontiers and reach larger markets with Nigerian exports of manufactured goods and services
2. **Investing in Nigerians through increasing social inclusion, creating jobs and improving the human capital base of the economy.**	• Growth of decent-wage jobs accompanied by income growth and appreciation of purchasing power.	• A vibrant and competitive industrial sector is central to job creation and income growth. This is the mantra of the Abuja Treaty and the objective of the AfCFTA

1 ECA (United Nations Economic Commission for Africa), AU (African Union) and AfDB (African Development Bank). 2017. Assessing Regional Integration in Africa VIII: Bringing the CFTA About

3. **Building a globally competitive economy**	• Investment in infrastructure, • Improving the business environment, and • Promoting digital-led growth	• Enlarged regional market provides incentives for inward foreign direct investment (FDI) and cross-border investment needed to spur productivity • An integrated African market facilitates dynamic gains from competition • The CFTA provides a platform for cooperation on infrastructure development, investment, technology transfer and innovation • Greater access to inputs and intermediary outputs reduces the cost of innovation

Methodology

The study was conducted using a mixed methodology that involved: 1) opinion polling of Nigerian businesses of all sizes from all sectors to harness their perspectives on AFCFTA; 2) in-depth face-to-face interviews with key stakeholders such as business leaders, policy experts and leaders of organized labour about the agreement; 3) simulation of trade and monetary effects, and 4) meta-analysis of welfare and job effects of the agreement.

The Business Sample

A total of 512 companies were polled from all geopolitical zones of the country. The composition of the sample is as follows:

- **Company Size:** 70% are small businesses (10-49 employees), 20% medium-size businesses (50-199 employees) and 10 are large businesses (200 or more employees).
- **Sector:** 40% are manufacturers, 25% services businesses and 15% engage in wholesale and retail trade. Of the remainder, 10% are in agriculture and 9% in export sector.
- **Output:** 68% produce final goods, 30% produce intermediate goods while 28% produce primary goods
- **Exports:** only 25% of companies participate in international trade; ranging from 19% of small companies to 55% of large companies. Overall, the rate of exporting among manufacturing companies is very low at 24%.
- **Export Destinations:** 9 African countries (Ghana, Cameroon, Niger, South Africa, Togo, Benin, Chad Mali and Cote d'Ivoire) are among the top 15 export destinations for Nigerian businesses in decreasing order of dominance, with Ghana being the most frequent destination. Overall, Nigerian manufacturers trade more with other African countries than the rest of the world. Thus, a dismantling of barriers to free trade across Africa is likely to be beneficial to Nigerian manufacturing.
- **Awareness of AfCFTA:** 94% are aware of the AfCFTA and the arrangement to sign the agreement in March 2018. The high level of awareness is uniform across firm size and sector
- **Profitability Drivers:** 46% of respondents cited local demand while another 14% cited innovation/imitation. These two factors are also the major factors cited by 61% of small firms, 57% of manufacturing firms and 61% of service firms. Foreign demand is cited by only 8% of sampled companies, 6% of manufacturing companies and 34% of companies focusing on the export sector.

Findings on AFCFTA

Business Environment:

- 55% of the businesses rate the business environment as hostile (either unsupportive or very unsupportive); comprising 58% of small businesses, 46% of medium businesses, and 48% of large businesses. Power supply, access to credit, roads, taxes and tariffs are the top four challenges in decreasing order of importance to Nigerian businesses
- 69% of businesses believe AfCFTA would be advantageous to the country; While 20% of businesses believe AfCFTA would be disadvantageous to the country; and 11% are unsure about how AfCFTA will affect the business environment. The top three advantages are better business environment, promotion of local business and business expansion. Top three disadvantages are influx of sub-standard goods, discouragement of local businesses and loss of revenue for Nigeria. Top three sources of uncertainty are possibilities that AfCFTA will boost the economy, need for time to understand its impacts and the chances of collapse of local industry

• Overall, 78% of businesses believe that AfCFTA will make a positive impact on local businesses; 10% believe that the impact will be negative while the remaining 12% believe it will have no impact.
• 56% of the poll respondents believe the country does not have the infrastructure necessary to reap those benefits and gains. However, there is an understanding among business leaders that the country should not wait until the infrastructure gap is fully closed before participating in the AfCFTA.

Expected Impact on Businesses:
• 65% of businesses expect AfCFTA to help them overcome their top challenges while 22% expect it to accentuate them. 34% of large companies expect AfCFTA to accentuate their challenges, compared to 25% of medium companies and 18% of small companies. Among the majority who expect AfCFTA to ease their business challenges, the most cited rationales are: improvement in the ease of doing business that they expect to accompany the trade agreement (32%); expected improvement in infrastructure (24%); and enlargement of markets for Nigerian producers 17%).
• Businesses expect AfCFTA to affect their profitability through strengthening of local businesses (19%) increasing demand for local goods (17%) ahead of its impact through enhancing international trade (10%). Potential negative impacts of competition especially the fear that price competition will destroy local production are given very little considerations.
• Among exporting companies, 84% expect AfCFTA to increase their volume of exports; the enthusiasm is shared by 91% of small companies and 100% of agriculture and trade businesses. Importantly, exporters of agricultural commodities view Nigeria as competitive within the continent and believe that CFTA will give them access to do business in African countries that are otherwise not easily accessible.
• In general, 55% of sampled businesses expect AfCFTA to provide opportunities for them to export more goods and services, 38% expect local production to face more intense competition, 16% expect job losses arising from local firms losing out in the competition while 5% expect more trade to reduce the influence of monopolies.

AfCFTA and Standards / Competition Policy:
• 53% of sampled businesses are not convinced that AfCFTA provisions will be strong enough to discourage dumping or smuggling of substandard products into Nigeria. This belief is shared mostly by businesses in agriculture (64%) and least by businesses in the services sector (47%) who are generally least affected by such issues.
• Because of these and other issues that may pose challenges to the welfare of Nigerians, a vast majority of respondents (86%) consider it necessary for the national assembly to hold hearings on these issues before Nigeria ratifies the AfCFTA
• While business leaders share the need for stronger border control to deal with the challenge of smuggling, they urge caution on the part of policymakers not to conflate smuggling with AfCFTA because smuggling and substandard products are already happening even without AfCFTA.

Trade, Growth and Monetary Benefits:
• A 1% decrease in tariff rate imposed or faced by Nigeria in trading with the rest of Africa will increase trade in all cases by more than 1%
• A fall in revenue in the short term due to tariff elimination by Nigeria, as being proposed to be the aftermath of AfCFTA, would be offset by rise in revenue generated through increased trade in the longer term.
• A reduction of Nigeria's weighted tariff against exports from other African countries by 1% would boost economic activity by 0.6%, boost non-oil revenue by 2.5% and improve exchange rate competitiveness by reducing the real effective exchange rate by 0.3%. This is modest given the recent episodes of recession from which the country emerged in 2017Q2.

Welfare and Jobs Benefits:
• The effect of AfCFTA on welfare is positive on aggregate. A 0.05% welfare gain is expected, which translates to an estimated US$260 million in 2018 values.
• The positive effect is largely driven by measures complementary to full tariff removal. Precisely 64% of the effect size is driven by estimates that complement full tariff removal with removal of non-tariff barriers. Thus, AfCFTA focusing entirely on tariff removal is less beneficial to Nigeria, rather, an extension to non-tariff barriers accrues important benefits to the country.
• Wage effects of job creation in the CFTA are expected to be small; Nigerian agriculture will gain more in job creation than other sectors from CFTA, and the benefits will accrue mostly to unskilled workers.
• Allocative efficiency and capital accumulation are expected to significantly improve, which will augment labour productivity. This explains the expected US$447milllion in labour market gains reported in a recent study
.

• By enabling the economy to relax some of its industrialization constraints, the economy is expected to generate more than sufficient jobs to employ the youthful labor market entrants and reduce unemployment rate. The labor force is expected to increase from 83.1 million in 2018 to 119 million by 2030 with new entrants increasing from 2.3 million to 3.6 million.
• An average of 3.3 million jobs are expected to be created annually over the period 2018-2028 (rising from 2.5 million in 2018 to 4.3 million in 2030); broad unemployment rate (discounting underemployment) is projected to decrease from 30.2% in 2016 to 16.7% in 2030 while the narrow unemployment rate is projected to drop from 11.7% to 6.5% over the same period.

Key Sectors:
• Machine tools manufacturing is the sector with the highest benefits from tariff reduction. Next is fishing and crop cultivation sectors, which also have higher than unitary elasticity response of exports to tariff reduction.
• Other sectors with positive but less than unitary elasticities are, in order of rank, livestock, cement, forestry, audio-visuals including Nollywood, sugar and financial services. On the other hand, tariff reductions are expected to reduce tire exports.
• Cement is the leading contributor to export growths, recording a growth of 65% in 2016 ahead of machine tools at 39%. With the leading role played by the Dangote group, Nigeria attained self-sufficiency in cement production and progressed into a net exporter.
• The Dangote group employs a combination of exports and FDI across Africa. It presently operates in 10 African countries including 8 where production takes place and 2 where presence is maintained by bulk exports. Plans are underway to extend production to those two countries and expand to many more countries.
• With AfCFTA, Dangote group will expand its market share significantly across Africa, contribute significantly to job creation, and grow its net worth. Over the next 10 years, the group is projected to hold 59.4% share of the Sub-Saharan Africa cement market, with sales reaching 140 Mt and assets reaching N20 trillion.

Recommendations and Policy Considerations
Key recommendations from this study are as follows:
• Government and policymakers need to listen and comprehend the subject of AfCFTA the way businesses and stakeholders appreciate them, given that they are located at the spots where the rubber meets the road on trade and economic growth.
• Clearly, Nigeria stands to benefit more from the AfCFTA with better business environment and improved infrastructure. In this regard, more concerted efforts are required to bridge the internal infrastructural inadequacies especially in areas of power supply and access to credit, which most businesses identify as their top challenges.
• Nigeria needs to take Continental leadership of the regional infrastructure projects to lead other African countries toward bridging the continental infrastructure gaps. Road and rail connections to neighbouring countries needs to be facilitated by ECOWAS or other bilateral protocols to boost regional trade and enhance mutual economic benefits.
• Policymakers should see the AfCFTA as an opportunity for Nigeria to pursue and achieve its goals of export-led growth as elaborated in the ERGP (2017-2021) and set up the institutional capabilities needed to take advantage of the offers contained in the agreement while minimizing the threats it may pose.
• The likelihood of AfCFTA contributing to accelerating or impeding Nigeria's industrialization depends on government policy response to its provisions, and the system of assessment, monitoring and evaluation put in place by the government to guide its implementation.
• Based on the foregoing, the Nigerian government should sign the AfCFTA and follow the action with a set-up of the policy institution necessary for its successful implementation.

Key considerations for policymakers include the following:
• Position industrialization and export-led growth at the centre of the country's economic policies and galvanize stakeholders around it;
• Conduct regular studies on the structure, progress and challenges of industry value-chains with a view to making adjustments and providing policy support necessary to reposition the industrial sector on the path to competitiveness;
• Conduct regular studies on comparative export opportunities for Nigerian businesses in the African continent and elsewhere and share the knowledge with business associations and institutions;
Insulate the policy-making institution and instruments from the unstable political environment to allow for development of focused, forward-looking policies that are essential for the goals of ERGP 2017-2021 and the benefits of AfCFTA;

• Develop, reinforce and implement an active industrial policy that takes full advantage of the provisions of the agreement and provides opportunities and support for learning and growth of the SMEs sector.
• Newer models for funding infrastructure needs to be considered such as Public-Private Partnership (PPP) arrangements, Build, Operate and Transfer (BOT) arrangements, Sukuk funds, and other options.
• Customs and border patrol needs to be strengthened in order to minimize smuggling and dumping of substandard products. Similarly, regulatory agencies such as NAFDAC and SON need to be strengthened to enable businesses take advantage of export opportunities under the AfCFTA.

> *"... this depends on the sectors. There are some sectors that would be vulnerable to this agreement, but on the whole, if Nigerian entrepreneurs have access to larger markets, it would be very advantageous to them. We are talking of a market of about 1.2 billion people. This is huge and Nigerians are generally very enterprising."* ***(Mr. Muda Yusuf, Director General, Lagos Chamber of Commerce and Industry (LCCI))***

> *"The entertainment sector is quite good, even without the CFTA our Nollywood is all over, especially around Anglophone countries. So there would be a serious open market for them. Already some Nigerian-owned banks have presence in a lot of African countries. For example, UBA and Ecobank are doing very well."*
> ***(Mr. Eke Ubiji, Executive Secretary, National Association of Small & Medium Enterprises (NASME))***

> *"... When you look at the entertainment / Nollywood for instance, even without having the free trade area in Africa, whenever I travel to East Africa, once they hear you are Nigerian, they are mimicking our actors and asking if you came with CDs... so to have such a market where you can move freely, potential benefits are there to be reaped."* ***(Dr. Peter Ozo-Eso, General Secretary, Nigeria Labour Congress (NLC))***

PART I

SETTING THE STAGE

1.0 BACKGROUND

1.1 Introduction

Regional integration is inevitable for economic transformation and sustainable socio-economic development in Africa. On one hand, it is a development strategy aimed at aggregating Africa's small countries into one large market that can deliver economies of scale, improved competitiveness, foreign direct investment (FDI) and poverty reduction. On the other hand, regional integration helps in addressing non-economic problems such as recurring conflicts and political instability as well as increasing the continent's bargaining power in the multilateral front.

Despite the recent shift in the growth poles of the global economy from developed countries to emerging and developing countries, Africa lags behind and remains marginalized. This is partly because the continent remains a fragmented bundle of small resource-rich but commodity-dependent economies. For Africa to optimize its resource endowments and translate them into welfare gains for its teeming population, regional integration is inevitable. It is not surprising that African leaders and policymakers are showing more interests and making commitments toward fast-tracking the African Economic Community (AEC). The first step in this renewed effort is the agreement reached during the African Union Summit held in Addis Ababa in January 2012 to establish a to establish a Continental Free Trade Area (CFTA) by 2017. A framework agreement was signed in March 2018 during the summit in Kigali, Rwanda by 44 countries to bring the AfCFTA into force.

Despite championing the agreement and moving for its speedy development, Nigeria abstained from signing the agreement.[3]The President of the Federal Republic of Nigeria, His Excellency President Muhammad Buhari attributed the abstention to[4] the need to protect the economy, especially the industries and small businesses, from external pressures and competition that could lead to closures and job losses amidst the teeming youth population of the country . Another factor advanced for the abstention is the need for further stakeholder consultation before proceeding with the agreement .

1.2 Objectives of Study

The objectives of this study are to:

1) Assess the harmony between the African CFTA and Nigeria's economic and industrial goals;
2) Evaluate the economic benefits and costs of the African CFTA to the Nigerian economy looking at output, trade and welfare;
3) Harness the perspectives of the private sector on the benefits and costs of the agreement to businesses in all sectors and the overall macroeconomy.
4) Examine the potential effects of the agreement on frontline sectors of the economy.

1.3 Relevance of the Study

Negotiations on the CFTA were launched in June 15, 2015 and the agreement was scheduled for endorsement by all member countries during the week of March 19, 2017. However, the Nigerian government pulled out of the event on account of the need for wider stakeholder consultations on the subject. The findings of this project will be used to engage stakeholders at different levels of influence in the decision-making process.

The direct beneficiaries of the project are policymakers in the regional institutions in charge of regional integration and negotiations. Knowledge development institutions such as think-tanks, academic and development communities will also benefit from open publication of the findings. The indirect beneficiaries include individuals and private sector actors or businesses that will eventually be impacted by the outcomes of the CFTA.

4 Why Nigeria didn't sign Economic Partnership Agreement –Buhari, published in Punch newspaper on April 5, 2018, taken from http://www.punchng.com/why-nigeria-didnt-sign-economic-partnership-agreement-buhari/
5 On the African Continental Free Trade Agreement, published in the Guardian on April 3, 2018, taken from https://guardian.ng/business-services/on-the-african-continental-free-trade-agreement/

2.0 LITERATURE REVIEW

2.1 Trade and Regional Integration

Economic theory shows that international trade is beneficial for growth, competitiveness and welfare improvement through its effects on specialization, production and consumption. Empirical research shows that trade leads to improved industry performance, innovation and reduction of inefficiencies in developing countries (Goldberg and Pavcnik 2016)[5]. Trade improves productivity by enabling reallocation of market shares toward more profitable firms and forcing less profitable firms to go out of business; and by making individual firms to reallocate more resources toward more profitable products and adopt better managerial practices. Owing to tariff reductions on intermediate goods, local companies gain access to many new inputs, invest in new technologies and research to create new products and boost innovation. Exposure to foreign competition also lead local businesses to reduce inefficiencies and existing resource misallocations, thereby improving their productivity.

In allowing these benefits to be shared by all countries, a global trade agreement (GTA) that eliminates all barriers to trade is the first best solution for maximizing global output and welfare. However, first-best solutions are often elusive. Next to GTA are second-best arrangements which take the form of preferential trade agreements (PTAs) among limited sets of countries to enhance free trade among their members. PTAs create more trade among members as barriers fall; and divert trade from efficient non-member producers to member producers as a result of their privileged access to markets[6]. According to the theory, economic benefits of free trade increases as the number of countries covered by PTAs increases.

Programs of regional economic integration often proceed with establishment of regional PTAs, which can take the form of free trade areas (FTAs) or customs unions (CUs). While FTAs remove tariff and import quotas among members, CUs goes further to establish common external tariffs (CETs) among members in the area. The next stage of integration involves modalities to allow free movement of goods, services, people and capital within the area/union – which creates a common market (CM). This is followed by harmonization of competition policies, product standards as well as structural, fiscal, monetary and social policies, leading to the establishment of an economic union (EU). The final stage of the process involves establishment of political and monetary union (PMU), which entails creation of supra-national institutions, establishment of a single Central Bank and creation of a single currency and establishment of a monetary union.

2.2 The Quest for Africa's Integration

The formation of the Organization of African Unity (OAU) in 1963 represents the first attempt by African leaders to create a platform for social, political and economic integration among African countries toward boosting continental cooperation and integration. Between 1963 and 1980, many regional economic communities were created with the intent to integrate regional economies and establish free trade areas (FTAs) both as a first step and to establish the building blocks for achievement of the continental economic community (Farahat 2016). The Lagos Plan of Action 1980-2000, an economic development blueprint for the African continent emphasized the role of Intra-Africa trade for growth and development on the continent; and provided for further development of regional economic communities (RECs) and eventual convergence of the RECs in establishing the African common market (OAU 1980). Implementation of the recommendations of the Plan led to proliferation of programs and institutions across the continent.

Although the Lagos Plan emphasized regional economic development and RECs as a step toward the realization of the AEC, the regional integration program faltered due to uneven developments and lack of progress in many regions, thus slowing the progress of the continental integration project (Farahat 2016). A review by the United Nations Economic Commission for Africa (UNECA 1991) noted that very few governments incorporated the objectives of the Plan into their development strategies. However, the review credited the failure in part to failure of the Plan to provide an effective monitoring and follow-up mechanism for its implementation and suggested that this factor may explain why governments did not feel obligated to implement it.

Efforts to revitalize the continental integration project culminated in the formulation and adoption of the African Economic Community (AEC) Treaty, commonly dubbed as the Abuja Treaty, in 1991. The treaty, which came into force in 1994, highlights a 34-year, 6-stage integration plan for the establishment of African Economic Community (AEC) by 2028, based on specific milestones and timelines. The stages involve the strengthening of sectoral cooperation and establishment of regional FTAs (stages 1-3), continental customs union (stage 4), common market (stage 5) and a monetary and economic union (stage 6). The stages and timelines for achievement are:

5 Pinelopi Goldberg, the Lead author of the article, was recently appointed as the chief economist of the World Bank
6 Mirus and Rylska (), Economic Integration: Free Trade Areas vs Customs Unions, Western Centre for Economic Research, School of Business and the Department of Economics, University of Alberta

• **Stage 1 (1999):** Strengthen existing regional economic communities (RECs) and establish RECs in regions where they do not exist;
• **Stage 2 (2007):** Stabilize tariff and non-tariff barriers, customs duties and internal taxes in force within RECs; develop time-table for gradual removal of tariff and no-tariff barriers to regional trade; strengthen sectoral integration at regional levels in all areas of activity; coordinate and harmonize activities among regional economic communities;
• **Stage 3 (2017):** Establish a Free Trade Area (FTA) through implementation of the time-table for gradual removal of tariff and non-tariff barriers to intra-community trade, establish a customs union by adopting a common external tariff within RECs;
• **Stage 4 (2019):** Co-ordinate and harmonize tariff and non-tariff systems among the various RECs with a view to establishing a customs union at the continental level by means of adopting a common external tariff;
• **Stage 5 (2023):** Establish an African common market through sectoral integration; harmonization of monetary, financial and fiscal policies; and free movement of persons and rights of residence and establishment within the continent;
• **Stage 6 (2028):** Consolidate and strengthen the African common market through free movement of people, goods, capital and services; integrate all sectors; establish a single domestic market and a Pan-African economic and monetary union; set up the African Monetary Union, establish a single African central Bank and create a single African currency; set up the Pan-African parliament and election of its members by continental universal suffrage; finalize harmonization and coordination of RECs; set up the African multi-national enterprises in all sectors; set up the organs of executive organs of the AEC.

The idea behind the sequence of activities is to consolidate the vision of integration at the regional level through creating and strengthening of RECs and to harmonize and integrate the RECs into the AEC (UNECA 2012). Three important developments have stimulated an interest in fast-tracking the integration agenda.

First, the formation of the African Union (AU) in 2002 provided stronger impetus to accelerate the continental integration process. Among the objectives of the union outlined in Article 3 of the Constitutive Act, the AU was established to "accelerate the political and socio-economic integration of the continent" (objective c) and "promote sustainable development at the economic, social and cultural levels as well as the integration of African economies" (objective j).

Second, three RECs namely, Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and Southern African Development Community (SADC) signed a tripartite FTA in 2011. The COMESA-EAC-SADC FTA covers 26 African countries with a combined population estimated at 530 million and GDP of US$630 billion amounting to more than half of Africa's GDP. This agreement is viewed as having the effect of galvanizing the interest of African policymakers in fast-tracking the Continental FTA.

Third, a study commissioned jointly by the African Union Commission (AUC) and Economic Commission for Africa (ECA) examined the various issues affecting intra-African trade and made a compelling case for fast-tracking the CFTA (AUC/ECA 2012).

Following these developments, at the African Union Summit held in Addis Ababa in January 2012, Heads of States of the AU endorsed the action plan on Boosting Intra-African Trade (BIAT) and adopted a decision to fast-track the establishment of a CFTA by 2017 through a 4-step roadmap:
• Finalization of the COMESA-EAC-SADC tripartite FTA by 2014;
• Establishment of regional FTAs by non-tripartite RECs that reflect the preferences of member states between 2012 and 2014;
• Consolidation of the tripartite and FTA and other regional FTAs into a CFTA initiative between 2015 and 2016;
• Establishment of the CFTA by 2017 with the option to review the target date according to progress made.

Another development, Agenda 2063 – The Africa We Want, a 50-year vision launched at the AU Summit in January 2015 reflects the strong interest of African leaders in the regional integration agenda. Among others, the aspirations of the agenda include an integrated continent where "free movement of people, capital, goods and services will result in significant increases in trade and investments amongst African countries" (AUC 2015).

Although the continental free trade area (CFTA) was not specifically mentioned in the Abuja Treaty, it is a requirement for establishment of a continental customs union and is thus expected to be established between 2017 and 2019 when the continental custom union is expected to be established. The new timeline and current emphasis on getting the CFTA signed off during the first quarter of 2018 are consistent with the timelines of Abuja Treaty.

2.3 Why Do We Need An African CFTA?

African countries currently benefit from relatively low barriers to trade with the rest of the world, thanks to several preferential agreements including the standard Generalized System of Preferences (GSP),[7] GSP+[8], Everything-But-Arms (EBA),[9] and the African Growth and Opportunity Act (AGOA).[10] As a result of these agreements, African countries benefit from asymmetrical trade protection against the rest of the world. The level of tariff protection faced by African exports into the rest of the world was estimated at 2.5% compared to 13.6% protection by African countries against imports from the rest of the world (Mevel and Karingi 2012).

However, trade among African countries faces high barriers, with average protection rate estimated at 8.7% (Mevel and Karingi 2012). Analysis of tariff protections at country level showed that only 17 countries, about one-third of African countries impose or face tariffs lower than the respective African averages. The remaining 37 countries impose higher tariffs than the African average, faces higher tariffs than the African average or experiences both (Mevel and Karingi 2012). These high levels of protection are well reflected in the patterns of trade. A study commissioned by the AU about the same time as the study by Mevel and Karingi shows that only about 10-12% of African trade take place among African countries, compared to 40% in North America and 63% in Western Europe (AUC/ECA, 2012).

Although integration within the 8 recognized African RECs are uneven, there have been substantial progress toward creating FTAs within the RECs and lowering trade barriers. As a result, tariff barriers have dropped substantially. The table below shows average tariffs applied by REC members on imports from other members of the REC in 2016.

Table 1: State of Regional Integration in the RECs

Regional Economic Community (REC)	Stage of Integration completed⁺	Average applied tariff on imports from the REC (%)*	Fully liberalized tariff lines (% of total) *
EAC (East African Community)	Common Market	0.00	100
IGAD (Intergovernmental Authority on Development)	None	1.80	22
ECCAS (Economic Community of Central African States)	Free Trade Area	1.86	34
COMESA (Common Market for Eastern and Southern Africa)	Free Trade Area	1.89	55
AMU (Arab Maghreb Union)	None	2.60	49
SADC (Southern African Development Community)	Free Trade Area	3.80	15
ECOWAS (Economic Community of West African States)	Customs Union	5.60	10
CEN-SAD (Community of Sahel-Saharan State)	None	7.40	N/A

⁺ Position in 2016; * Position in 2015;

Source: AU-ECA-AfDB (2016, 2017), Assessing regional Integration in Africa VIII: Bringing the Continental Free Trade Area About

7 The GSP allows developing countries to export selected products to certain markets in developed countries at lower tariff rates than the most-favored nation rates (base rates applied in trading with WTO members with whom they do not have preferential trade agreements).
8 Introduced in 2005, the GSP+ required is available to countries that meet two criteria of 'vulnerability' and also ratify and implement 27 international conventions on human rights, labor rights, environment and governance.
9 Everything But Arms (EBA) initiative came into force in 2009 and offer duty and quota free access to all exports from Least Developed Countries (LDCs) to the European Union. Nigeria does not qualify for this category.
10 This Act gives preferential access to selected exports into the United States by selected African countries.

The case for accelerated CFTA is predicated on two factors. The first is the variation in the degree of integration within the RECs. As of 2016, only 2 of the 8 RECs have achieved a customs union, which is the essential building block for continental integration. It is expected that establishment of the CFTA will help bridge the gap and accelerate progress among those lagging behind in the process (AU/ECA/AfDB 2017). The second factor is desire to keep on track the timelines for achievement of the AEC as outlined in the Abuja Treaty. All RECs are expected to have established customs unions by 2017, which are expected to be harmonized into a continental customs union by 2019. Establishment of the CFTA now will allow for time to work through the modalities toward achieving the continental customs union over the next 2 years (2018-2019). In terms of its benefits, establishment of the CFTA will enable further elimination of trade barriers among African countries, stimulate further trade and consequently growth and development broadly across the continent.

2.4 Benefits of CFTA

The cornerstone of the CFTA is promotion of industrialization, sustained growth and development in Africa. The agreement is being pursued based on its potential to “boost intra-African trade, stimulate investment and innovation, foster structural transformation, improve food security, enhance economic growth and export diversification, and rationalize the overlapping trade regimes of the main regional economic communities” (AU-ECA-AfDB 2017).

The African CFTA is expected to increase intra-African trade by up to 52.3% as a result of tariff reductions, rising to potentially doubling intra-African trade if non-tariff barriers and trade facilitation are also addressed (Mevel and Karingi 2013). It is estimated that additional implications of improved trade facilitation between African countries using a database on trade costs could result in the doubling of intra-African trade. Real wages are estimated to increase for unskilled workers in the agricultural and non-agricultural sectors, as well as for skilled workers, and there is a small shift in employment expected from agricultural to non-agricultural sectors.

Chauvin et al. (2016) show that the benefits of reduction in non-tariff barriers and reduction in transaction costs associated with trade facilitation expected from AfCFTA will grow over time. They find the short-run impacts in the first years after implementation are generally small but with larger and more positive long-run impacts. By 2027, the AfCFTA is estimated to increase Africa’s welfare by 2.64 per cent (which would be equivalent to about $65 billion in 2018 terms). Notably, the reduction in non-tariff measures and transaction costs are found to contribute significantly to improving welfare gains.

However, there are additional dynamic benefits. The AfCFTA will lead to export diversification which in turn produces more sustainable growth, an enlarged regional market better attracts FDI, and the promotion of industrial exports can help catalyse structural transformation. This agreement allows developing countries to export selected products to certain markets (mainly developed countries) at lower tariff rates than the most-favoured nation rates. Any member of the World Trade Organization (WTO) must not discriminate in terms of access granted to its market: a tariff rate given to one WTO member partner must be extended to all other WTO members’ partners. This tariff rate is called the most-favoured nation (MFN) rate. It is important to note that there are a few exceptions, namely, allowed preferential treatments or regional agreements.

These gains are likely to be uneven at country level. In the specific case of Nigeria, the CFTA is estimated to cause an 8.18 percent increase in Nigeria’s total exports, with a structural shift in Nigeria’s economy towards manufacturing and services. This is expected to lead to a total increase in Nigerian economic welfare by around $2.9 billion in 2018 terms.

2.5 AfCFTA and Nigeria’s ERGP 2017-2021

The broad vision of the Economic Recovery and Growth Plan (ERGP) of Nigeria is to turn around the country’s economic performance and lay the foundations for sustained inclusive growth. The objectives of the plan are focused on industrialization, export orientation and improving economic competitiveness. As presented below, these goals are in harmony with the aspirations underlying the AfCFTA.

Table 2: Synergy between Nigeria's ERGP and Africa CFTA

Nigeria's ERGP 2017-2021 Objectives	ERGP 2017-2021 Sub-Objectives (GoN, 2016)	Benefits of the CFTA (AU-ECA-AfDB 2017)
1. **Restoring growth through macroeconomic stability and economic diversification**.	• Improvement in external balance of trade and • Greater export orientation which is driven by agricultural value chains, manufacturing and key services. • This objective requires exploiting new frontiers and reaching larger markets.	• The CFTA provides a larger market for Nigerian manufactures and services • Enlarged regional market provides incentives for inward foreign direct investment (FDI) and cross-border investment needed to spur productivity
2. **Investing in Nigerians through increasing social inclusion, creating jobs and improving the human capital base of the economy.**	• Growth of decent-wage jobs accompanied by income growth and appreciation of purchasing power.	• A vibrant and competitive industrial sector is central to job creation and income growth. This is the mantra of the Abuja Treaty and the objective of the AfCFTA
3. **Building a globally competitive economy**	• Investment in infrastructure, • Improving the business environment, and • Promoting digital-led growth	• An integrated African market facilitates dynamic gains from competition • The CFTA provides a platform for cooperation on infrastructure development, investment, technology transfer and innovation • Greater access to inputs and intermediary outputs reduces the cost of innovation

"If we are going to engage the CFTA, it means we have to comply with globally set standards on trade. Meaning that your goods must comply with international standards. So, every product coming into Nigeria must have complied with that. It means that our regulatory bodies such as NAFDAC, SON etc would have to certify products they need to certify, and any product that does not comply with international standards would be sent back." ***(Mr. Eke Ubiji, Executive Secretary, National Association of Small & Medium Enterprises (NASME))***

3.0 METHODOLOGY

The objectives of the project are implemented using a mixed methodology that involves desk research, simulation, analysis of macroeconomic data (obtained from domestic sources including national accounts and representative surveys as well as international development organizations including World Bank, IMF, WTO and UNCTAD). In addition, three other data collection techniques were adopted: Opinion Poll on business owners & leaders; Key Informant Interviews with business owners, labour leaders & trade sector stakeholders; and Expert Panel discussion with international trade and economic expert in Nigeria. The main components are discussed below.

3.1 Opinion Poll on Businesses Owners and Leaders

This involved structured interviews with Nigerian business owners and leaders on their opinions and perception regarding the AfCFTA. The opinion poll was conducted to elicit views of business leaders across various sectors on the opportunities, challenges and weaknesses in their sector, while focusing on how the AfCFTA is expected to impact their activities including competition and competitiveness, equipment and technology, and access to markets. A qualitative approach was adopted to collect data in order to provide richer insights and triangulate findings from the quantitative component. This involved Expert Panel discussion with international trade and policy experts, as well as Key Informant Interviews with Organized Private Sector (OPS), Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), Manufacturers Association of Nigeria (MAN), Nigerian Labour Congress (NLC), Nigerian Association of Small Scale Industrialists (NASSI), National Association of Small and Medium Enterprises (NASME) and other Key Stakeholders. Database for the opinion polls was derived from a list of performing exporters obtained from the Nigerian Export Promotion Council (NEPC) and a database of Nigerian businesses from NOIPolls.

3.2 Simulation of Trade and Monetary Effects

Simulation of fiscal and monetary effects of the AfCFTA was conducted to answer questions such as what would be the effect of the agreement on revenue and growth? This section sought to establish through appropriate data-driven techniques how the proposed AfCFTA will boost Nigeria's revenue, overall real economic output as well as real exchange rate and money supply. Two major questions guided the study: a) How relevant is the AfCFTA to Nigeria's overall trade? b) What are the impacts of AfCFTA on Nigeria's real GDP, non-oil revenue and real exchange rate? The quantitative measure of AfCFTA used through the analysis is Nigeria's weighted tariff rate on trade with Africa, which is proxied by Nigeria's weighted tariff rate against primary imports coming from Africa. However, before deploying this measure, we determined the extent to which Nigeria's total trade with Africa is influenced by African countries real output and population. All data is for the period 1979-2016.

3.3 Simulation of Welfare Effects

A simulation of the welfare effects of AfCFTA through its effects on production, consumption and job creation was conducted. A rigorous analysis of macroeconomic data and trends, including production, trade and investment was conducted to evaluate the potential benefits to Nigeria under the AfCFTA. The analysis thereafter looked inwards to estimate the realistic job creation potentials for the domestic economy exploiting the linkages across sectors including agriculture, manufacturing and services.

The AfCFTA means Nigeria market becomes more accessible to other African countries and vice versa. This change will no doubt affects prices, wages and income levels in Nigeria, thereby generating significant welfare effect. It is important to note that AfCFTA portends benefits and costs to the economy, and the balance of these components will determine the aggregate magnitude and direction of the welfare effect. To account for these counteracting factors, an aggregate model of the economy integrating the sectors and condition of various factors of production is required. A Computable General Equilibrium (CGE), embedded within a multi-sector and open economy, is the suitable tool in this instance. Several studies exist in the literature that were conducted based on this approach. We conducted a meta-analysis on these studies to summarize the key findings regarding the possible welfare impact of the AfCFTA on the welfare of Nigerians.

Next, we derive job numbers from estimates of employment elasticities and output in the various sectors to obtain aggregate number of jobs to be created over the selected horizon, and examine the numbers relative to labor market indices.

PART II

PERSPECTIVES OF BUSINESSES OWNERS AND SECTOR LEADERS

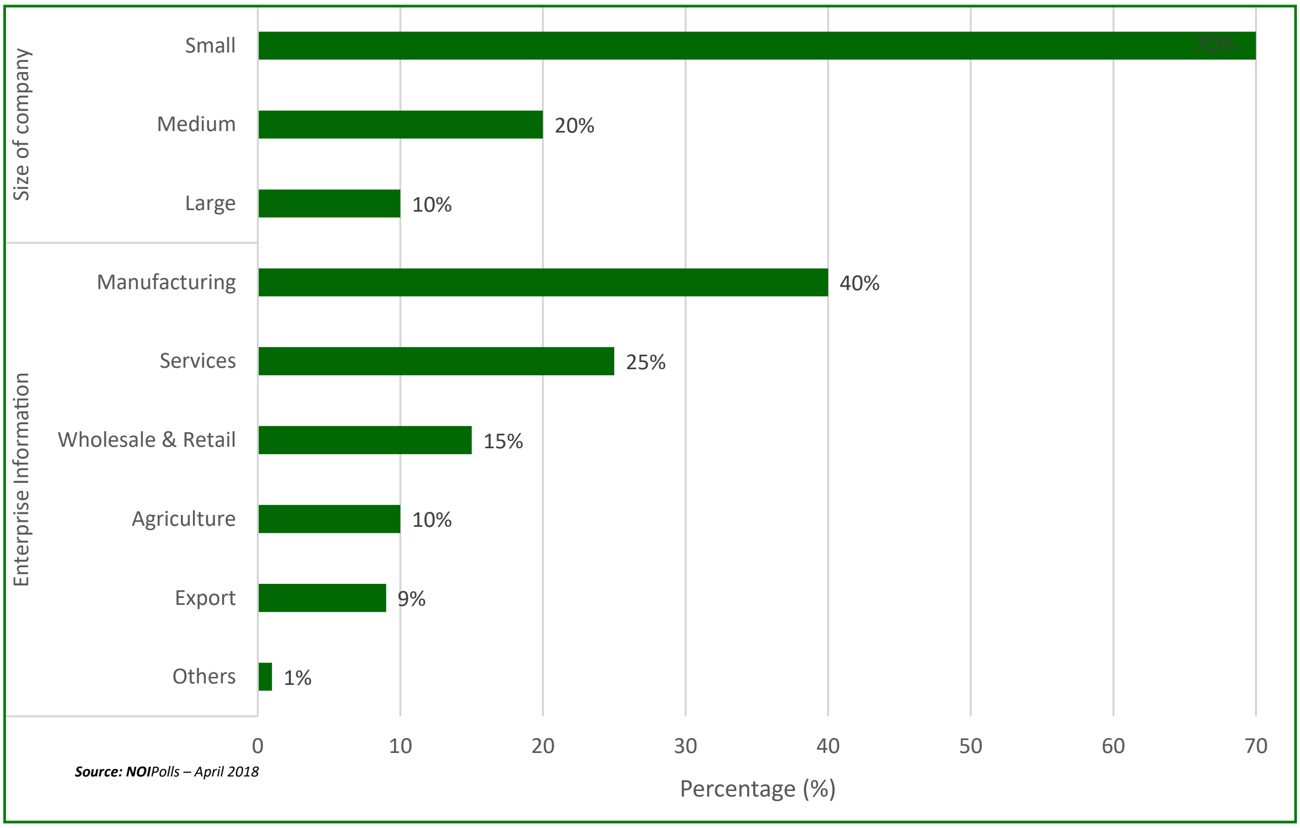
4.0 FINDINGS FROM OPINION POLL, KEY INFORMANT INTERVIEWS & EXPERT PANEL

This section presents findings from the opinion poll, key informant interview (KII) and expert panel discussion. The poll involved business owners and leaders across five (5) main sub-sectors: Manufacturing, Services, Agriculture, Wholesale & Retail, and Export amongst others; while the KII and expert panel sought the opinions and perceptions of international trade & policy experts and other key stakeholders regarding Nigeria's prospects for joining the African Continental Free Trade Area.

4.1 Characteristics of Sampled Businesses

512 business leaders and owners were interviewed for the opinion poll. Of the sampled firms, 70% are small businesses, 20% medium businesses and 10% large companies. In terms of sectoral distribution, 40% of the companies are in manufacturing, 25% in services and 15% engage in wholesale and retail trade. Of the remainder, 10% are in agriculture and 9% in export sector. See Figure 1 below.

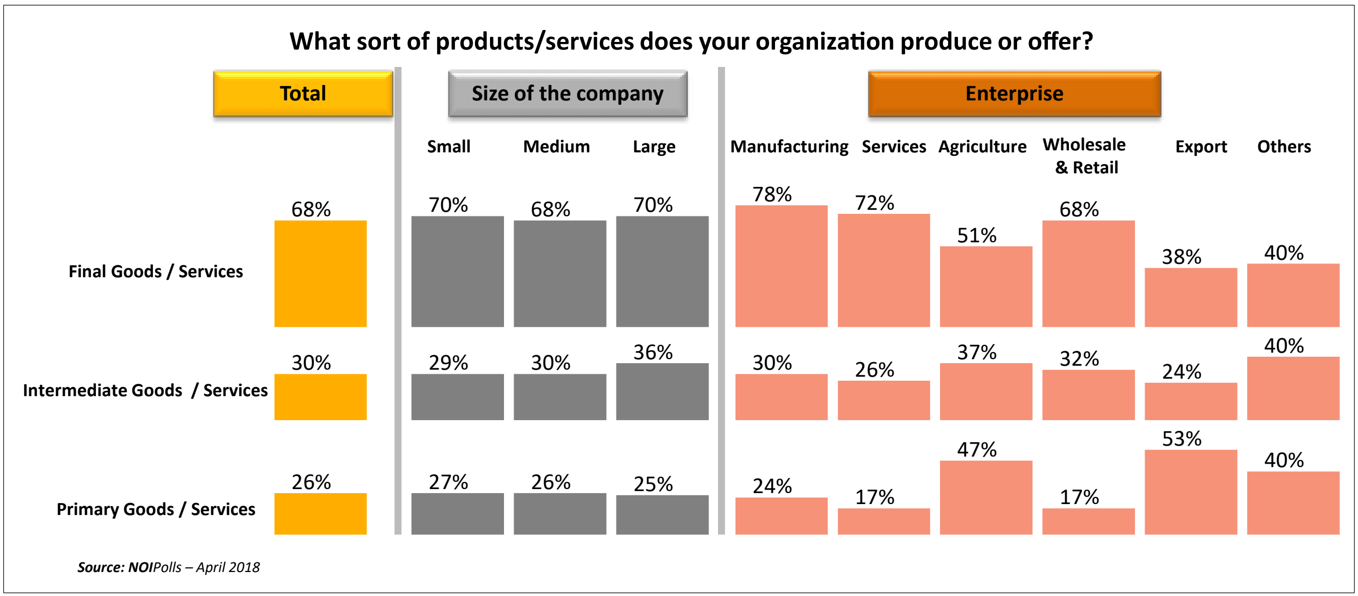
Figure 1: Demographic Distribution



In terms of the stage of the value chain where these companies are located, 68% produce final goods, 30% produce intermediate goods while 28% produce primary goods, reflecting the existence of markets for different stages of production (See Figure 2 below). This is a great improvement from a previous study in which only 15% of sampled companies produced intermediate goods .[11]

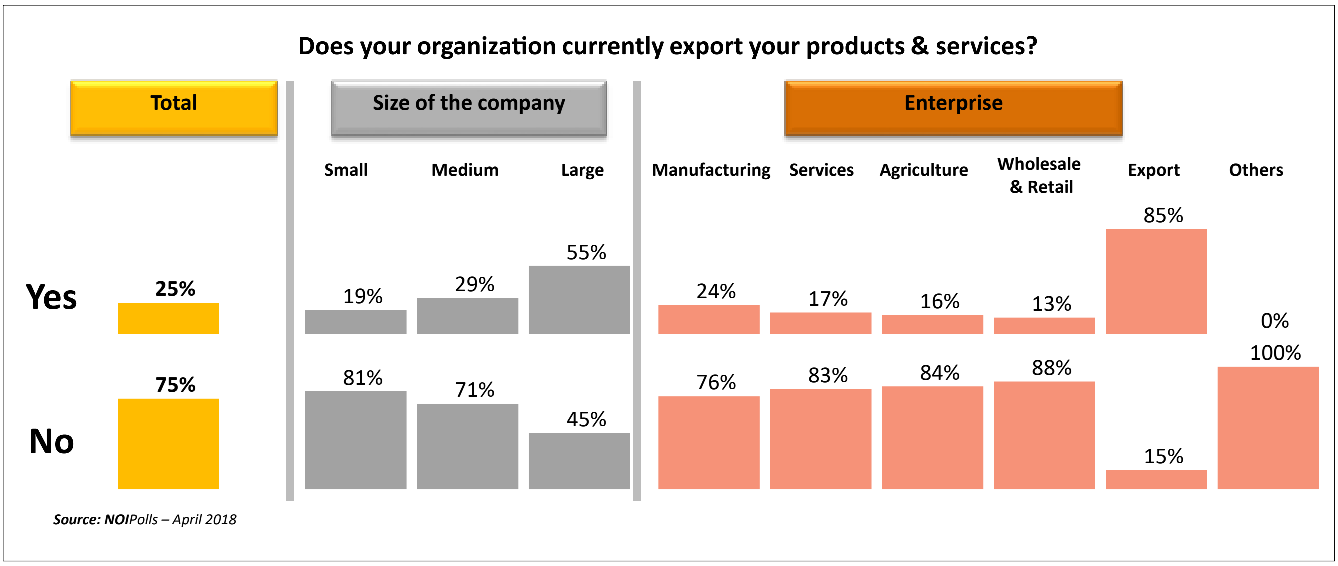
[11] Manufacturing sector survey conducted by NOI Polls in 2016

Figure 2: Stage of Production



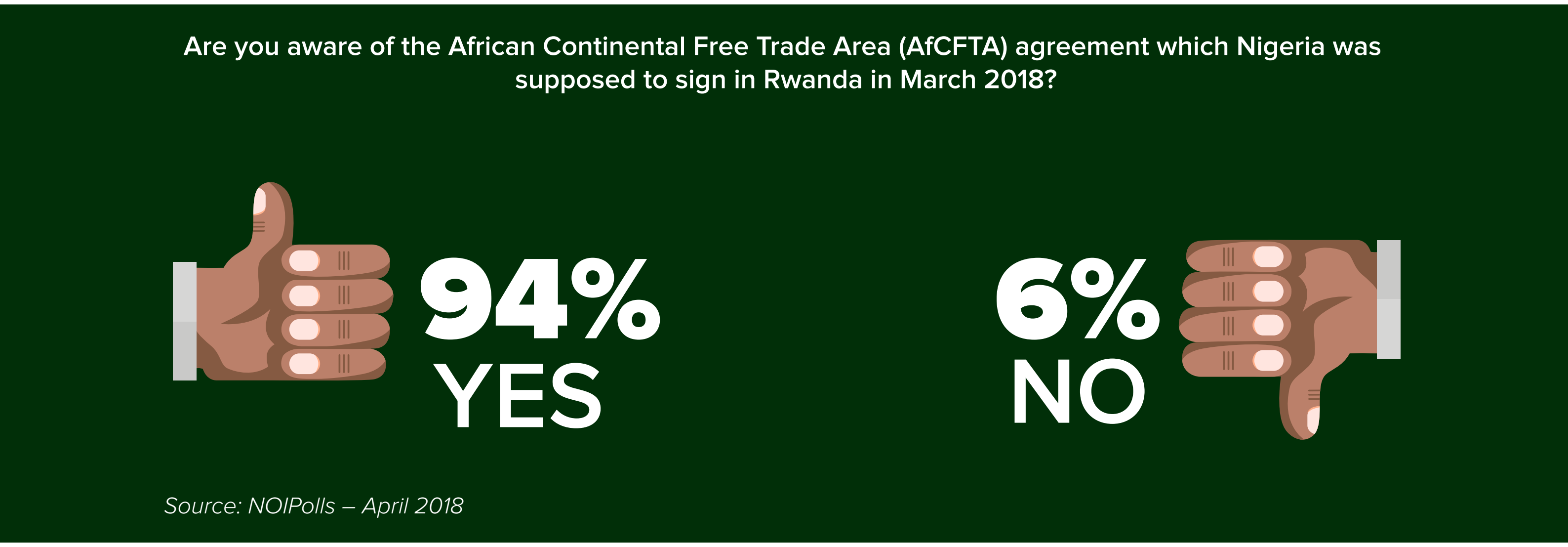
Among the sampled firms, only a quarter, 25% participate in international trade and export of products and services. As expected, most of the large businesses interviewed (55%) and almost 3 in 10 medium businesses (29%) export their products and services; with only 19% of small firms also engaging in export. Overall, the rate of exporting amongst manufacturing companies is very low at 24%. See Figure 3 below.

Figure 3: Participation in Exports



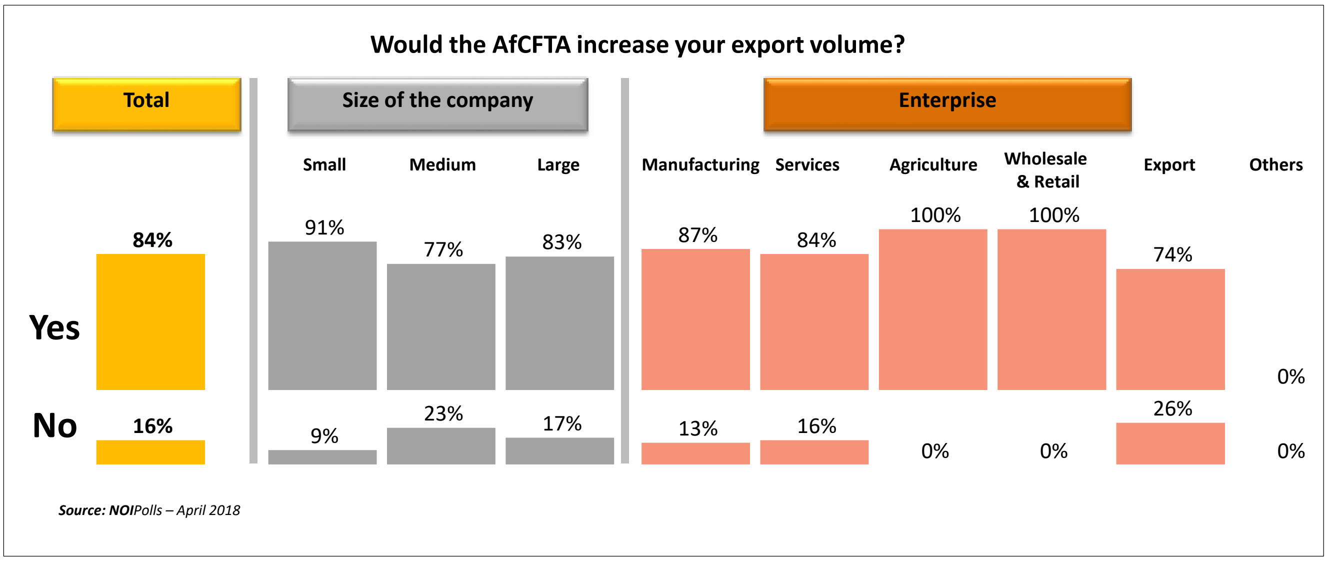
Nearly all the businesses interviewed (94%) are aware of the AfCFTA and the arrangement to sign the agreement in March 2018. The high level of awareness is uniform across firm size and sector distributions. See Figure 4 below.

Figure 4: Awareness of the CFTA



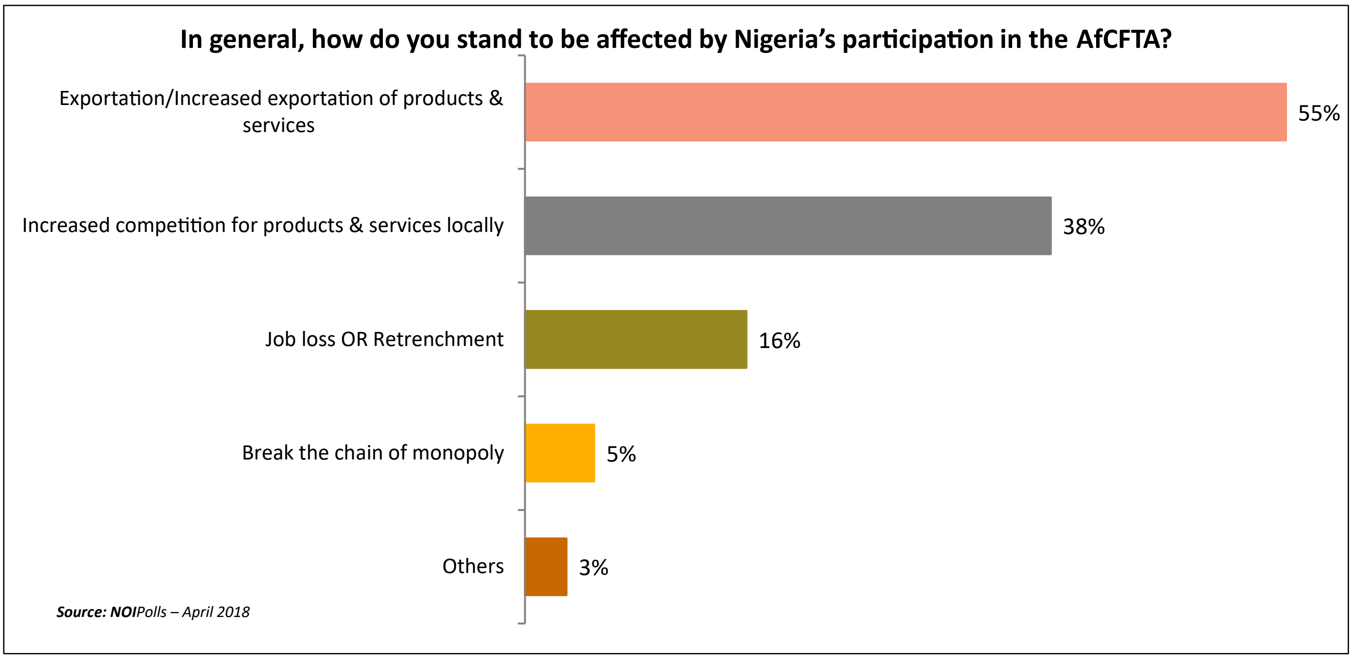
Among the 512 companies included in the sample, 84% expect AfCFTA to increase their volume of exports. Similarly, amongst the 128 exporting companies interviewed, 74% expect their export volumes to increase. This enthusiasm is most shared by small companies (91%) and by businesses in agriculture and trade sub-sectors (100%). See Figure 5 below. Exporters of agricultural commodities are of the view that Nigeria is competitive within the continent and the provision of free movement of people, goods and services in CFTA will give them access to do business in African countries that are otherwise not easily accessible.

Figure 5: AFCFTA and Exports



In general, a plurality of sampled businesses (55%) expect AfCFTA to provide opportunities for them to export more goods and services, 38% expect local production to face more intense competition, 16% expect job losses arising from local firms losing out in the competition while 5% expect more trade to reduce the influence of monopolies. See Figure 6 below.

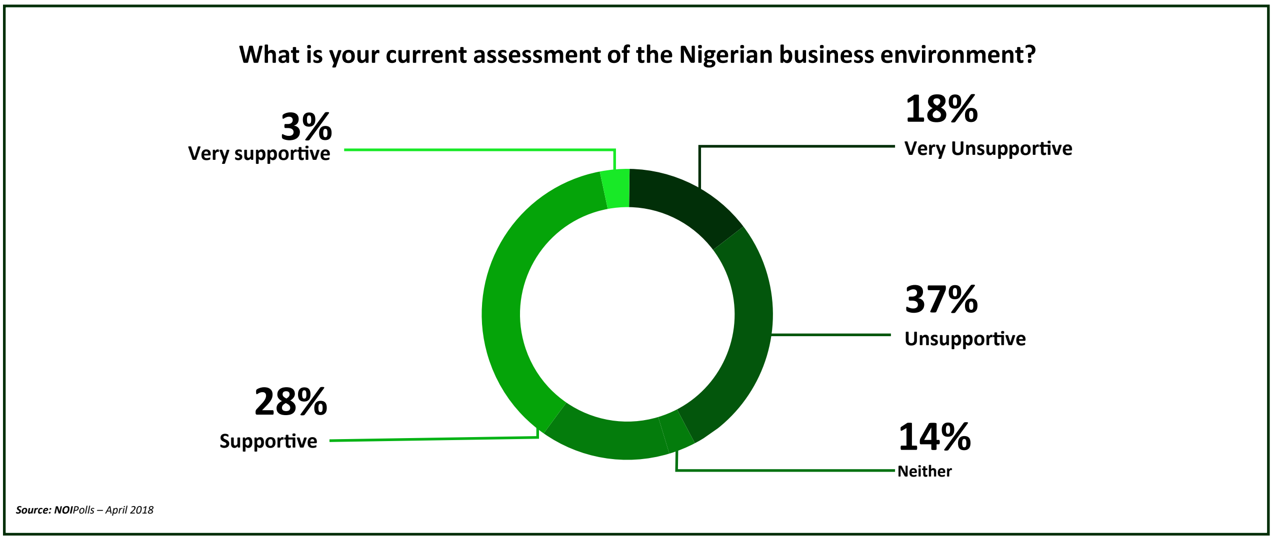
Figure 6: Expected Impact of AfCFTA



4.2 AfCFTA and the Macro-Economy

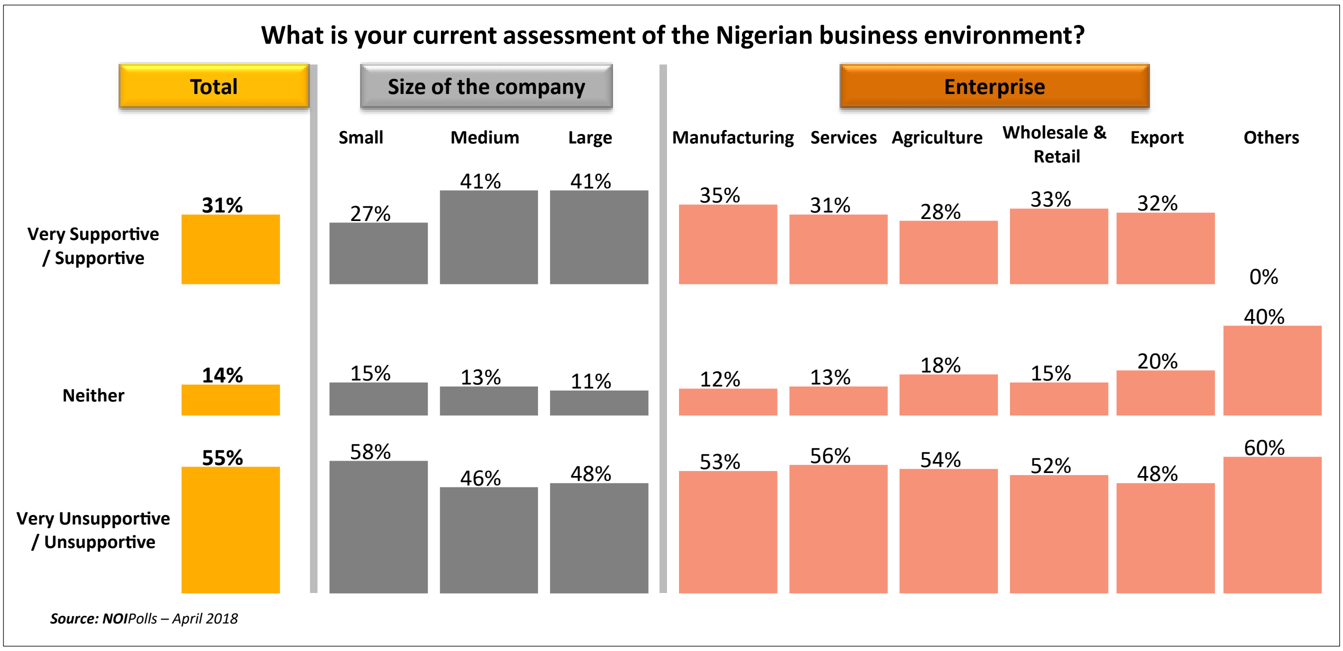
A plurality, 55% of the businesses rate the business environment as hostile (either unsupportive or very unsupportive); while 31% reported the environment as friendly (supportive or very supportive) to their businesses. See Figure 7 below.

Figure 7: Assessment of business environment



Given the circumstances, small businesses are most likely to rate the environment as unsupportive (58%) compared to medium businesses (46%) and large businesses (48%).

Figure 8: Assessment of the CFTA



Respondents were asked to provide their assessment of the impact of AfCFTA on Nigeria. About 7 in 10 respondents (69%) believe AfCFTA would be advantageous to the country, with 1 in 5 (20%) holding the belief that AfCFTA would hurt the country. However, another 11% of businesses seemed indifferent of the potential benefits of AfCFTA (See Figure 9 below). Interestingly, the high level of belief in the beneficial nature of the AfCFTA is sustained by business owners across firm sizes and sectors (see Appendix).

Figure 9: Assessment of the CFTA

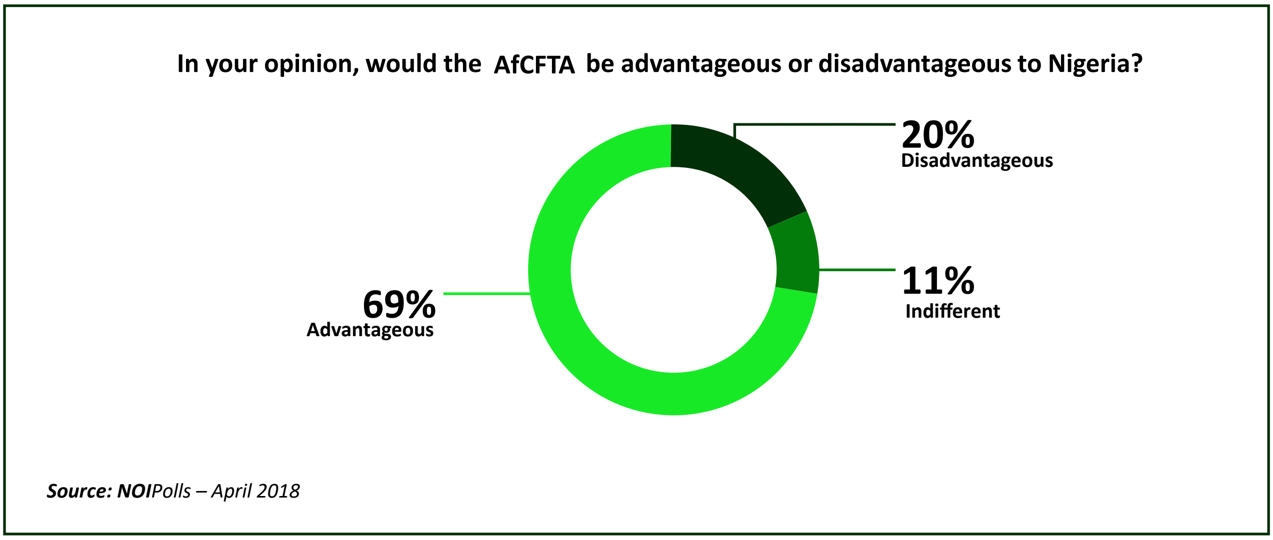


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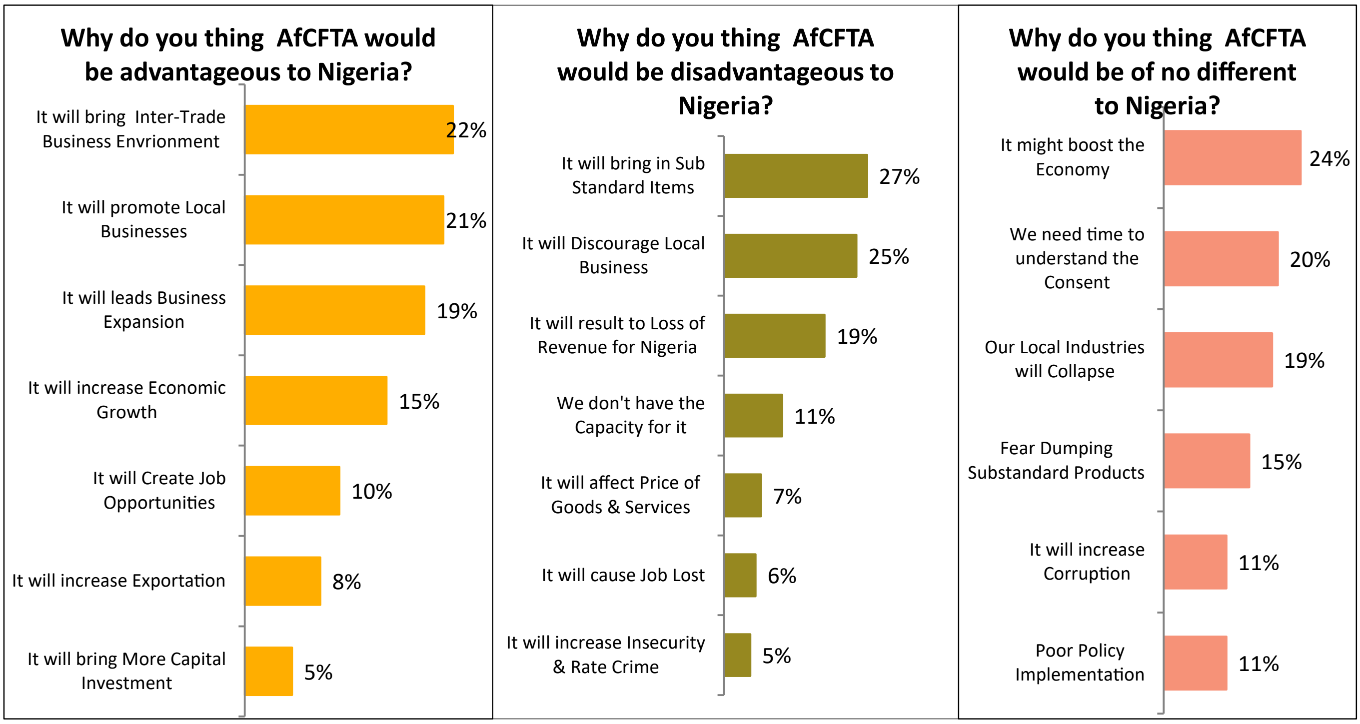
Figure 10: Rationale for Perceptions about AfCFTA



***Source: NOI**Polls – April 2018*

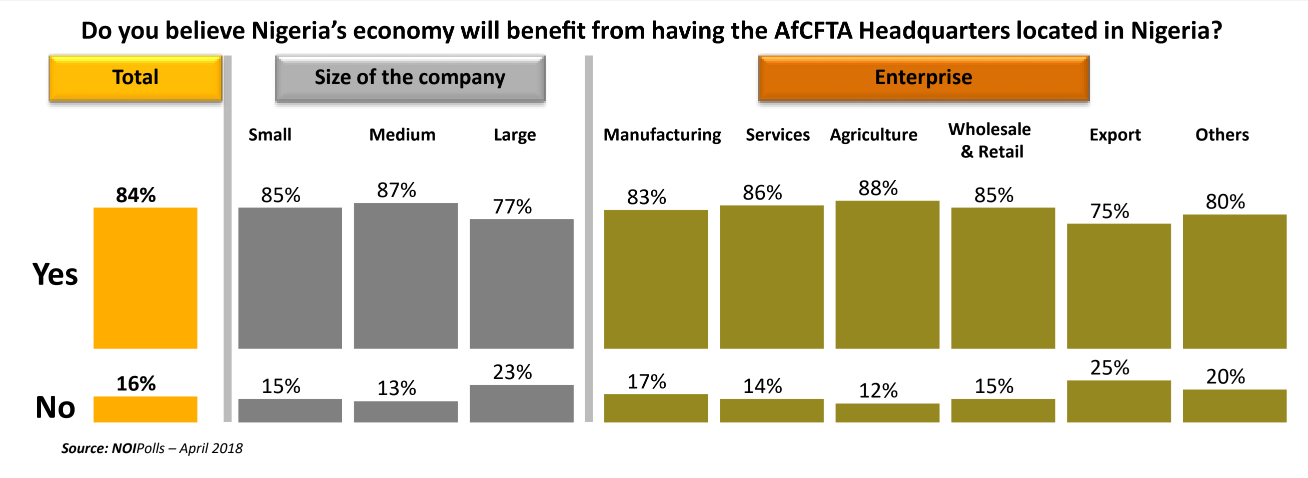
To buttress the point of how advantageous or disadvantageous the AfCFTA agreement would be on Nigeria, the key informant interviews with some industry leaders and stakeholders provided some insights on the parameters that could make the agreement advantageous or disadvantageous for Nigeria. In the words of some stakeholders"

> *"... this depends on the sectors. There are some sectors that would be vulnerable to this agreement, but on the whole, if Nigerian entrepreneurs have access to larger markets, it would be very advantageous to them. We are talking of a market of about 1.2 billion people. This is huge and Nigerians are generally very enterprising." (Mr. Muda Yusuf, Director General, Lagos Chamber of Commerce and Industry (LCCI))*

> *"The businesses are finished and young Nigerians may turn to crime. Businesses invest their profits to power their business because there is no electricity. So, do you want to finish them? Other countries provide subsidies to businesses, but here in the last 5 years, government provided subsidies with promissory notes; now new governments have overturned the subsidy policy of the previous government, and it will take 100 years to get the money. Money comes from industrialization." (Mr. Singh, Africa Enterprise Steel Mill)*

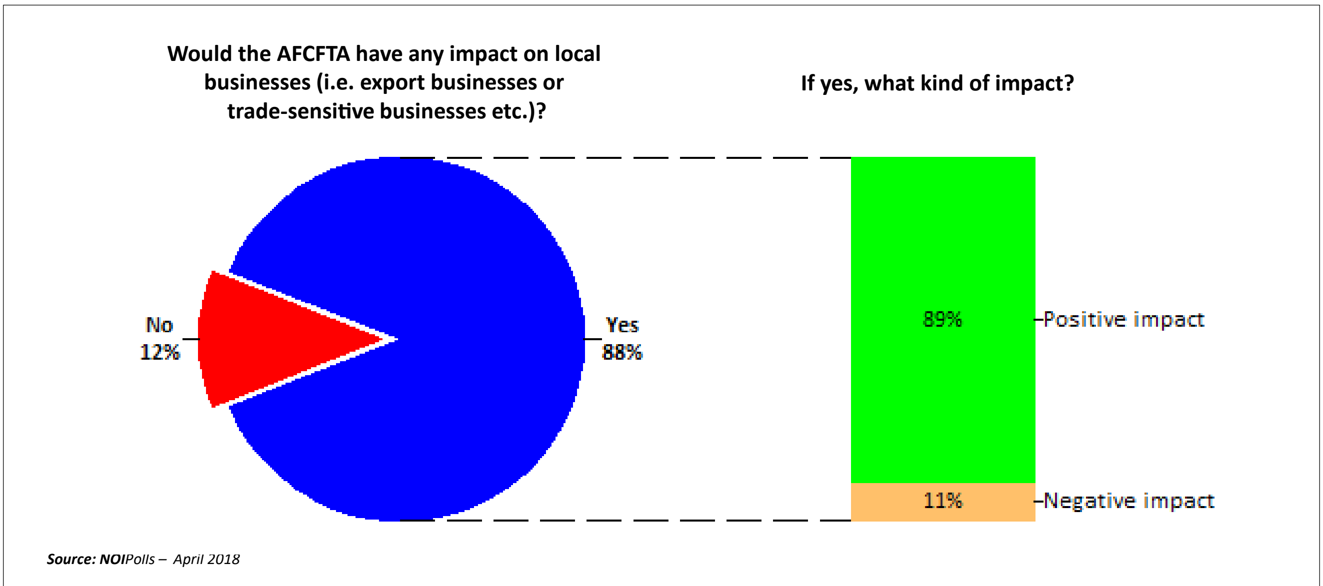
In addition, the opinion poll also sought perspectives of business leaders regarding the proposed location of the headquarters of the AfCFTA in Nigeria. More than 8 in 10 (84%) of respondents believe Nigerian economy will benefit from having the headquarters located in the country, and the measure of enthusiasm about the benefits is similarly high across firm size and sector. See figure 11 below.

Figure 11: Benefits of Nigerian hosting the AfCFTA Headquarters



The poll further revealed that nearly 9 in 10 (88%) business owners believe that AfCFTA would impact local businesses. Among those holding that view, 9 in 10 (89%) believe that the impact would be positive. Thus, overall, 78% of respondents believe that the AfCFTA will make a positive impact on local businesses; 10% believe that the impact will be negative, while the remaining 12% believe it will have no impact. See Figure 12 below.

Figure 12: Impact of AfCFTA on local businesses



However, as good as the benefits and impacts of AfCFTA on local businesses and the macroeconomy looks, they are not automatic. The fundamentals of the economy must be right in order to expect benefits from greater opening to trade. These fundamentals include access to infrastructure (power, port, warehousing, road, rail etc), access to capital for businesses, the issue of inflation, and instability of exchange rate. Nigerian businesses have difficult times obtaining loans from commercial banks; the Bank of Industry is the foremost source of business capital in the country but there is a limit to its lending capacity. On this issue, a majority (56%) of the poll respondents believe the country does not have the infrastructure necessary to reap those benefits and gains. See Figure 13 below.

Figure 13: Essential infrastructure to benefit from AfCFTA

Does Nigeria have the appropriate infrastructure (i.e. Ports, Roads, Transportation System and Tariff policy, etc.) to benefit from the AfCFTA agreement?

Source: NOIPolls – April 2018

Business leaders and key stakeholders also share these sentiments, that while AfCFTA provides opportunities for expanded market, there are internal conditions that need to be in place in order for Nigeria to maximize these opportunities. Lack of access to electricity and cheap alternative energy sources means that companies generate their energy needs, which raises the cost of production to uncompetitive levels.

Another infrastructure that is lacking is warehousing, the lack of which drives many manufacturers to move overseas to produce their raw materials and import them to Nigeria.[12] In addition, one of the potential benefits of the AfCFTA, foreign direct investments, is unlikely to materialize due to non-competitiveness of the Nigerian economy. Several experts and key stakeholders had the following to say:

> *"The way we are currently situated, Nigeria does not have adequate infrastructure… power for instance is a major challenge to production in Nigeria and so many manufacturing enterprises… we have seen it even within the context of ECOWAS, you find that where things that were been produced in Nigeria that 'voted with their feet' and are now in some other ECOWAS countries producing and bringing to the Nigeria market. For instance, Tire manufacturers were one of those that had such a situation… beyond even just Nigeria, there are infrastructural challenges that would need to be tackled at a continental level." (Dr. Peter Ozo-Eso, General Secretary, Nigeria Labour Congress (NLC))*

> *"Now this is where the problem is. The 1st question is if we have the potential, and the answer is yes. The 2nd question would now be whether we are ripe and qualified or do we have all it takes? The answer may be yes and no. Yes, if we put our house in order; but no, because of what we see on ground now. One, in terms of infrastructure, we do not have it, and let me ask you, how many rails do we have moving from Nigeria connecting to Niger republic, Cameroun, Benin republic, and Mali? I'm talking about countries that share borders directly with Nigeria. So we don't even have such rail connections regionally, let alone externally. Trade moves with that kind of infrastructure; the 1st is movement of goods and services…" (Mr. Ken Ukaoha, Chairman, National Association of Nigerian Traders (NANT)).*

> *"We do not have the structure to produce competitively, South Africa and Ethiopia produce more electricity than Nigeria, foreign direct investment from India and China will go to those countries who have infrastructure because citing a production plant in Nigeria will increase cost of production as opposed to these other countries." (A Trade Policy Expert).*

> *"The obvious answer is No. You and I live in this country and you know the fate of infrastructure. But we need to wrap it up and then to negotiate properly so that those our deficiencies would not take away our capacity to benefit maximally. In negotiations, you negotiate to cover your inadequacies and promote your strengths." (Mr. Segun Kadir, Head Abuja Secretariat of the Manufacturers Association of Nigeria (MAN))*

12 A respondent to the KII noted that he has friends that go to produce in China because they have warehouses. Some of them go to produce their own raw materials and then import them into Nigeria. Some people think they go to buy raw materials from others but no, they get it from their own warehouses because of enabling environment there.

"We have huge opportunities. But in terms of competitions, that is where we lag behind. That is because doing business in Nigeria is very expensive. So, our products are not readily competitive and we can easily become either a dumping ground or Nigeria's companies will be short changed. Because the cost of doing business here is very hard and we want to now go and compete with other companies that have ready access to power, good infrastructure, moderate cost of doing business and so on and so forth. I think the idea is a very good idea but is Nigeria ready to take advantage of that idea now, I don't think so because the cost of doing business here is quite very high." (Executive Director with a Major Manufacturing Conglomerate)

Beyond infrastructure, there is also a disposition among opponents of the agreement that the economy is dependent on one commodity – crude oil – while the manufacturing sector remains weak. An economy with such structure does not expect to benefit from AfCFTA for lack of productive base; the country will simply remain a market for the product of others rather than a competing producer. This view was echoed by some respondents:

"Certainly, I don't think we export anything that is worth having a free trade agreement on. It is not a beneficial thing for us now. The production in Nigeria is low. We are still dominated by crude and you don't open your borders on free trade until you have processes on." (A Policy and Development Sector Expert)

However, there is an understanding among other business leaders that the idea cannot be to wait until the country's infrastructure gap is fully closed before the country could participate in the AfCFTA. There is a sense that government efforts are yielding some progress in several fronts including road infrastructure and there is confidence that the progress will be sustained. This is captured in the quote from an executive at a multinational company:

"it is a chicken and egg story. So, are we going to sit down and wait? Who does the infrastructure? The government! So, will we sit down and wait and say we will do nothing until we have 100% perfect infrastructure? Or are we going to take what we have today and drive it to the extent it grows and generates more opportunities, trades and businesses. The stage that Nigeria is in today, even the little level of industrialization that we are at today has been achieved in spite of the nonavailability of adequate infrastructure and government policies. So, I don't see any reason why we cannot even right now do what we have to and achieve probably another 50% gain on what we have today… we can sit down for the next 100 years waiting for infrastructure or we can take the opportunities we have right now. I also believe that this kind of opportunity for expansion outside of Nigeria will actually source in Nigeria's infrastructural development either from Nigeria or from outside Nigeria to Nigeria." (An Executive at a Multinational Manufacturing FMCG Company)

More optimistic business leaders are of the opinion that the government needs to get more serious about creating a conducive environment for businesses to thrive. This is essential for attracting businesses into the country and to remain here, just as Nigerians go abroad to create businesses.

Another important point which was pointed out in the estimated benefits of AfCFTA is that the benefits of the free trade area is likely to be realized in the long-run rather than in the short term. Business leaders showed understanding of this reality, reflected in comments such as:

"But if you look at futuristic view, this agreement will not have effect today or tomorrow. The effects will be seen in the next three to four years. It will take time and will not happen in one night." (An International Trade & Policy Expert)

"… There is a gap in our infrastructural requirement and what is available. We can simply go to town and have a PPP arrangement to Build, Operate and Transfer (BOT). With time, we can provide all the required infrastructure. In fact, independent power plants are already there all over town trying to generate electricity and distribute… mark you, when Dubai was opened up, it had all the gaps, no power, no water, no roads, no airports. But where is Dubai today? In Nigeria we had Nigeria Airways and we were leading in so many things… regrettably bad leadership and corruption ate up everything… You see if it happens honestly, it would help the economies to create jobs and life would be better for everybody; but my fear is can we trust the member states. Are they reliable?" (Alhaji Ahmed Rabiu, Kano State Commissioner for Commerce & Industry)

On the other hand, there were some business leaders and stakeholders who clearly expressed their pessimism regarding the AfCFTA. They reckon that given the high cost of production in the country, local manufacturers would be unable to compete favourably, which may invariably lead to flooding of the marketing with imported products. In addition, some stakeholders opined that the CFTA agreement goes against the policy of reviving Nigeria's industrial capacity and the manufacturing sector.

> *"Nigeria's prospects is not good. It will affect manufacturing very much because of goods entering the country. The policy of the government is to revive the manufacturing sector, that's part of the devaluation that production will increase instead of buying everything cheap from abroad, we want to start manufacturing these things in Nigeria. This is the policy." (Mr. Rudy, Supreme Lace Manufacturer)*

4.3 AfCFTA and Businesses

The benefits of the AfCFTA to local businesses are realizable to the extent that it facilitates relaxation of the binding constraints faced by them. The starting point therefore is an analysis of the challenges facing local businesses in Nigeria. Table 3 shows that power supply and access to credit represents the leading challenges that Nigerian businesses face. These two challenges are identified as top challenges by 60% of local businesses, and the rate stays the same across firm sizes and across sectors.

Table 3: Top Challenges facing businesses currently (1st Mentioned)

Response	Total	Size of company			Enterprise					
		Small	Medium	Large	Manufacturi ng	Services	Agriculture	Wholesale & Retail	Export	Others
Percentage (%)										
Power supply	**31**	31	25	34	33	35	28	25	15	20
Access to credit	**29**	28	28	25	26	26	32	32	37	40
Foreign Exchange rate	**7**	6	12	11	7	4	4	10	15	0
Roads	**6**	6	8	7	6	8	4	5	7	20
Insufficient demand for products	**5**	6	3	0	5	8	6	4	0	0
Policy Inconsistency	**4**	4	5	5	4	4	6	4	7	0
Insecurity	**3**	3	3	0	3	3	4	1	4	0
Taxes & Tariffs	**3**	2	6	7	5	2	2	1	4	20
Lack of skills	**2**	2	0	0	1	1	2	3	0	0
High cost of cost material	**2**	2	3	2	3	2	0	3	0	0
Economy inconsistency	**2**	1	2	2	3	1	2	1	0	0
Others	**6**	9	5	7	4	6	10	11	11	0

In addition to power and access to credit, roads emerge as the next important challenge as it emerges among the top three challenges identified upon the second mention of challenges (see Table 4 below). Similarly, the top three challenges remain the same for businesses across size and sector.

Table 4: Top Challenges facing businesses currently (2nd Mentioned)

Response	Total	Size of company			Enterprise					
		Small	Medium	Large	Manufacturing	Services	Agriculture	Wholesale & Retail	Export	Others
Percentage (%)										
Access to credit	**18**	21	19	5	19	18	20	21	14	20
Power supply	**17**	15	21	16	18	18	18	18	9	20
Roads	**14**	13	16	22	14	11	20	16	16	0
Insecurity	**7**	7	7	7	6	5	12	4	7	0
Insufficient demand for products	**7**	7	6	2	6	8	8	6	5	20
Policy Inconsistency	**6**	7	4	7	7	6	2	3	16	0
Taxes & Tariffs	**6**	6	2	9	2	7	0	13	16	0
Foreign Exchange rate	**5**	4	6	12	6	4	0	6	11	0
Lack of skills	**4**	4	3	5	4	4	6	3	2	20
High cost of cost material	**4**	4	6	2	6	4	4	0	2	20
Corruption	**3**	2	2	9	3	4	0	4	0	0
Petrol/Diesel Availability	**2**	3	1	0	3	4	2	1	0	0
Economy inconsistency	**2**	2	2	0	2	3	0	1	0	0
Others	**5**	5	5	4	4	4	8	4	2	0

Taxes and tariffs are next in line as they emerged amongst the top four challenges identified upon the third mention of challenges by sampled businesses. Although the percent of companies listing power supply, credit, roads and tariff is not stable across sizes and sectors, it is instructive to observe that it is the ranking of the factors by manufacturing firms that drives the aggregate ranking. The lessons from the response to the question is that power supply, access to credit, roads, taxes and tariff are the top four challenges, in decreasing order of importance, to Nigerian businesses (see table 5).

Table 5: Top Challenges facing businesses currently (3rd mentioned)

Response	Total	Size of company			Enterprise					
		Small	Medium	Large	Manufacturing	Services	Agriculture	Wholesale &	Export	Others
Percentage (%)										
Access to credit	**14**	18	15	12	16	17	23	9	5	34
Roads	**12**	12	9	10	11	6	16	11	22	0
Power supply	**11**	12	13	22	12	14	13	9	10	33
Taxes & Tariffs	**12**	10	15	17	14	12	0	14	12	0
Insufficient demand for products	**9**	10	5	5	8	2	10	19	10	33
Policy Inconsistency	**8**	7	6	12	6	11	10	5	12	0
Lack of skills	**7**	8	5	5	8	11	0	5	2	0
Insecurity	**5**	4	5	0	1	8	13	4	5	0
Foreign Exchange rate	**5**	3	8	2	5	6	0	7	2	0
High cost of cost material	**4**	3	6	7	8	1	3	0	2	0
Foreign competition	**3**	3	1	2	4	1	3	2	2	0
Corruption	**3**	4	1	2	1	4	3	7	5	0
Petrol/Diesel Availability	**2**	1	4	2	1	2	3	0	2	0
Others	**5**	5	7	2	5	5	3	8	9	0

Businesses were asked to identify the main factors driving profitability, 46% of respondents cited local demand while another 14% cited innovation/imitation. These two factors are also the major factors cited by 61% of small firms, 57% of manufacturing firms and 61% of service firms. Foreign demand is cited by only 8% of sampled companies, 6% of manufacturing companies and 34% of companies focusing on the export sector (see table 6).

Table 6: Main factor driving the profitability of businesses

Response	Total	Size of company			Enterprise					
		Small	Medium	Large	Manufacturing	Services	Agriculture	Wholesale & Retail	Export	Others
Percentage (%)										
Local demand	**46**	48	42	41	41	49	54	50	24	80
Innovation/Imitation	**14**	13	16	11	16	12	10	18	11	0
Foreign demand	**8**	7	8	11	6	5	6	4	34	0
Cheaper input sources	**7**	7	7	14	6	5	12	11	7	0
Distribution networks	**7**	6	10	5	8	8	2	4	7	20
Quality of the product	**6**	7	5	9	8	3	6	4	11	0
Nothing	**3**	3	3	5	5	4	0	3	0	0
Access to raw materials locally	**2**	2	2	0	1	3	6	0	0	0
Customer friendly and Integrity	**2**	2	1	0	1	3	0	4	2	0
New/improved machines	**1**	1	3	0	2	1	2	1	0	0
Competitive price	**1**	1	1	2	2	1	0	1	0	0
Turnover of Investment	**1**	1	2	2	2	3	2	0	0	0
Constant power supply	**1**	1	0	0	1	2	0	0	0	0
Others	**1**	1	0	0	1	1	0	0	4	0

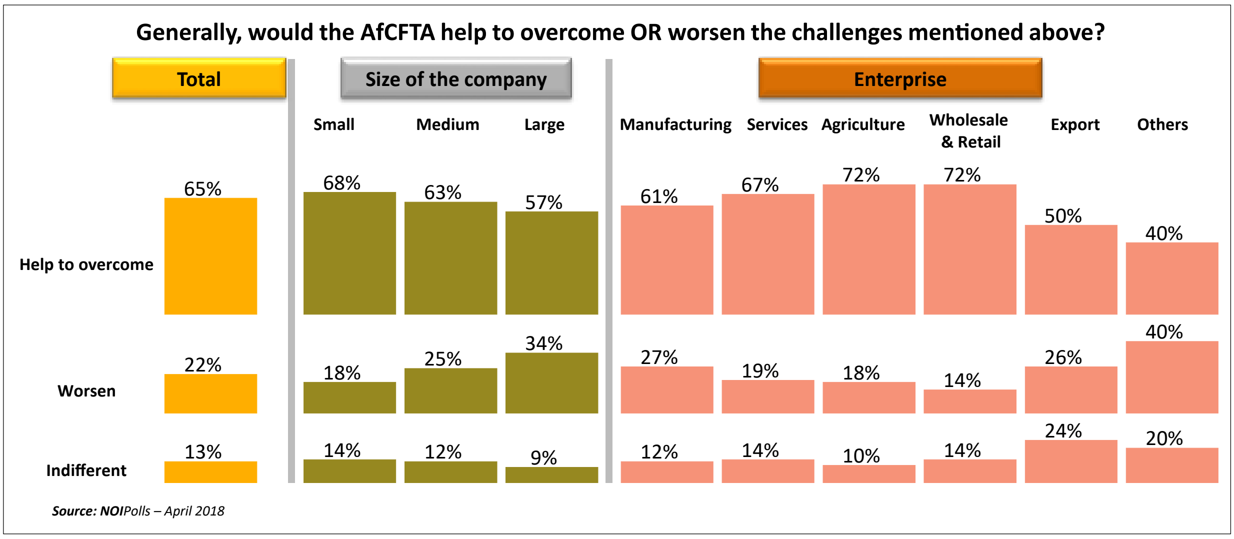
When asked about how AfCFTA will affect their profitability, respondents identified with its impact through strengthening of local businesses (19%) and increasing demand for local goods (17%) ahead of its impact through enhancing international trade (10%). Potential impacts through price competition, especially the fear that competition will destroy local production are given little weights in the responses (see table 7).

Table 7: Ways AFCFTA will drive profitability of businesses

Response	Total	**Size of company**			**Enterprise**					
		Small	Medium	Large	Manufacturing	Services	Agriculture	Wholesale & Retail	Export	Others
Percentage (%)										
It will strengthen local businesses	**19**	20	16	18	18	21	26	20	21	25
Increase for demand for local goods	**17**	18	16	15	18	19	13	20	11	0
It will enhance international trade	**10**	10	8	13	8	9	11	11	16	0
It will reduce demand for local goods	**9**	8	7	10	11	8	2	11	9	25
It will reduce local demand	**9**	10	5	10	7	8	13	9	13	25
It may promote competition which will in turn bring development	**9**	10	9	3	8	12	9	9	7	25
It will create more competition	**7**	7	7	13	9	8	4	5	4	0
it will strengthen our economy	**5**	5	5	0	4	5	7	6	0	0
It will enhance Price Competition and Reduce Sales	**5**	4	6	15	8	1	4	5	4	0
It will improve power supply	**3**	3	3	0	1	1	7	2	9	0
It will enable us source our own raw materials	**3**	2	11	0	4	4	2	0	0	0
More Products at Cheaper cost	**2**	1	6	0	2	3	0	0	4	0
It will reduce cost of Export and Import Duties	**2**	2	1	3	2	1	2	2	2	0

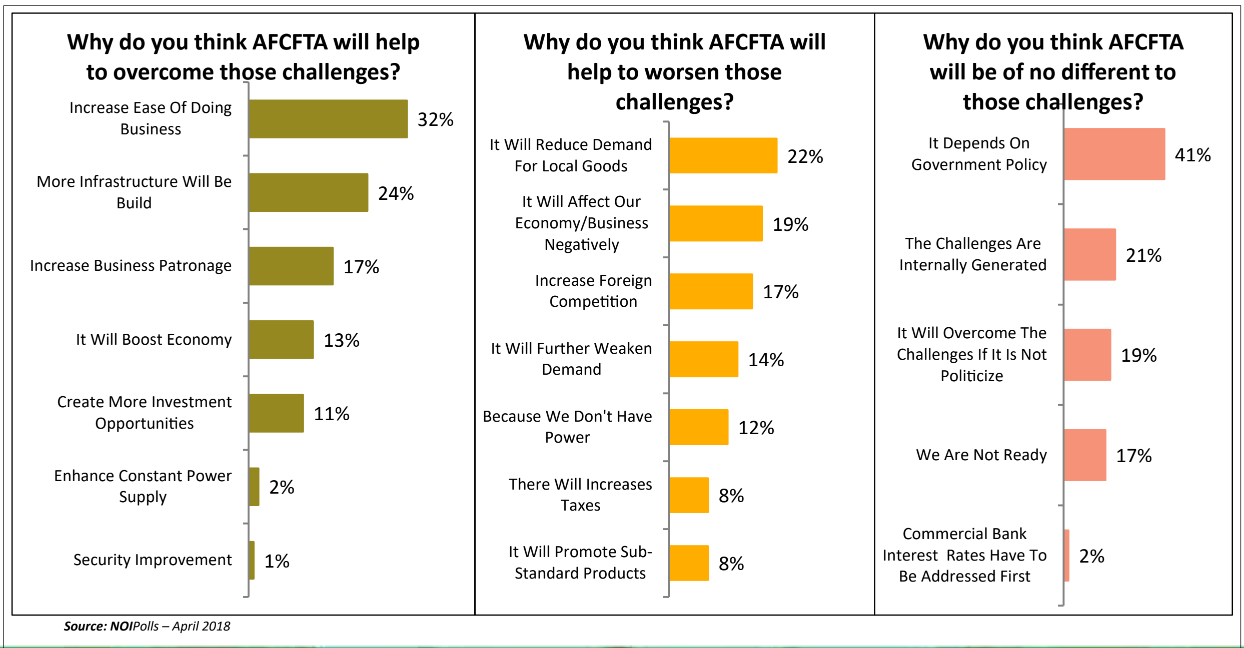
More generally, respondents perceive that AfCFTA will help their businesses overcome their top challenges – 65% of businesses expect AfCFTA to help them overcome the challenges while 22% expect AfCFTA to accentuate the challenges. Large companies are most likely to expect AfCFTA to accentuate their challenges (34%), compared to medium companies (25%) and small companies (18%), and manufacturing companies are most likely to fear the most (27%) compared to service companies (19%), agricultural producers (18%) and wholesale and retail companies (14%). A situation where large companies expect the worst from greater openness to trade and competition than smaller companies may seem counter-intuitive since they are expected to be in better position to benefit from larger markets than smaller companies. See Figure 14 below.

Figure 14: Expected Impact of AfCFTA on business top challenges



The rationale for the expectations are explained in the next table. Among the majority who expect AfCFTA to ease their business challenges, the foremost rationales are improvement in the ease of doing business that they expect to accompany the trade agreement (32%), expected improvement in infrastructure (24%) and enlargement of markets for Nigerian producers (17%). Among those nursing fears of worsening challenges, their expectations are driven by reduced demand for local manufactures that will arise from increased competition with foreign manufactures (22%), negative economic effects (19%) and the fear of competition itself (17%). Respondents who are sitting on the fence attribute their position most prominently to the dependence of the actual effect on government policy (41%). A smaller proportion of respondents in this group (21%) believes that the challenges are internal to the companies and thus, AfCFTA would have no effect while 19% share the view that AfCFTA would help businesses provided the agreement is not politicized. See Figure 15 below.

Figure 15: Rationale for AfCFTA impact on business top challenges



To buttress the viewpoint of business leaders who were indifferent towards the potential benefits of AfCFTA to Nigeria, particularly as it has to do with government policy, some key stakeholders interviewed shed more light as follows:

> *"It depends. For me it is two ways. If Nigeria can sort out the infrastructure issues, the cost of doing business in Nigeria can be reduced significantly. And companies can really take advantage of this opportunity to produce more, that it can also spare within Nigeria and also ship to countries within the region. ... If the answer is no, then it can also be counter-productive for Nigeria. So, if goods are to come in from other countries that have better port, better economies of scale and scope then Nigerian companies are going to struggle, there will be many entrance of imported products, if Nigerian companies struggles and are not able to produce, other countries will export to Nigeria. .... So, it depends." (Executive Director with a Major Manufacturing Conglomerate)*

> *"... These are all the deficiencies that Nigeria has that will never make us competitive, how can we then decide to join the African free trade association, without having taken care of all the appropriate infrastructures mentioned. But the truth is that we cannot even achieve these things so long as Nigerians believe that the government is the one to provide all these things. How much is the government's budget every year? Government's budget is less than 21 billion Dollars a year. And we need about 100 billion Dollars minimum to get Power to work. So if the government spends all its budget on power, we still won't get power or other things working. The reality is that we are deceiving ourselves by thinking that the government has the capacity to provide infrastructure. The government should hand it over to the private sector and the government could in turn collect taxes from them. But they don't want to go that way because that does not allow them to take money." (Mr. Henry Boyo, Senior Policy Economist).*

> *"We do not have the infrastructure to produce competitively. South Africa and Ethiopia produce more electricity than Nigeria... These goods would not be taxed due to the free trade agreement and local production would die totally as they cannot compete. They build their own power, roads, and water plants which raises cost of production. Free trade removes the power of taxation, so these big countries would go where there is infrastructure and flood the Nigerian market as they don't pay tariffs due to the agreement. It is a good thing if we can compete, but since we cannot, then it is not a good thing for us..." (An International Trade & Policy Expert)*

In the last section of the opinion poll, businesses involved in exporting were asked to name their major export destinations. The table below presents the percentages of exporters who named the corresponding country. It shows that 9 African countries (Ghana, Cameroon, Niger, South Africa, Togo, Benin, Chad, Mali and Cote d'Ivoire) are among the top 15 export destinations, with Ghana being the most frequent destination. Among the large companies, that nearly half (46%) of the exporters named Ghana as a major export destination while Cameroon (21%) and China (19%) add to make the top 3 destinations. Among medium companies, Ghana and Cameroon are named equally by 30% of exporters and Niger Republic (19%(comes in third as a major destination. The situation with small companies differ, with leading destinations being UK (21%), Ghana (20%) and Niger Republic (18%) named as top export destinations. Among manufacturers, the top destinations are Ghana (40%), Cameroon (32%) and Niger Republic (26%). These are trailed by China (15%), and the trio of Togo, Chad and USA at 11%.

These indices suggest that Nigerian manufacturers trade more with other African countries than the rest of the world. Thus, a dismantling of barriers to free trade across Africa is likely to be beneficial to Nigerian manufacturing.

Table 8: Major Export Destinations by Volume

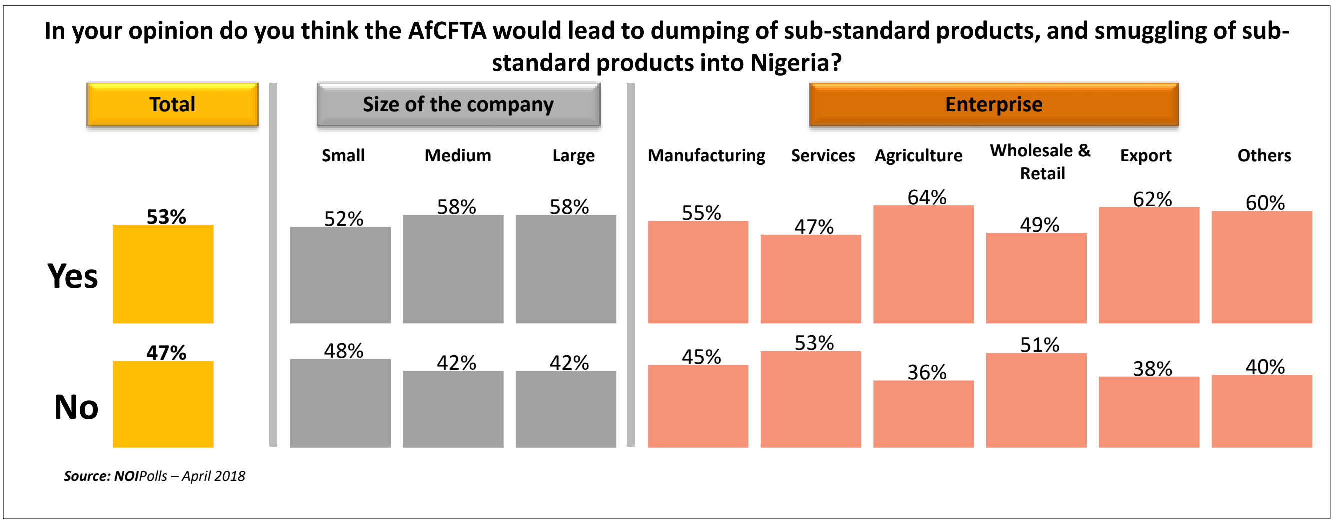
Response	Total	Size of company			Enterprise				
		Small	Medium	Large	Manufacturing	Services	Agriculture	Wholesale & Retail	Export
Percentage (%)									
Ghana	**27**	20	30	46	40	30	14	33	8
United Kingdom	**17**	21	11	8	9	25	14	11	23
Cameroon	**16**	11	30	21	32	10	14	11	3
Niger Republic	**15**	18	19	13	26	15	14	22	3
USA	**15**	16	11	13	11	25	0	11	18
China	**15**	15	15	17	15	5	29	11	21
India	**10**	7	4	13	4	10	0	11	18
South Africa	**9**	11	7	8	9	20	0	11	3
UAE - Dubai	**8**	11	11	0	6	0	0	11	15
Togo	**7**	8	8	4	11	5	14	0	3
Benin Republic	**5**	3	4	13	2	15	0	0	5
Chad	**5**	3	15	0	11	5	0	0	0
Mali	**4**	3	4	8	9	5	0	0	0
Germany	**4**	7	4	0	2	5	0	0	8
Cote d Ivoire	**4**	2	4	8	6	10	0	0	0
Italy	**4**	3	4	4	2	5	14	0	5
Sierra Leone	**3**	2	4	8	9	0	0	0	0
Spain	**3**	5	0	4	2	0	14	0	5
Asia	**3**	3	4	4	0	0	0	0	10
Liberia	**2**	0	4	4	2	5	0	11	0
Ethiopia	**2**	0	4	4	2	0	0	11	0
Malaysia	**2**	2	4	0	4	0	0	0	3
France	**2**	3	0	0	0	0	14	0	3
Senegal	**2**	3	0	4	0	10	0	11	0
Zimbabwe	**2**	3	0	4	0	10	0	0	0
Kenya	**2**	2	4	0	2	5	0	0	0
Gambia	**2**	0	4	4	4	0	0	0	0
Zambia	**2**	3	0	4	4	0	0	11	0
Burkina-Faso	**2**	2	4	0	0	10	0	0	0
Congo	**2**	0	7	0	2	5	0	0	0
Gibraltar	**2**	2	4	0	0	10	0	0	0
Iran	**2**	2	0	4	0	5	14	0	0
Cotonou	**2**	2	4	0	2	0	0	11	0
Canada	**2**	5	0	0	0	0	14	0	5
Turkey	**2**	5	0	0	0	0	0	0	8
Lebanon	**2**	3	0	0	2	0	0	0	3
Pakistan	**1**	2	0	0	0	0	0	11	0
Trinidad and Tobago	**1**	2	0	0	2	0	0	0	0
Netherland	**1**	0	0	0	0	0	0	11	0
Belgium	**1**	0	0	0	0	0	0	11	0
Madagascar	**1**	0	0	4	0	5	0	0	0
Mail	**1**	0	0	4	0	5	0	0	0
Switzerland	**1**	0	4	0	2	0	0	0	0
Gabon	**1**	0	4	0	2	0	0	0	0
Equatorial Guinea	**1**	0	4	0	2	0	0	0	0
Rwanda	**1**	2	0	0	0	5	0	0	0

Russia	**1**	2	0	0	0	0	0	0	3
Mexico	**1**	0	4	0	0	5	0	0	0
Saudi Arabia	**1**	0	4	0	0	0	0	0	3
Greece	**1**	2	0	0	2	0	0	0	0
Angola	**1**	2	0	0	2	0	0	0	0
Botswana	**1**	2	0	0	2	0	0	0	0
Algeria	**1**	2	0	0	0	0	14	0	0
Netherlands	**1**	2	0	0	0	0	0	0	3
Morocco	**1**	2	0	0	0	0	0	0	3
West Africa	**2**	3	0	4	2	0	0	0	5
Europe not specified	**7**	11	0	8	4	5	0	0	15

4.4 Standards and Competition Policy

Most respondents (53%) were not entirely convinced that provisions of the AfCFTA will be strong enough to discourage dumping or smuggling of substandard products into Nigeria. This belief is shared mostly by businesses in agriculture (64%) and least by businesses in the services sector (47%) who are generally least affected by such issues. Expectedly, large companies who participate in international trade more than the smaller-sized companies are most concerned about this challenge (58%). See Figure 16 below.

Figure 16: AfCFTA and dumping/smuggling



However, these activities are currently going on even without the AfCFTA. The question therefore ought to be whether AfCFTA has instruments to reduce rather than prevent smuggling and dumping; and whether our regulatory agencies are able to set-up their activities to meet up with global standards and best practices. These points are highlights in the interviews with stakeholders:

> *"If we are going to engage the CFTA, it means we have to comply with globally set standards on trade. Meaning that your goods must comply with international standards. So, every product coming into Nigeria must have complied with that. It means that our regulatory bodies such as NAFDAC, SON etc would have to certify products they need to certify, and any product that does not comply with international standards would be sent back." (Mr. Eke Ubiji, Executive Secretary National Association of Small & Medium Enterprises (NASME))*

> *"Already there's a lot of dumping in Nigeria because the borders are porous. You know that once we enter into this agreement, we would find that it may not bring anything good. There are still state protocols to be signed, and if you look at ECOWAS, we have additional tariffs to offset. That is why we are able to function in ECOWAS. There are selective propositions that each country has to bring to the decision table before signing the agreement."(Mr. Muda Yusuf, Director General, Lagos Chamber of Commerce and Industry (LCCI))*

> *" ...today without the CFTA, do we have dumping? Do we have smuggling? Do we have counterfeiting? They are rampant, right? This has nothing to do with Free Trade agreement. For a country that is porous, whether you have a Free Trading agreement or not, for as long as your border patrols, laws and implementation of policies are lacking, these sorts of things will continue to happen. So, dumping happens even in developed countries and where ever there is a gap. Criminals exist everywhere, and they will look for loop holes and try to use them. This for me is a completely separate thing from a Free Trade agreement. It has nothing to do with it." (An Executive at a Multinational Manufacturing FMCG Company)*

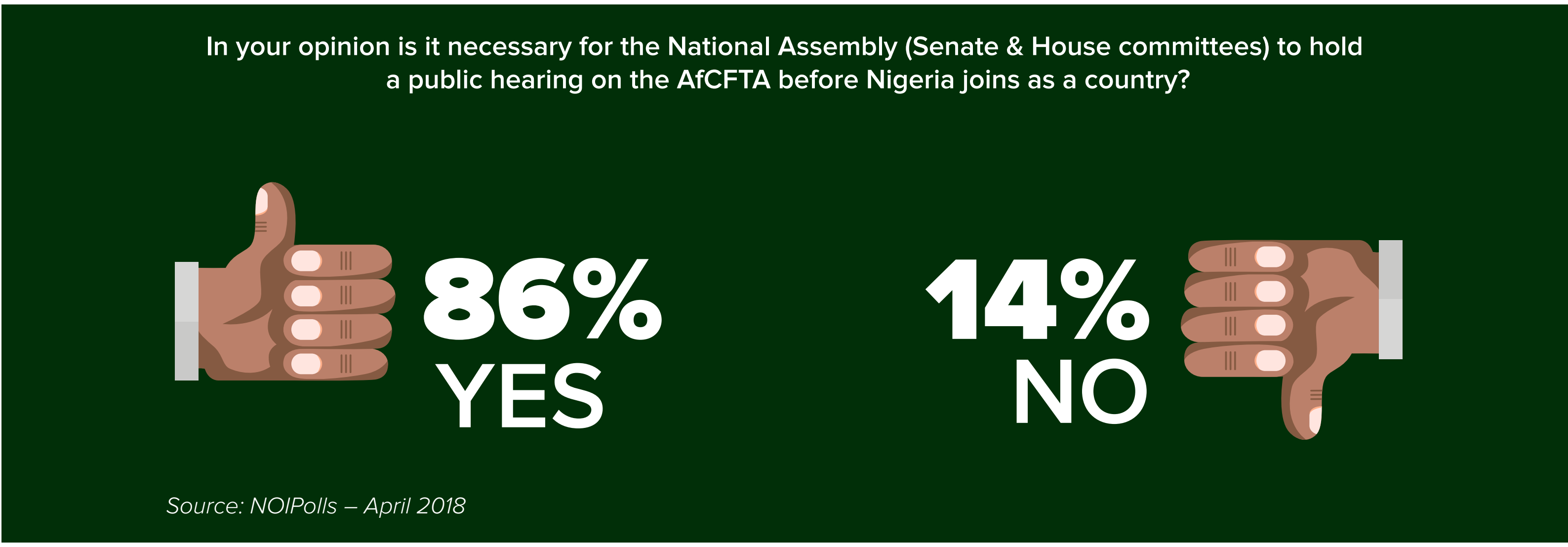
"There's hardly any evidence to support such a claim that CFTA would lead to dumping. The Nigerian textile sector is almost completely dead, wiped out by smuggling from China. This has nothing to do with CFTA. Rice and tomato paste etc are being dumped on the Nigerian market, is it because of CFTA? (Mr. Olufemi Boyede, International Trade & Policy Expert)

"Dumping of sub-standard products? There's a possibility. The real issue is that our border systems are very porous and our regulatory agencies, although are doing their best, but may be overwhelmed. If our regulatory agencies so their work very well and our borders are tightly controlled, the issue of substandard products coming in because of the CFTA would not be an issue. And my expectation would be that if African countries are to sign the agreement, they should also sign to levels of standards and control." (An Executive at a Multinational Manufacturing FMCG Company)

"I don't think the CFTA will be a promoter or deterrent of substandard products. There are other things that need to be done in the area of substandard goods, counterfeiting and smuggling. It is irrespective. As a matter of fact, the CFTA simply just liberalizes legally these goods to come in. So, these goods are coming in, in a legal way. Those that are dutiable should pay the right duty and those that are not dutiable would at least be coming in legally and in the right way. So, we need to improve and strengthen our institutions that are responsible for preventing smuggling, counterfeiting and so many other things that need to be addressed to ensure that it doesn't happen." (International Trade & Policy Expert)

Because of these and other issues that may pose challenges to the welfare of Nigerians, a vast majority of respondents (86%) consider it necessary for the National Assembly to hold hearings on these issues before Nigeria signs up on AfCFTA. See Figure 17 below.

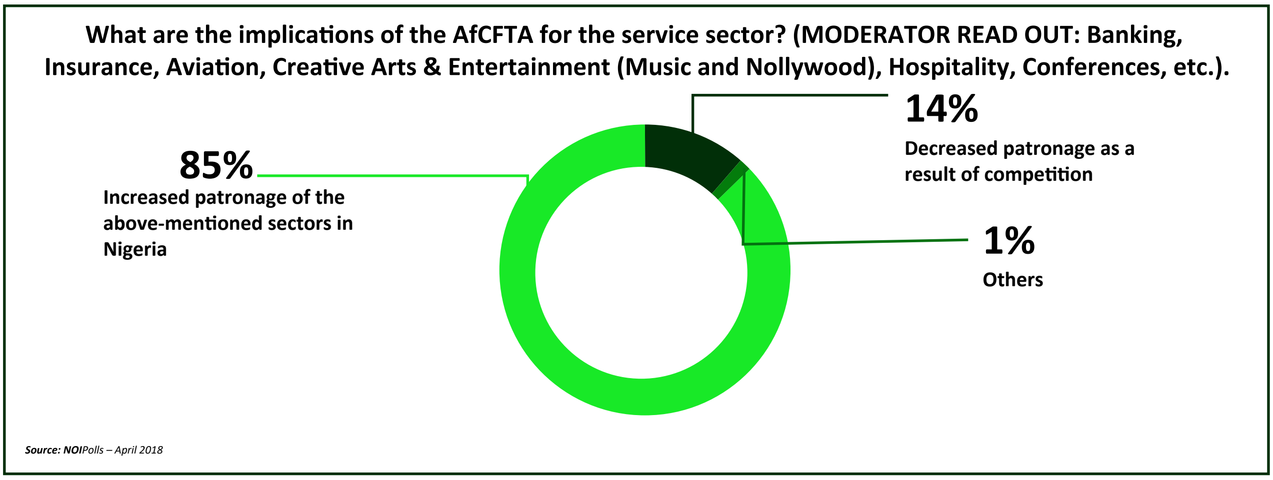
Figure 17: Need for public hearing on AfCFTA



Business leaders share the need for stronger border control to deal with the challenge of smuggling. This may require an increase in the number of customs and immigration officers which will demand some spending on the part of government to enable the regulatory bodies including SON, Customs and all the regulatory bodies to do their jobs properly to protect Nigeria's borders and the economy from those illicit activities.

Overall, the services sector of the economy, especially the creative industry, is expected to benefit more from more trade and competition than it is expected to lose. While 14% of respondents expect reduced patronage, 85% expect AfCFTA to enlarge the market for Nigerian services and creative industries.

Figure 18: AfCFTA and services sector



Highlighting the potential benefits of the AfCFTA on the service sector, some stakeholders interviewed had the following to say:

> *"The entertainment sector is quite good, even without the CFTA our Nollywood is all over, especially around Anglophone countries. So there would be a serious open market for them. Already some Nigerian-owned banks have presence in a lot of African countries. For example, UBA and Ecobank are doing very well." (Mr. Eke Ubiji, Executive Secretary National Association of Small & Medium Enterprises (NASME))*

> *"Our banks are dominating the African financial market and creating standards for them. Even our ICT sector is following suit." (Mr. Muda Yusuf, Director General, Lagos Chamber of Commerce and Industry (LCCI))*

> *"Local services would still enjoy a fair share of local trade despite the free trade agreement. Just as I mentioned earlier, the creative industry and the arts industry are set to benefit from this. Obviously, we need to tighten things like our intellectual property and trade mark laws. But then in the long it is to the advantage of these kinds of industries. Now when you talk about other service industries such as hospitality industry and all that, all those are domiciled in a particular country. That is not something you are going to export. Does it create more opportunities for other industries or chains to come in? Absolutely! I believe the reason why these countries exist is to serve. Most of them are not serving but simply enjoying the monopoly that they have. And we are taking whatever we are being given because we have no choice. I don't think that is the best that we can be." (An Executive at a Multinational Manufacturing FMCG Company)*

> *"Well I think for the service sector there would be mixed impact in my view, but that is normal. That's the issue of comparative advantage. I think there are areas of the service sector where would probably would have clear comparative advantage. When you look at the entertainment / Nollywood for instance, even without having the free trade area in Africa, whenever I travel to East Africa, once they hear you are Nigerian, they are mimicking our actors and asking if you came with CDs... so to have such a market where you can move freely, potential benefits are there to be reaped." (Dr. Peter Ozo-Eso, General Secretary, Nigeria Labour Congress (NLC))*

> *"Nigeria's services sector is currently yet to be mainstreamed into the nation's economy. Progress in the sector is despite the absence of, not because of the presence of, support frameworks, instruments, strategies or plans. Our banks are all over Africa, ditto Nollywood and our music industry. But not with any support from government. In a government-led economy, the government must truly do much more than celebrate success worked for by the private played in the services sector." (Mr. Olufemi Boyede, International Trade & Policy Expert).*

PART III

BENEFITS OF AFCFTA TO NIGERIA

5.0 TRADE, GROWTH AND MONETARY BENEFITS OF AFCFTA

Key concerns driving the resistance to the AfCFTA is whether the expected gains will be realized without suffocating our struggling industries. This is also tied to the theoretical argument of whether trade agreements lead to trade creation or trade diversion. The fear of losing the supposed protection of less-competitive domestic producers operating in inclement business environment underscores the opposition from trade unions. But liberalization, usually through a Schumpeterian-type process of disrupting and recreating at a larger scale, brings about economic benefits that far outweigh the short-term costs. This is even more effective with global trade which provides added incentives for competition and innovation as well as the continuous search for new opportunities and markets.

In order to appreciate the size of the expected increase in Nigeria's trade through the CFTA, it is important to examine the magnitudes of recent growth in international trade. Table 9 below presents the growth of exports and imports across country groupings and continents in 2015 and 2016. First, it shows that export growth lagged behind import growth globally and the same pattern is observed in the developed countries. Second, developing countries experienced export growth relative to imports: imports growth in 2015 was sustained in 2016 but export growth rose from 0.6% to 2.8%. In Africa, imports reversed from 0.7% growth in 2015 to contraction of 4.6% in 2016 while export growth improved from 0.6% to 2.9%. Sub-Saharan Africa's experience was slightly different with contraction of imports in both 2015 and 2016 by 0.3% and 6.6% respectively while exports reversed from growth of 0.7% to contraction of 0.3%. It is expected that implementation of AfCFTA will help sustain and improve the African performance and boost trade in the Sub-Saharan Africa sub-region.

Table 9: Annual percentage change in exports and imports (2015 – 2016)

	Volume of Exports		*Volume of Imports*	
Country or Area	***2015***	***2016***	***2015***	***2016***
World	1.4	1.7	1.9	2.1
Developed countries *of which:*	2.1	1.0	3.3	2.7
Japan	-1.0	0.3	-2.8	- 0.3
United States	-1.1	- 0.2	3.7	3.6
European Union	3.3	1.1	4.1	2.8
Transition economies	1.0	-1.6	- 19.9	7.3
Developing countries	0.6	2.8	1.1	1.1
Africa *of which:*	0.6	2.9	0.7	- 4.6
Sub-Saharan Africa	0.7	-0.3	- 0.3	- 6.6
Latin America and the Caribbean	3.2	2.3	- 2.0	- 4.2
East Asia *of which:*	- 0.6	0.6	- 1.1	2.2
China	- 0.9	-	- 1.8	3.1
South Asia of which:	- 1.4	18.1	7.4	8.9
India	- 2.1	6.7	10.1	7.3
South-East Asia	3.7	3.9	5.7	4.4
West Asia	- 0.6	3.5	3.1	- 2.4

Source: UNCTAD

Estimates (of elasticities) presented in Table 10 support the argument that Nigeria's membership of the CFTA will indeed create trade between Nigeria and the rest of Africa. The estimates show that a 1% decrease in tariff rate imposed or faced by Nigeria in trading with the rest of Africa will increase trade in all cases by more than 1%. The boost in trade is most noticeable between Nigeria and the rest of Sub-Saharan Africa, although South Africa is the greatest contributor to such trade; trade would increase by only 1.21% if South African effects are removed. The second largest economy in Africa claims similar status when comparing the impact of tariff reduction on Nigeria's trade with Africa including and excluding South Africa: trade would increase by 1.45% with South Africa effects unadjusted but only by 1.17% with South Africa's impact eliminated. The estimates further reveal that South Africa has greater impact on Nigeria's trade than all ECOWAS countries combined. Following tariff reduction, Nigeria-Africa trade would increase by 1.21% if ECOWAS effect is adjusted and by 1.17% with South Africa effect adjusted. Africa is strategically important to Nigeria's economic growth as Africa's economic output undoubtedly shapes Nigeria's trade with the continent.[13]

13 Estimates not presented here show that 1% rise in economic output of Africa leads to scaling up Nigeria-Africa trade by 1.6%. Similarly, a 1% percent increase in Africa's population is associated with 2.6% increase in Nigeria's trade with the rest of Africa.

Table 10: Nigeria's Trade Elasticity Estimates

S/N	Indicator	% increase associated with 1% decrease in continental trade tariffs
1.	Nigeria's trade with rest of Africa	1.45
2.	Nigeria's exports to Africa	1.48
3.	Nigeria's imports from Africa	1.36
4.	Nigeria's trade with Africa less South Africa	1.17
5.	Nigeria's trade with sub-Saharan Africa	1.49
6.	Nigeria's trade with sub-Saharan Africa less South Africa	1.21
7.	Nigeria's trade with Africa less ECOWAS	1.21

Source: authors' estimates

Further estimates (elasticities) of macroeconomic performance indices are presented in Table 5. A reduction of Nigeria's weighted tariff against exports from other African countries by 1% would boost economic activity by 0.6%. This is modest given the recent episodes of recession from which the country emerged in Q2 2017. So, there is a significant relationship between Nigeria's weighted tariff against Africa's exports and the former's economic growth potentials.

Table 11: Nigeria's Macroeconomic Performance Estimates

S/N	**Indicator**	**% change associated with 1% decrease in continental trade tariffs**
1.	Nigeria's real GDP	0.58
2.	Government non-oil revenue	2.52
3.	Real effective exchange rate	-0.31

The tariff rate and government revenue move in opposite direction, on 1 to 2.5 basis. This means that a fall in revenue in the short term due to tariff impositions by Nigeria, as being proposed to be the aftermath of CET, would be more than offset by rise in revenue generated through increased trade in the longer term. Therefore, fiscal policymakers need not worry about the revenue implications insofar as the loss of revenue from tariff reductions on imports is offset by gain in revenue generation from increased imports or trade.

The inverse relationship between weighted tariff and weighted exchange rate between Nigeria and Africa is also pro-intuitive. A fall in Nigeria's tariff promises to increase imports which in turn is associated with depreciation of the naira. Results in Table 5 indicate that a 1% fall in tariff rate would decrease the real effective exchange rate by 0.3%. The relationship is significant. Notably, a decrease in the real effective exchange rates improves trade competitiveness of Nigeria's exports.

"Our banks are dominating the African financial market and creating standards for them. Even our ICT sector is following suit." ***(Mr. Muda Yusuf, Director General, Lagos Chamber of Commerce and Industry (LCCI))***

6.0 WELFARE EFFECTS OF AFCFTA

It is important to note that AfCFTA has benefits and costs to the economy, and the balance of these components will determine the aggregate magnitude and direction of the welfare effect. On the benefits side, trade liberalization lowers commodity prices and offers consumers expanded choices. For a member country with a viable manufacturing sector, liberalization also means opening up of new markets. This creates incentives for manufacturing growth and economies of scale which will lead to higher profitability and further lowering of prices. Depending on the trade competitiveness of the member, this also could translate into more favourable terms of trade.

On the side of costs, CFTA effects are realized through tariff revenue and perhaps wage losses. The decline in tariff revenue is the most obvious as the direct implication of CFTA is the elimination of tariffs on imports. The direction of wage effect is less clear. In many instances, trade liberalization improves competitiveness through lower labour cost, especially for the low-skill workers in tradable sectors. Skilled workers could benefit or lose depending on the effect of market competition on relative prices of labour and capital.

Table 12 summarizes key estimates that specifically relates to the Nigerian context. The estimates are focused on scenarios where trade tariffs are partially or completely removed. A few extensions to the scenarios involving further liberalization through removal of non-tariff barriers and reduction of trade transactions costs are also examined over different time horizons.

Overall, there are ten scenarios to draw on regarding the welfare effect of CFTA in Nigeria. Majority of the estimated effects are low or negative for Nigeria under full tariff removal. The most optimistic result is 0.82% welfare gain while the most pessimistic result is 0.4% welfare loss. However, the results improve significantly when removal of tariff is complimented with removal of non-tariff barriers or lower transaction cost. For instance, if the welfare changes are translated into monetary values, Vanzetti, Peter and Knebel (2018) find that full tariff removal will lead to $9 million loss in welfare, but if non-tariff measures are added there is an expected welfare gain of about $540 million. Also, further improvement in transaction cost (TC) increases the welfare gain.

Table 12: Summary of the Estimated Effects for Nigeria under AfCFTA

Source	*Approach*	*Horizon*	*Scenario*	*Estimated effect of welfare gain (%)*
Mureverwi, B. (2016)	*Gdyn model, GTAP 8.1 (based on data for 2007)*	*2025*	*Full tariff*	*+0.825 ($1.3billion)*
Mevel, S. & Karingi, S. (2012)	*MIRAGE, GTAP 7 SAM (based on data for 2004)*	*2022*	*Full tariff*	*-0.4*
Vanzetti, D., Peters, R, Knebel, C. (2018)	*MIRAGE recursive dynamic, GTAP 10 (based on data for 2014)*	*2025*	*Full tariff*	*-0.0016 (-$9m)*
		2025	*Partial Tariff*	*-0.0023 -($13m)*
		2025	*Non-tariff measures*	*+0.0951 ($540m)*
Chauvin, V., Ramos, M., & Porto, G. (2016)	*Mirage-e, GTAP 8.1 SAM (based on data for 2007)*	*2021*	*Full tariff*	*+0.01*
		2021	*Full tariff + Non-tariff*	*+0.10*
		2021	*Full tariff + Non-tariff + Transactions Costs*	*+0.12*
		2027	*Full tariff*	*-0.02*
		2027	*Full tariff + Non-tariff*	*+0.44*
		2027	*Full tariff + Non-tariff + Transactions Costs*	*+0.62*

Using meta-analysis, we proceed to aggregate the estimated effect sizes (ES) of welfare gain in Table 12 and present the results in Table 13 (see the Forest Plot in the appendix). The limited number of estimates available limits the statistical power of the meta-analysis and explains the wide confidence intervals and low I2. Despite this limitation, useful insight on the welfare effect can be drawn.

Table 13: Meta-Analysis of Key AfCFTA Effect Sizes

Study	Scenario	Effect size (ES)	95% Confidence Interval		Weight (%)
Mevel, S. & Karingi, S. (2012)	Full Tariff	-0.40	-14.12	13.32	2.57
Mureverwi, B. (2016)	Full Tariff	0.82	-14.86	16.50	1
Vanzetti, D., Peters, R, Knebel, C. (2018)	Non-tariff measures	0.095	-19.51	19.695	1.31
Vanzetti, D., Peters, R, Knebel, C. (2018)	Full Tariff	-0.002	-21.56	21.56	16.05
Vanzetti, D., Peters, R, Knebel, C. (2018)	Partial Tariff	-0.002	-17.64	17.64	4.01
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff (2021)	0.01	-1.95	1.97	0.79
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff +Non-tariff (2021)	0.10	-5.78	5.98	0.53
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff +Non-tariff +TC (2021)	0.12	-9.68	9.92	0.64
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff +Non-tariff (2027)	0.44	-7.40	8.28	64.18
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff +Non-tariff +TC (2027)	0.62	-11.14	12.38	7.13
Chauvin, V., Ramos, M., & Porto, G. (2016)	Full Tariff (2027)	-0.02	-3.94	3.90	1.78
I-V Pooled ES		0.046	-1.525	1.616	100

Heterogeneity chi-squared = 0.04 (d.f. = 10) p = 1.000; I-squared (variation in ES attributable to heterogeneity) = 0.0%

First, the effect of CFTA on welfare is positive on aggregate. Specifically, a 0.05% welfare gain is expected. The combined estimated effect of CFTA translates to an estimated welfare gain of US$260 million in 2018 values. Second, the positive effect is largely driven by complementary measures to full tariff removal. Precisely 64% of the effect size is driven by estimates based on complementing full tariff removal with removal of non-tariff barriers.

These results partly point to an important reason that AfCFTA focusing entirely on tariff removal is less beneficial to Nigeria. With a large economy, tariff removal is more to the advantage of small economies, which can markedly scale up their output level. Moreover, Nigeria's manufacturing industry, which can leverage on gains from trade liberalization, presently lacks production competitiveness. Some of the crucial factors alluded to in the literature for this stance include: lack of efficient energy source, weak access to finance and poor infrastructure.

The welfare gains from non-tariff measures also illuminate on areas that CFTA needs to cover to be inclusive. For Nigeria, revamping the viability of the manufacturing sector and negotiating for a more robust CFTA that targets non-tariff measures will be crucial to improving gains. In African context, key non-tariff measures to be dismantled will include price controls and domestic government regulation. The non-tariff barriers present more significant obstacles to unlocking intra-Africa trade and improving the competitiveness of tradable sector.

7.0 EFFECT OF AFCFTA ON JOB CREATION

The AfCFTA also has the potential to affect the labour market; in particular, labour participation and employment rate. With a bulging population and high unemployment, government is very sensitive to policies and economic shocks that could deepen the problem. In the context of the CGE models, wages are the main channel through which effect of employment can be examined. Higher wage is expected to increase cost of production and reduce demand for labour, and vice versa, which simply implies that demand for labour curve is downward sloping.

Table 14 details the wage effects of CFTA in Nigeria. Majority of the estimates imply higher wage level compared to baseline period. Wages of unskilled labour in the non-agriculture sector are generally estimated to increase while wages of unskilled workers in the agricultural sector decrease. Interpretation of this result implies that Nigerian agriculture will gain more than other sectors from CFTA. The skilled workers will experience higher wages and by implication lower employment levels while the reverse holds for non-skilled workers. However, the effect size is in most cases marginal—the percentage change in wages in all case is less than one per cent. This means the wage effects of job creation in the CFTA are expected to be small.

Table 14: Summary of Estimates

Source	***Approach***	***Horizon***	***Scenario***	***Estimates***	
Mureverwi, B. (2016)	*Gdyn model, GTAP 8.1 (based on data for 2007)*	*2025*	*Full tariff*	*Allocative efficiency* ($508m)	*Labour market gain* ($447m)
Mevel, S. & Karingi, S. (2012)	*MIRAGE, GTAP 7 SAM (based on data for 2004)*	*2022*	*Full tariff*	*Unskilled Agric wages* (-0.0054)	*Unskilled non-Agric wages* (0.0012)
Chauvin, V., Ramos, M., & Porto, G. (2016)	*Mirage-e, GTAP 8.1 SAM (based on data for 2007)*	*2027*	*Full tariff*	*Unskilled non-Agric wage* (0.0001)	*Skilled real wages* (0.0001)
		2027	*Full tariff + Non-tariff*	*Unskilled non-Agric wage* (0.0001)	*Skilled real wages* (0.001)
		2027	*Full tariff + Non-tariff + Transactions Costs*	*Unskilled non-Agric wage* (0.001)	*Skilled real wages* (0.001)

Yet, labour market in general stand to gain in other respects. Allocative efficiency and capital accumulation are expected to significantly improve, which will augment labour productivity. This explains the expected US$447-milllion in labour market gains reported in Mureverwi (2016) study. Other effects reported in the literature are terms of trade and tariff revenue. Unsurprising, the tariff revenue decreases, but terms of trade improves. The overall implication is that competitiveness of the exporting sector broadly will increase under CFTA. Nigeria can leverage on this to improve welfare and employment gains by developing the tradable sectors to make them more viable and export-oriented.

Next, we derive job numbers using output and employment elasticities to obtain aggregate number of jobs to be created over the selected horizon, and relate the numbers to labor market performance.

Table 15: Labour Market Position 2018-2030

Variable	*Value in 2018*	*Value in 2024*	*Value in 2030*
Labour Force (Millions)	83.1	99.1	118.9
Net new entrants to labor market (Millions)	2.3	2.9	3.6
New jobs created in the economy (Millions)	2.5	3.3	4.3
Number Employed Full Time (Millions)	58.0	75.8	99.0
Unemployed and Underemployed (Millions)	25.1	23.2	19.8
Broad Unemployment Rate (%)[1]	30.2	23.5	16.7
Narrow Unemployment Rate (%)[2]	11.7	9.1	6.5

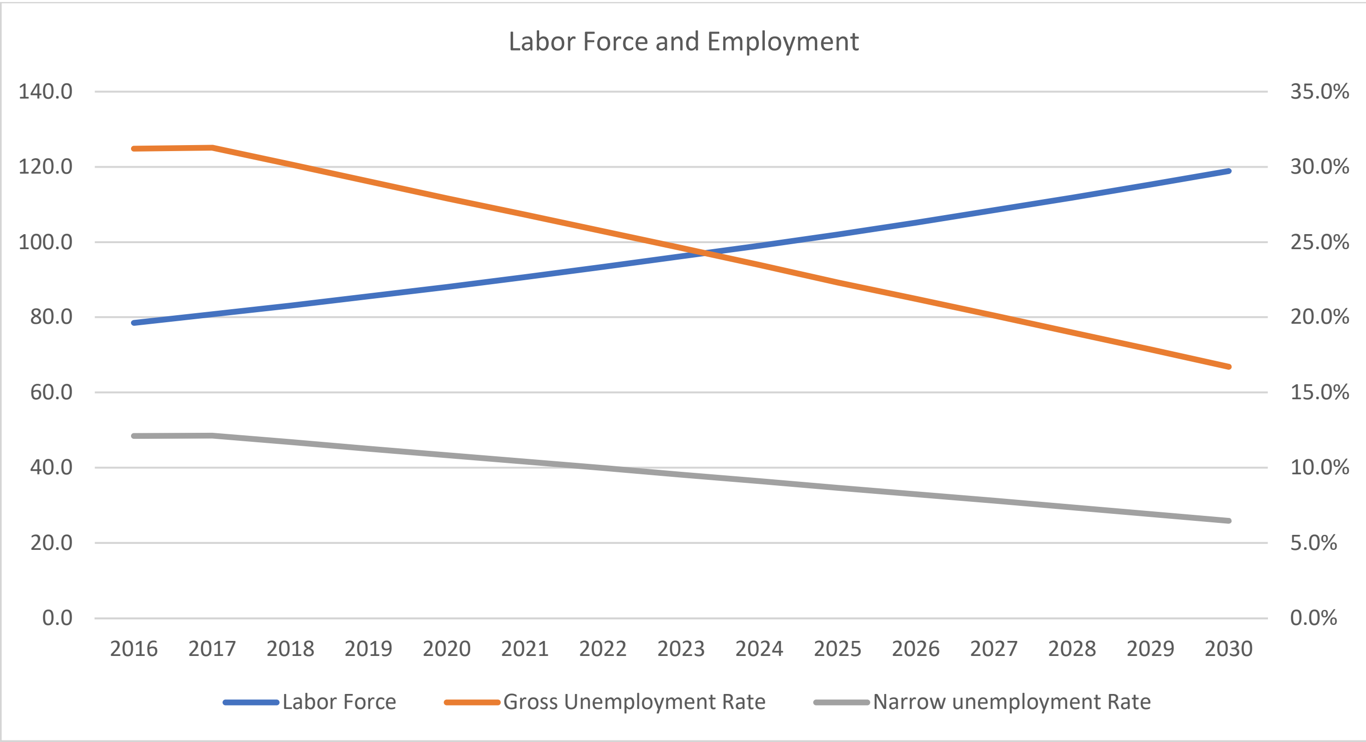
Source: Authors' estimates

[1] Combination of unemployed and underemployed

[2] Only unemployed

Due to past fertility rates, the labor force continues to grow at the average annual rate of 3.0%. Net new entrants to the labor market will rise from 2.3 million in 2018 to 3.6 million in 2030 while the labor force will increase from 83.1 million to 118.9 million. Because of changes in the structure of the economy toward industrialization and the associated increase in employment intensity, the number of jobs to be created annually will increase from 2.5 million in 2018 to 4.3 million in 2030. The excess of new jobs over the influx of new entrants into the labor market will contribute to lowering the broad unemployment rate from 30.2% in 2018 to 16.7% in 2030. Under the assumption that current ratios of full-time to part-time jobs will prevail, the narrow unemployment rate is expected to decrease from 11.7% in 2018 to 6.5% in 2030.

Figure 19: Labour Market Dynamics



PART IV

POTENTIAL EFFECTS ON FRONTLINE SECTORS

8.0 SECTORAL AND SUBSECTORAL CLASSIFICATIONS

Machine tools manufacturing is the sector with the highest benefits of tariff reduction given the elasticity of its exports estimated at 1.89. Next is fishing and crop cultivation, where elasticities are estimated at 1.13. Other sectors with positive but less than unitary elasticities are, in order of rank, livestock (0.98), cement (0.94), forestry (0.91), audio-visuals including Nollywood (0.74), sugar (0.35) and financial services (0.24). On the other hand, tariff reductions are expected to reduce tire exports.

Table 16: Specific sectoral elasticities to tariff reduction

(1)	(2)	(3)	(4)	(5)
S/N	**Indicator**	**% increase in indicator (2) with 1% decrease in continental trade tariffs**	**% increase in indicator (2) with 80% decrease in continental trade tariffs**	**Rank of 1% decrease in continental trade tariffs on indicator (2)**
1.	**Nigeria's Agricultural Sector:**			
a.	Cropping	1.13	90.4	2nd
b.	Fishing	1.13	90.4	2nd
c.	Forestry	0.91	72.8	5th
d.	Livestock	0.98	78.4	3rd
2.	**Nigeria's Manufacturing Exporting Sector:**			
a.	Cement	0.94	75.2	4th
b.	Sugar	0.35	28	7th
c.	Tire Exports	(0.38)	-30.4	9th
d.	Machine Tools	1.89	151.2	1st
3.	**Nigeria's Services Sector:**			
a.	Banking and Finance	0.24	19.2	8th
b.	Audio-visuals including Nollywood	0.74	59.2	6th

Among the sectors that stand to benefit from reduction in tariffs, only two sectors, cement and machine tools recorded positive export growth in 2016. Cement was the leading contributor to exports, recording a growth of 65% in 2016 while machine tools recorded 39% (see Table 17). The comparatively lower elasticity of cement exports is perhaps due to relatively weak impact of tariffs on cement exports due to the high growth of cement consumption globally and particularly across Sub-Saharan Africa.

Table 17: Annual percentage change in Export of Products in selected Sub-sector's for the period; 2015 -2016

	Outputs Growth Rate (%)	
Sectors and Sub-sectors	***2015***	***2016***
Exports in the Agricultural Sector:		
Cropping	1.91	(7.06)
Fishing	435.38	(38.53)
Forestry	(9.51)	(36.29)
Livestock	45.54	(25.77)
Exports in the Manufacturing Sector:		
Cement	59.41	65.10
Sugar	19.93	(61.01)
Tire Exports	236.91	(34.16)
Machine Tools	194.13	39.14
Exports in the Services Sector:		
Banking and Finance	7.43	(5.57)
Audio-visuals including Nollywood	165.92	(20.23)
Overall Output	2.79	(1.58)

Source: UNCTAD

8.1 Specific Focus On The Cement Subsector

The cement manufacturing subsector is critical for Nigeria's economic growth and job creation. Powered by leadership of Dangote Cement Group, Nigeria became self-sufficient in cement production in 2012, and became a net exporter in 2016. As of 2016, Dangote group operates active businesses in 10 African countries, mainly in the Sub-Saharan region, including 2 countries where the group undertakes bulk import from Nigeria (Ghana and Sierra Leone) and 8 countries where the group maintains production. These countries accounted for a combined GDP of $1.2 Trillion in 2017, total cement market potential of 121.9 Mt per annum and total consumption of 64.3 Mt. Of these, the Dangote group had production capacity of 45.8 Mta and sales volume of 23.6 Mt, representing 38% of total capacity and 37% of total market consumption[14] respectively. Cement consumption in Sub-Saharan Africa grew at average 7.2% per year during 2010-2018 and is projected at 119.7 Mt in 2018, presenting a very large cement market. At current growth rate, consumption will reach 181.7 Mt in 2024 and 275.7 Mt in 2030. The group's share of SSA market was 21.8% in 2016.

The group is investing in several other countries with a view to expanding the cement market across the continent and beyond. In Sub-Saharan Africa, the group projects to expand its presence to 6 more countries over the period 2018-2023, which represents an average of 1 country per year to reach 16 countries by 2023. It is expected that the removal of tariffs and non-tariff barriers under AfCFTA will help to speed up these expansion plans and facilitate entry of the group into other countries not already included in the plan. As at 2016, the group reported sales revenue of N615.1 billion and net worth (assets minus liabilities) of N797.3 billion.

We simulated the impact of AfCFTA on the Group's activities in Africa and present the results in Table 18. We made reasonable assumptions about growth of the group's market share in the region. In our estimation, our major consideration is that AfCFTA will improve the ease of FDI, which is the model for expanding into countries that are more distant than the nearest ECOWAS neighbours. Also, the dismantling of remaining trade barriers and cross-border infrastructure projects will help grow exports in to meet demands in the neighbouring countries.

Table 18: Dangote Cement Group Growth Projections

Variable	*Value in 2018*	*Value in 2024*	*Value in 2030*
Group's share of SSA market (%)	27.1	43.3	59.4
Number of Cement Jobs in Nigeria	16,045	35,085	45,662
Group Cement SALES (Mt)	28.9	88.6	140.1
Group Cement SALES (N'b)	1,297	6,083	10,213
Group ASSETS (N'b)	2,650	11,788	19,675
Group NET WORTH (N'b)	1,136	4,052	6,569

Source: Authors' estimates

The group's share of the cement market in Sub-Saharan Africa is projected at 27.1% in 2018 and is expected to reach 59.4% by 2030. The group's cement sales will grow to 88.6 Mt in 2024 and 140.1 Mt by 2030; while the net worth which was N797 billion in 2016 will grow to N4.1 trillion by 2024 and N6.6 trillion by 2030.

A total of 16,045 jobs are expected to be created in Nigeria by 2018 within the cement sector, and the number is expected to rise to 35,085 in 2024 and 45,662 in 2030. In addition to these direct jobs, the growth of the group is expected to induce multiplier effects on the economy in terms of employment and output in construction and services sectors. AfCFTA will also create the opportunity for the emergence of multinational corporations from among indigenous firms in several sectors other than cement.

14 Production capacity share is highest at 67% in Nigeria and a lowest at 16.1% in South Africa and Ethiopia

9.0 SUMMARY AND CONCLUSIONS

9.1 Study Summary

The key findings are as follows:

A. The provisions and goals of AfCFTA are consistent with and promotes the objectives of the ERGP 2017-2021 to restore economic growth, achieve macroeconomic stability and create a more diversified and export-ori ented economy; improve job creation and improve human capital; and build a globally competitive economy.

B. Reducing or eliminating current tariff measures against other African countries as proposed under the AfCFTA would propel growth in both Nigeria's exports to and imports from Africa. Increase in revenue due to increased trade would outweigh the short-run decline in revenue due to a commitment to a freer trade. Addi tionally, the fall in tariff rate will raise the competitiveness of Nigeria's exports and boost economic growth.

C. AfCFTA is expected to deliver substantial welfare effects for Nigerians, estimated at US$260 million in 2016 values. The welfare effects are realizable when tariff removal is accompanied by removal of non-tariff barriers, and the size will grow as transactions costs are further reduced.

D. The agricultural sector is expected to benefit most from job creation under the AfCFTA. Other than direct job creation, improvements in allocative efficiency and capital accumulation will augment labour productivity and raise wages across board and improve welfare.

E. Across board, Nigerian businesses and business leaders overwhelmingly believe that AfCFTA will help their businesses overcome their lingering constraints, support growth of their businesses and offer them larger markets, promote macroeconomic stability and spur economic growth and employment.

F. Nigerian manufacturers trade more with other African countries than the rest of the world. Thus, a dismantling of barriers to free trade across Africa is likely to be beneficial to Nigerian manufacturing.

G. Other findings include the following:

- There is high level of awareness of AfCFTA among Nigerian businesses; 94% of the respondents reported being aware of the issues;
- A high level of optimism across board that AfCFTA among exporters: 84% believe that AfCFTA will help grow their exports;
- The business environment is presently not conducive for businesses – 55% of businesses reported the environment as hostile – but 69% of businesses predict that the AFCFTA will be advantageous to the economy. The top 3 benefits are better business environment, growth and expansion of local businesses;
- A majority 78% of respondents believe that the AfCFTA will make a positive impact on local businesses; 10% believe that the impact will be negative while the remaining 12% believe it will have no impact.
- The broad consensus amongst business leaders is that infrastructure and other challenges may impede some of the gains from being realized; majority (56%) of the poll respondents believe the country does not have the infrastructure necessary to reap those benefits;
- Broad consensus among other business leaders that the country should not wait until the country's infrastructure gap is fully closed before participating in the AfCFTA. There is a sense that government efforts are yielding some progress in several fronts including road infrastructure and there is confidence that the progress will be sustained
- Power supply, access to credit, roads, taxes and tariff are the top four challenges faced by Nigerian businesses, in decreasing order of importance; 65% of businesses expect AfCFTA to help them overcome the challenges;
- Most respondents (53%) are not convinced that provisions of the AfCFTA will be strong enough to discourage dumping or smuggling of substandard products into Nigeria, and a vast majority of respondents (86%) consider it necessary for the national assembly to hold hearings on these issues before Nigeria signs up on AfCFTA.
- However, while those issues will require the attention of lawmakers, business leaders are of the opinion that smuggling and substandard products should not be framed as a problem of the CFTA because it's an existing problem and a matter of border security and enforcement of laws by the country, rather than the product of an agreement among countries.

9.2 Study Conclusions

The Nigerian government cited the need to consult widely with stakeholders as the reason for withholding consent to the AfCFTA last month, in March 2018. This study employed various techniques to measure perspectives of a wide range of stakeholders about AfCFTA. The report shows overwhelming expectation of positive impacts of AFCFTA on businesses and the economy, and stakeholders engaged in this study support the agreement with a sound majority.

The pessimism toward the agreement is driven mainly by the lack of strong industrial base and the potential that the nascent industry could collapse under the weight of international competition; and the issue of smuggling, counterfeiting and dumping of substandard products into the country. While this pessimism is acknowledged, respondents to the surveys offered measured counter-optimism on these issues. On the issue of industry, respondents overwhelmingly expect an enlargement of the industrial base arising from the benefits of expanded markets, inward foreign direct investments and regional infrastructure projects that will contribute substantially to closing the infrastructure gap. Business leaders also caution against conflating the onset of AfCFTA with smuggling and dumping of sub-standard products, which are currently prevalent in the country. Instead, government is encouraged to invest more effort in managing the country's borders to tackle the problem.

In general, businesses in all sectors see tremendous opportunities in the agreement both in terms of its expected impact on individual businesses and the macroeconomy. They expect the agreement to help them overcome their top business challenges namely power supply, access to credit, roads, taxes and tariff, port reform; open new markets for their products; and strengthen their competitiveness.

> *"...today without the CFTA, do we have dumping? Do we have smuggling? Do we have counterfeiting? They are rampant, right? This has nothing to do with Free Trade agreement. For a country that is porous, whether you have a Free Trading agreement or not, for as long as your border patrols, laws and implementation of policies are lacking, these sorts of things will continue to happen. So, dumping happens even in developed countries and where ever there is a gap. Criminals exist everywhere, and they will look for loop holes and try to use them. This for me is a completely separate thing from a Free Trade agreement. It has nothing to do with it."* ***(An Executive at a Multinational Manufacturing FMCG Company)***

10.0 RECOMMENDATIONS & POLICY CONSIDERATIONS

Key recommendations from this study are as follows:

- Government and policymakers need to listen and comprehend the subject of AfCFTA the way businesses and stakeholders appreciate them, given that they are located at the spots where the rubber meets the road on trade and economic growth.
- Clearly, Nigerian stands to benefit more from the AfCFTA with better business environment and improved infrastructure. In this regard, more concerted efforts are required to bridge the internal infrastructural inadequacies especially in areas of power supply and access to credit, which most businesses identify as their top challenges.
- Nigeria needs to take Continental leadership of the regional infrastructure projects to lead other African countries toward bridging the continental infrastructure gaps. Road and rail connections to neighbouring countries needs to be facilitated by ECOWAS or other bilateral protocols to boost regional trade and enhance mutual economic benefits.
- Policymakers should see the AfCFTA as an opportunity for Nigeria to pursue and achieve its goals of export-led growth as elaborated in the ERGP (2017-2021) and set up the institutional capabilities needed to take advantage of the offers contained in the agreement while minimizing the threats it may pose.
- The likelihood of AfCFTA contributing to accelerating or impeding Nigeria's industrialization depends on government policy response to its provisions, and the system of assessment, monitoring and evaluation put in place by the government to guide its implementation.
- Based on the foregoing, the Nigerian government should sign the AfCFTA and follow the action with a set-up of the policy institution necessary for its successful implementation.

Key considerations for policymakers include the following:

- Position industrialization and export-led growth at the centre of the country's economic policies and galvanize stakeholders around it;
- Conduct regular studies on the structure, progress and challenges of industry value-chains with a view to making adjustments and providing policy support necessary to reposition the industrial sector on the path to competitiveness;
- Conduct regular studies on comparative export opportunities for Nigerian businesses in the African continent and elsewhere and share the knowledge with business associations and institutions;
- Insulate the policy-making institution and instruments from the unstable political environment to allow for development of focused, forward-looking policies that are essential for the goals of ERGP 2017-2021 and the benefits of AfCFTA;
- Develop, reinforce and implement an active industrial policy that takes full advantage of the provisions of the agreement and provides opportunities and support for learning and growth of the SMEs sector.
- Newer models for funding infrastructure needs to be considered such as Public-Private Partnership (PPP) arrangements, Build, Operate and Transfer (BOT) arrangements, Sukuk funds, and other options.
- Customs and border patrol needs to be strengthened in order to minimize smuggling and dumping of substandard products. Similarly, regulatory agencies such as NAFDAC and SON need to be strengthened to enable businesses take advantage of export opportunities under the AfCFTA.

Appendix | Model Specifications

Trade, Growth and Monetary Benefits of CFTA

To capture the relevance of CFTA in Nigeria's trade, we follow Belassa (1967) and Aitken (1973) to present the following basic ordinary least squares model, with the main argument that total trade is a positive function of real output and population. While Nigeria's GDP and population determine the flow of trade from Africa to Nigeria (Nigeria's imports), the rest of Africa's GDP and population shape the flow of trade from Nigeria to other African nations (Nigeria's exports).

$$\ell nTTA_{ijt} = c + \beta_1 \ell nAGDP_{jt} + \beta_2 \ell nAPOP_{jt} + u_t .....(1)$$

Where TTA is Nigeria's total trade with Africa, AGDP is real GDP of Africa, APOP is population of Africa, s are parameters, is natural logarithm, c is constant term and u is error term.

We also aim to isolate the current dynamics regarding impact of Nigeria's weighted tariff rate on the country's trade with Africa. We do this in different versions, with the rationale of quantifying the major trading partner effect (equation 5), regional effect (equations 6 and 7) and existing trade agreement effect (equation 8). So we have these equations

$$\ell nTTA_{ijt} = a_1 + \alpha_1 \ell nTAR_{it} + e_{1t} \text{.....(2)}$$
$$\ell nNXA_{ijt} = a_2 + \alpha_2 \ell nTAR_{it} + e_{2t} \text{.....(3)}$$
$$\ell nNMA_{ijt} = a_3 + \alpha_3 \ell nTAR_{it} + e_{3t} \text{.....(4)}$$
$$\ell nTTAES_{ijt} = a_4 + \alpha_4 \ell nTAR_{it} + e_{4t} \text{.....(5)}$$
$$\ell nTTS_{ijt} = a_5 + \alpha_5 \ell nTAR_{it} + e_{5t} \text{.....(6)}$$
$$\ell nTTSES_{ijt} = a_6 + \alpha_6 \ell nTAR_{it} + e_{6t} \text{.....(7)}$$
$$\ell nTTAEE_{ijt} = a_7 + \alpha_7 \ell nTAR_{it} + e_{7t} \text{.....(8)}$$

where TTA is Nigeria's trade with rest of Africa, NXA is Nigeria's exports to Africa, NMA is Nigeria's imports from Africa, TTAES is Nigeria's trade with Africa less South Africa, TTS is Nigeria's trade with sub-Saharan Africa, TTSES is Nigeria's trade with sub-Saharan Africa less South Africa and TTAEE is Nigeria's trade with Africa less ECOWAS. s and s are parameters to be estimated and s are error terms.

Finally, we look at the macroeconomic influence of Nigeria's weighted tariff against Africa's exports on domestic output, non-oil government revenue and exchange rate. The choice of real effective exchange rate, over nominal or real un-weighted rates, is that it is the most appropriate measure to capture and measure the international competitiveness of countries, as it has been weighted by the level of trade and investment between Nigeria and the rest of Africa.

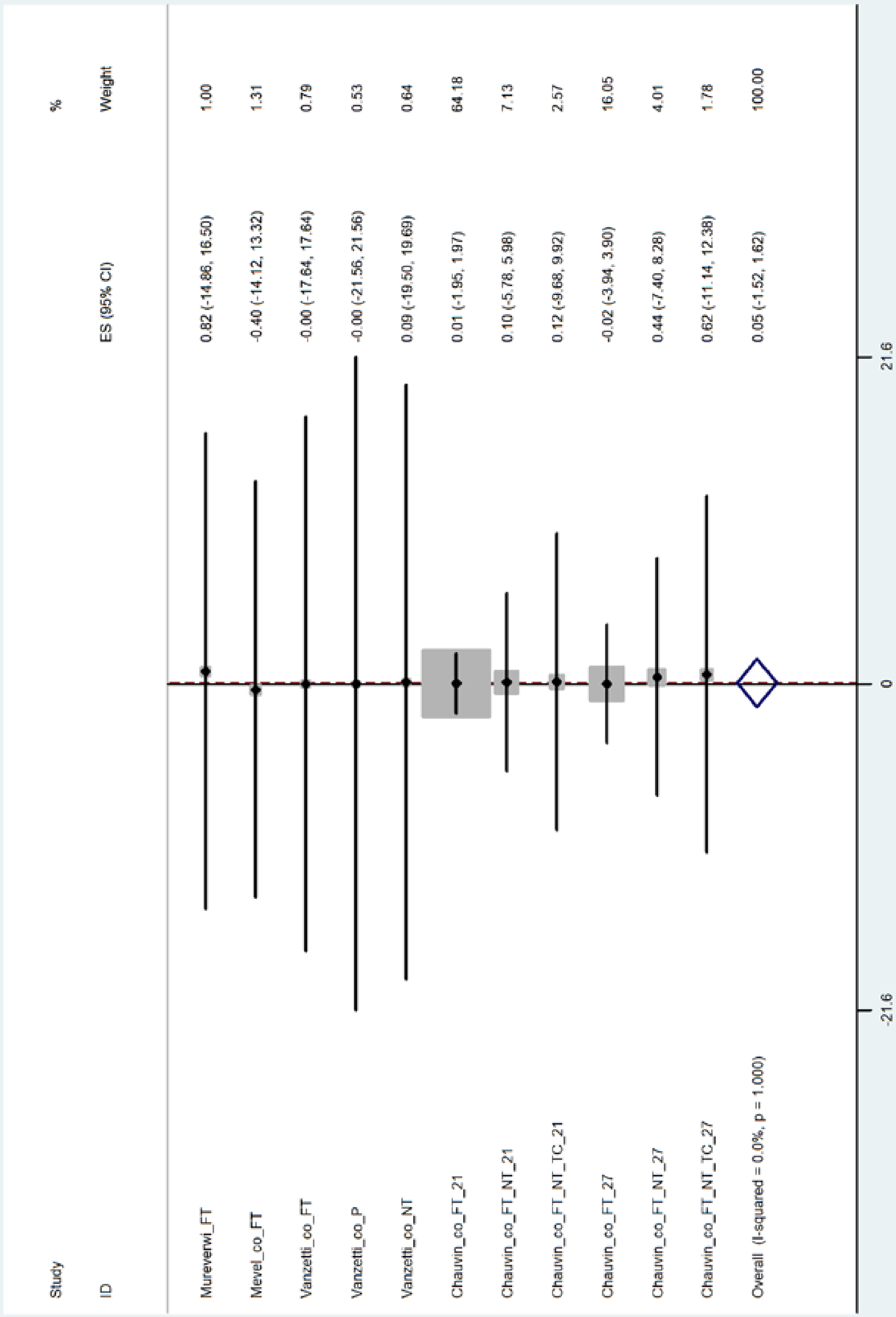
$$\ell nNGDP_{it} = b_1 + \lambda_1 \ell nTAR_{ijt} + v_{1t} \text{.....(9)}$$
$$\ell nGOVR_{it} = b_2 + \lambda_2 \ell nTAR_{ijt} + v_{2t} \text{.....(10)}$$
$$\ell nREER_{it} = b_3 + \lambda_3 \ell nTAR_{ijt} + v_{3t} \text{.....(11)}$$

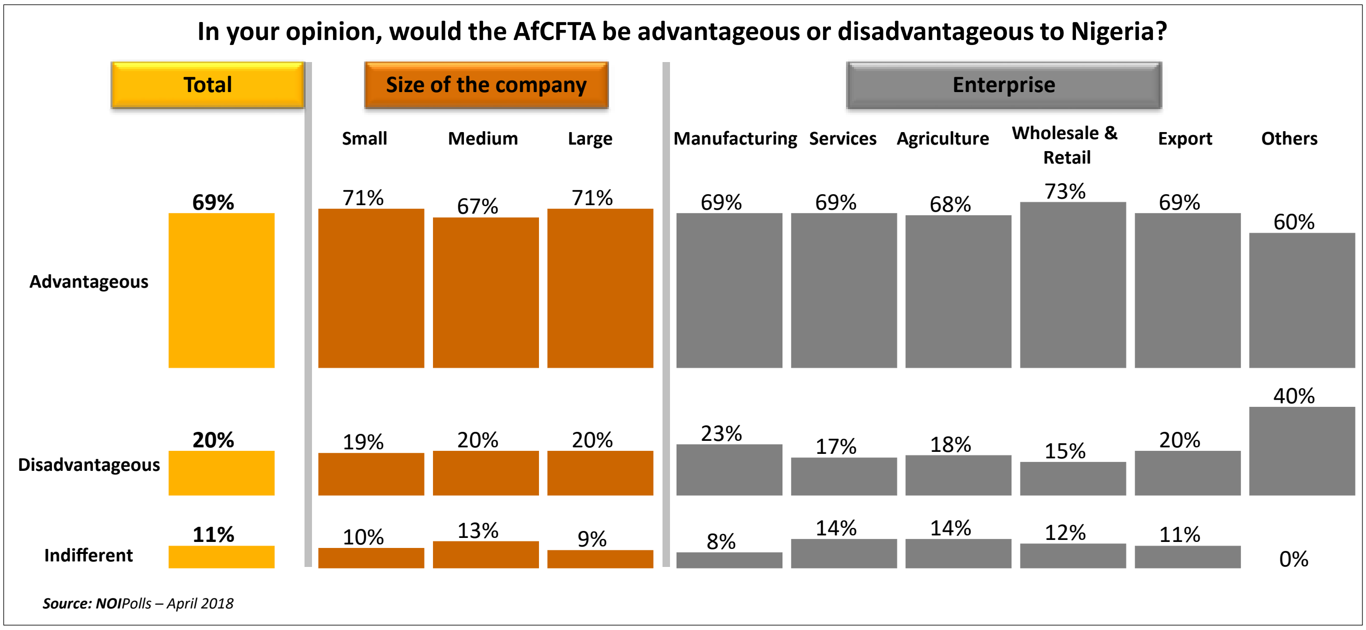
Where NGDP is Nigeria's real GDP, GOVR is non-oil revenue of Nigeria; REER is real effective exchange rate of naira against dollar; TAR is Nigeria's weighted tariff rate. s and s are parameters to be estimated and s are error terms.

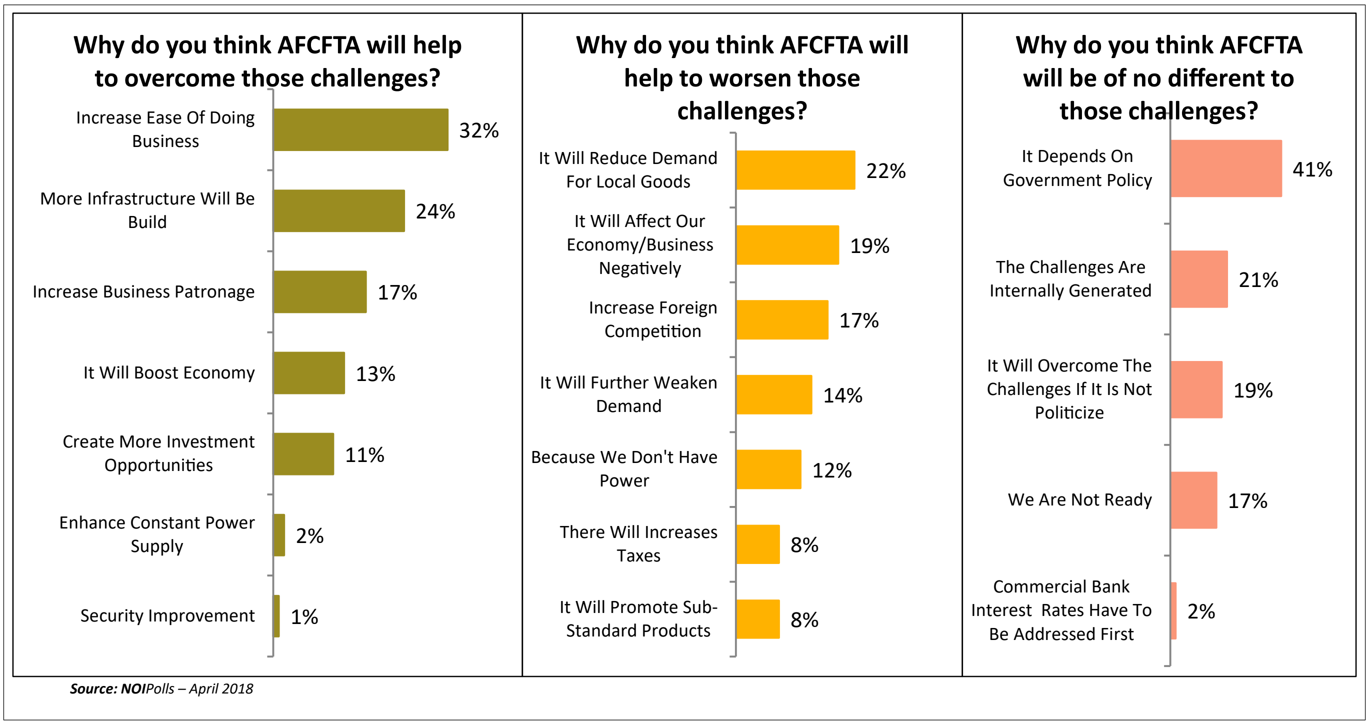
Welfare Benefits of CFTA

The study employs meta-analysis to aggregate the result of various studies in the literature. Alternative approach is to estimate the CGE model using the GTAP model, which has an in-built African database. However, the existing literature has already assessed this, including in Nigerian context. Unifying these results to draw a conclusion regarding the consensus in the literature represents a natural next step. Meta-analysis provides a statistical technique to combine from diverse studies. The approach pools the estimated effect size from various studies and derives the point estimate closest to the unknown population parameter. A key advantage is that it draws on separate studies to improve general statistical power. In addition, inconsistency and biases across studies are quantified and corrected. The result of the meta-analysis is also displayed graphically using forest plot.

Figure 20: Forest Plot




In your opinion, would the AfCFTA be advantageous or disadvantageous to Nigeria?
Total
Size of the company
Enterprise
Small
Medium
Large
Manufacturing
Services
Agriculture
Wholesale & Retail
Export
Others
Advantageous
69%
71%
67%
71%
69%
69%
68%
73%
69%
60%
Disadvantageous
20%
19%
20%
20%
23%
17%
18%
15%
20%
40%
Indifferent
11%
10%
13%
9%
8%
14%
14%
12%
11%
0%
Source: NOIPolls – April 2018


Why do you think AFCFTA will help to overcome those challenges?
Increase Ease Of Doing Business
32%
More Infrastructure Will Be Build
24%
Increase Business Patronage
17%
It Will Boost Economy
13%
Create More Investment Opportunities
11%
Enhance Constant Power Supply
2%
Security Improvement
1%
Why do you think AFCFTA will help to worsen those challenges?
It Will Reduce Demand For Local Goods
22%
It Will Affect Our Economy/Business Negatively
19%
Increase Foreign Competition
17%
It Will Further Weaken Demand
14%
Because We Don't Have Power
12%
There Will Increases Taxes
8%
It Will Promote Sub-Standard Products
8%
Why do you think AFCFTA will be of no different to those challenges?
It Depends On Government Policy
41%
The Challenges Are Internally Generated
21%
It Will Overcome The Challenges If It Is Not Politicize
19%
We Are Not Ready
17%
Commercial Bank Interest Rates Have To Be Addressed First
2%
Source: NOIPolls – April 2018

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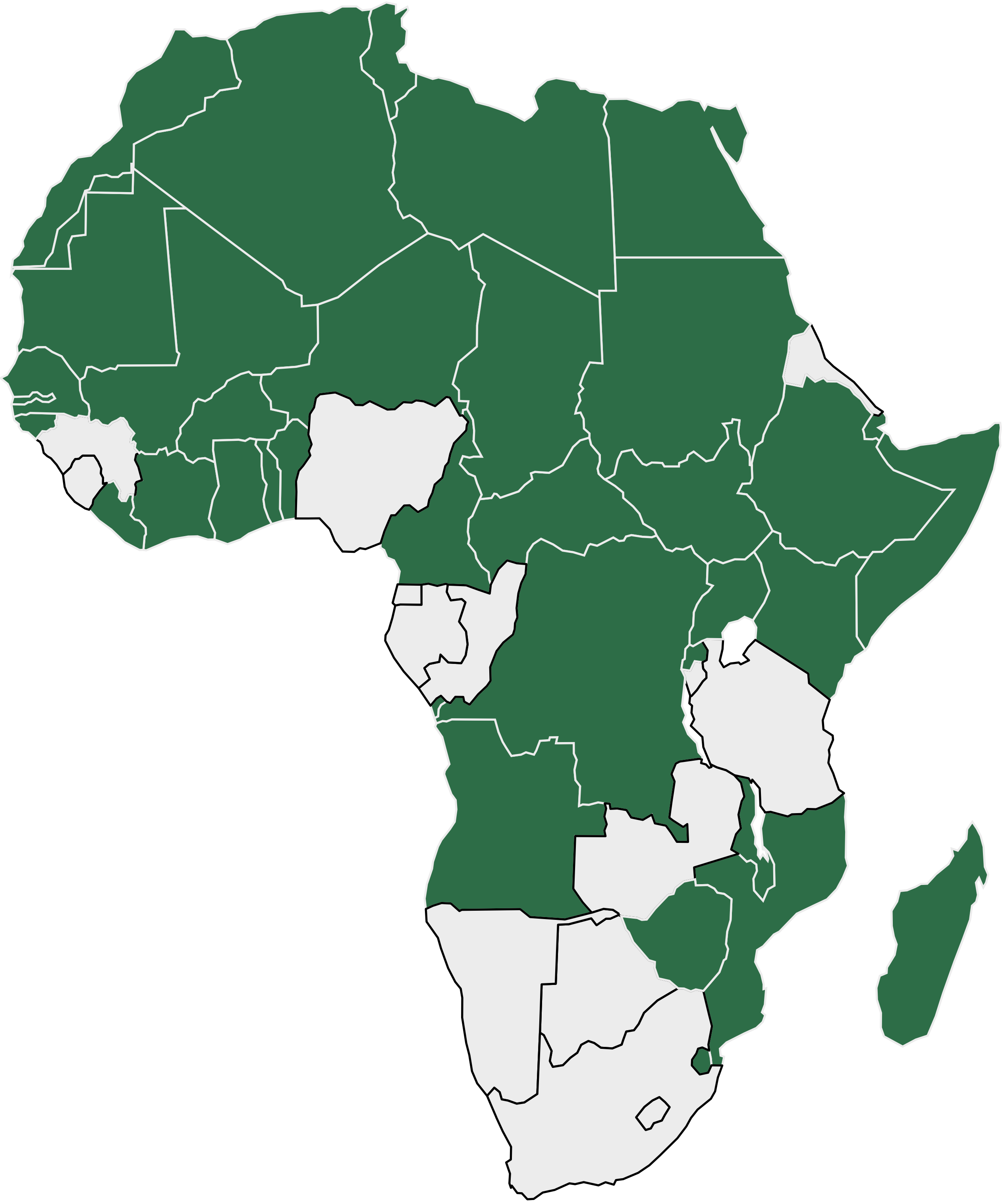
Map Showing The **44 Countries** That Signed Up To The **CFTA**



Source: **African Union**

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