AFRICA CONTINENTAL FREE TRADE AGREEMENT
The Role of Banks and other Stakeholders

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The Stakeholders

- GOVERNMENT: Infrastructure; Regulatory Agencies; CBN Customs; FIRS; Quality Standards;
- BUSINESS ; Organised Private Sector (NACCIMA MAN IOD etc.); Companies; Professionals (Lawyers Accountants Engineers etc.)
- ACADEMIA
- BANKS

- AfCFTA Came into force 30 May 2019
- Operational /Implementation phase of the AfCFTA Launched in Niamey July7, 2019
- *The AfCFTA is in furtherance of the Abuja Treaty which Nigeria signed on 3rd June 1991. The Abuja Treaty had among its objectives; the strengthening of Africa's regional economic communities;* ***establishment of a free trade area****; common external tariff and common market; gradual removal of obstacles to free movement of persons; goods; services; capital and the right of residence and establishment.*
- *AfCFTA proposes the elimination of duties on 90% of tariff lines in 5 years and in 10 years for the elimination of tariffs on products on the Sensitive List. However, duties on products on the Exclusive List can remain indefinitely.*
- Sensitive List covers specific products whose tariff lines will not be liberalised until after ten years of implementation of the AfCFTA.
- Exclusive List covers products whose tariff lines will be completely exempted from liberalisation.

LIBERALIZATION

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

AfCFTA

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

AFRICA'S TRADE

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

TRADE IN SERVICES

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

WTO CLASSIFICATION

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

TRADE IN SERVICES

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

TRADE IN SERVICES(LEADERS)

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

NIGERIA'S TRADE

exports, $40.7bn imports) *comprising of* ***$75.8bn from formal trade ($44.5bn exports and $31.3 bn imports*)** *and* ***$16.4bn from informal trade*** *($7bn exports, $9.4bn imports). Informal trade involved unrecorded cross-border transactions in agricultural products, livestock, and parallel trade including trans-shipments and smuggling.*

- *Nigeria's trade with Africa in 2017 of* ***$6 bn ($4.9bn exports, $1.1bn imports), represented 8%*** *of its total trade in goods, making her the 4th highest intra-African trader in goods after South Africa ($31.8bn), Namibia ($6.8bn) and Zambia ($6.7bn).*
- International Trade Center Trade Map 2017
- Informal trade was estimated based on ITC's mirror data (i.e. comparison of records of exporters of goods to Nigeria and records of Nigeria's imports)
- World Trade Organization (WTO)

NIGERIA'S TRADE

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

NIGERIA'S TRADE IN SERVICES

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

FINANCIAL SERVICES

- *In contrast, the **financial services sector** (including insurance and pension), an area where Nigeria possesses **comparative advantage**, contributed a mere $1.7bn ($1.35bn imports and $0.36bn exports) to Nigeria's total trade in services.*
- There is clearly room for growth and Nigerian banks have a major role to play.

NIGERIA'S TRADE

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

NIGERIA’S EXPORTS TO AFRICA AND THE MAJOR DESTINATIONS

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

IMPLICATIONS OF AfCFTA FOR NIGERIA / OPPORTUNITIES FOR BUSINESS

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

READINESS STATUS OF AFRICAN COUNTRIES

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

READINESS

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

NIGERIA’s READINESS REQUIREMENTS FOR AfCFTA / DIRECTION FOR GOVERNMENT

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

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

READINESS

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

READINESS Trade Rules Enforcement

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

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

AfCFTA AND NATIONAL DEVELOPMENT

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

RISKS AND UNDESIRABLE IMPACTS

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

AFRICAN COUNTRIES LACK OF CAPACITY AND WILL

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

BROADENING THE TAX BASE

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

IS NIGERIA READY FOR AfCFTA

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

IS NIGERIA READY?

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

The Role of Banks

- A critical factor for Nigeria is the role banks would play in the development of the financial sector and access to finance and investment. The banks need to focus on rendering innovative financial services that would enable Nigerian businesses play in Africa.
- Trade Facilitation through the financing exports.
- Providing banking services across Africa overcoming “behind the border” domestic non-tariff measures that impede access to markets. Bureaucratic delays and regulations that have constrained Nigerian banks from establishing subsidiaries in some African countries
- Providing trade finance products that would reduce the risk in exporting Letters of Credit and Documentary credits.
- Afreximbank has committed to playing a leadership role in the support of intra African trade seeking to provide end to end solutions to facilitate the conduct of cross border trade in Africa. Opening credit lines for banks to facilitate the confirmation of letters of credit

Advise to the Banks

- Build capacity: Develop expertise in various sectors; Invest in financial intelligence in Africa
- Don’t get burned by herd mentality (Oil & Gas)
- Nigeria has built significant capacity and competitive advantage in the financial services sector. Spare capacity exists that can be deployed prudently across Africa.

PRACTICAL IMPLEMENTATION ISSUES

- *lack of reciprocity, for instance, Nigerian business continue to experience non-tariff barriers to trade and obstacles to visa procurement and free movement of persons despite existing protocols as evidenced by regulations targeted at Nigerian traders in Ghana, bureaucratic delays and regulations that have constrained Nigerian banks from establishing subsidiaries in Angola and South Africa and similar complaints by Nigerian airlines operating in the sub-region.*
- *preference of African countries to trade with countries outside of Africa due to colonial ties and other economic and political considerations and alignments which will impact the market access promised by AfCFTA*

- *Yet another consideration is the growing wind of nationalism and protectionism, some of which can be traced to the unintended consequences of globalization and multilateral trade arrangements such as job losses, decline of production capacity in some countries due to cheaper imports and high incidence of migration. The United States, the erstwhile foremost champion of free trade has pulled out of the Trans-Pacific Partnership Agreement, renegotiated the North American Free Trade Agreement with Mexico and Canada and is currently engaged in a ferocious trade war with China. In Europe, the United Kingdom continues to struggle to unwind her membership of the European Union. If not properly managed, the free movement of persons that will result from AfCFTA could exacerbate the xenophobic tendencies being exhibited in South Africa and other African countries.*

PREDATORY TRADE PRACTICES

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

CONCLUSION

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