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African Continental Free Trade Area (AfCFTA): The benefits to the Nigerian Economy

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Abstract

One of the trade and market integration in the continent of Africa is the African Continental Free Trade Area (AfCFTA). The AfCFTA is a single-minded trade deal to form the world biggest unrestricted trade area by forming a distinct market for goods and services for the people across Africa nations. In view of the above, the paper examined the benefits of AfCFTA to the Nigerian economy with the use of library science method of research which comprises content analysis and interpretation of numerous literature on the subject matter. Based on the content analysis, the benefits of AfCFTA to the Nigerian economy include but not limited to; AfCFTA helps in poverty reduction and creation of employment, it increases imports and exports and as well give access to large market. Based on the findings, this study suggested that, Nigeria should continue to strengthen its raw materials exports and at the same time, pursue policies and programmes that would improve the comparative advantage positions of its intermediate goods, consumer goods and capital goods in export trade.

Keywords: AfCFTA; Benefits; Consumer goods; Economy; Export trade; Library science

1. Introduction

Regionalization is when nations of specific area come together by way of putting together the resources of regional block for the common good of all the nations that exist in the in order to strengthen their macroeconomic conditions such as inflation, budget deficit, central bank financing and foreign exchange reserves (Ehigiamusoe & Lean, 2019). The main reason for regionalization is to enhance the survival of states, in term of the economy, security and welfare for various countries within the regional block. As a matter of fact, there are four pillars of the Africa's Regional integration namely as; Trade and market integration, macroeconomic policy convergence, financial and monetary integration, harmonization of sectoral policies and peace, security, stability and Governance (Sanusi & Hammajumba, 2022; Gbosi, 2019).

One of the trade and market integration in the continent of Africa is the African Continental Free Trade Area (AfCFTA). The AfCFTA is a single-minded trade deal to form the world biggest unrestricted trade area by forming a distinct market for goods and services for the people across Africa nations and deepening the economic integration of Africa *and as well boost the trading position* of Africa in the global market.

The African Continental Free Trade Area (AfCFTA) agreement is the largest free trade area in the world, measured by the number of countries participating. The pact connects 1.3billion people across 55 Countries with a combined GDP value at \$ 3.4tr. It has the potential to lift 30 million people out of extreme poverty by 2035. The scope of AfCFTA is large. The agreement will reduce tariffs among member countries and cover policy areas such as trade facilitation and services, as well as regulatory measures such as sanitary standards and technical barriers to trade.

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The AfCFTA contributes to establishing regional value chains in Africa, enables investment and helps in job creation, thus enhancing the competitiveness of Africa in the medium to long term. Also, AfCFTA has the potential to create the world's largest free trade area, supporting trade creation, structural transformation, productive employment, and poverty reduction. The treaty removes tariffs from at least 90 percent of trade within the continent and includes policies aimed at eliminating non-tariff barriers such as customs delays. It is a deep trade agreement because it covers policy areas like trade facilitation and services, as well as regulatory measures like sanitary standards and technical barriers to trade, which have so far not been considered under regional trade agreements (UNCTAD, 2021).

Meanwhile, statistic from the Nigeria Bureau of Statistics shows that intra-African trade is currently pegged at 15%. This is a relatively low figure compared to that of other continents of the World like Europe and Asia whose intra continental trade is valued at 67% and 58% respectively. For instance, within the West African sub region, in 2021, Nigeria's total trade with the economic community of West African States (ECOWAS) amounted to N1.32tr comprising N1.24tr exports and N82.48b imports (Vanguard Newspaper, April 11, 2022). It is this unfavorable economic status that the African Continental Free Trade Area (AfCFTA) agreement seeks to rectify. Thus, this paper focuses on the potential benefits of AfCFTA to the Nigerian economy.

2. The Birth of African Continental Free Trade Area (AfCFTA)

The African Continental Free Trade Area (AfCFTA) is a free trade area founded in 2018, with trade commencing as of 1 January 2021. It has been designed as a multi-stage process, with negotiated issues to be constituted into legal instruments. Phase 1 involves issues on rules of origin, schedules of tariff concessions, and schedules of specific commitments on the five priority service sectors (business services, communications, finance, tourism, and transport), with Phase 2 negotiations focusing on intellectual property rights, investment, competition policy, and Phase 3 about e-commerce (UNCTAD, 2021).

The agreement which was signed by 54 of the 55 African Union nations of Africa on the 21st March, 2018 in Kigali, Rwanda, and subsequently came into force on the 30th May, 2019 is recognized as the largest free trade agreement in history by reason of participating nations since the formation of the World Trade Organization (Ighobor, 2018; UNCTAD, 2016). Accra, Ghana serves as the Secretariat of AfCFTA and was commissioned and handed over to the AU by the President of Ghana Nana Akufo-Addo on August 17, 2020 in Accra.

Meanwhile, in December 2020, Nigeria ratified the African Continental Free Trade Area (AfCFTA), which is a deep trade agreement that removes various barriers to trade among African countries. Within the West African sub region, in 2021, Nigeria's total trade with the economic community of West African States (ECOWAS) amounted to N1.32tr comprising N1.24tr exports and N82.48b imports. Also, Nigeria's import from Africa in 2019 amounted to N1.11tr while export stood at N3.92tr. But in the year 2020, import from Africa stood at N406.88b against export of N2.37tr resulting in N1.96tr surplus. While Nigeria imported goods worth N551.31b in 2021 and exported N2.41tr in 2021 worth of goods to the continent, showing a surplus of N1.86tr. (Vanguard Newspaper, April 11, 2022).

3. The General Objectives of AfCFTA

- Create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent.
- Create a liberalized market for goods and services through successive rounds of negotiations;
- Contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties.
- Promote industrial development through diversification and regional value chain development, agricultural development and food security
- Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

4. AfCFTA and the Nigeria Involvement

Nigeria is one of the 55 nations in the continent of Africa. Nigeria is the 8th most populated nation in the world and the most populated in sub-Saharan Africa with a total geographical area of 923.768 square kilometers and an estimated population of about 200 million people. It lies wholly within the tropics along the Gulf of Guinea on the Western Coast of Africa. Thus, as a member of Africa Union, the Federal Executive Council (FEC) initially approved the signing of the AfCFTA Agreement on March 14 2021, following the conclusion of negotiations for Stage 1 of the Agreement. However,

this approval was suspended due to the need to critically evaluate the Agreement, with respect to Nigeria's national interest and determine the implications for the economy. Following this evaluation, the Federal Government approved the ratification of the Agreement on November 4, 2020, and deposited the instrument of ratification on December 15, 2020, becoming the 34th State Party to ratify the treaty.

As a matter of fact, AfCFTA could expand intraregional trade in Sub-Saharan Africa (SSA) by more than 80 percent, with relatively limited adverse effects on trade with nonmembers. Estimates of welfare gains for the continent are up to 2.1 percent in efficiency deriving from reductions in tariff and non-tariff trade barriers (Abrego, De Zamaróczy, Issoufou, Nicholls, Perez-Saiz & Rosas, 2020). Moreover, study showed real income gains as high as 5 percent to 7 percent for the continent, and 4.2 percent for Nigeria relative to baseline by year 2035 (World Bank, 2020a; Chauvin, Ramos & Porto, 2017) under the assumption of reducing both tariffs and non-tariff barriers, as well as improving infrastructure (trade facilitation).

5. The Potential Benefits of AfCFTA to the Nigerian Economy

The benefits of AfCFTA to the Nigerian economy include but not limited to; AfCFTA helps in poverty reduction and creation of employment, it increase in imports and exports as well as give access to large market.

5.1. Poverty Reduction and Creation of Employment

Overall, the AfCFTA Agreement is projected to create over 13 million stable jobs. According to World Bank, (2020a), full implementation of the AfCFTA could lift 68 million in Africa out of moderate poverty by 2035, about half of whom would be located in Ethiopia (8.2 million), Nigeria (7 million), Tanzania (6.3 million), the Democratic Republic of Congo (4.8 million), Kenya (4.4 million), and Niger (4.2 million). Similarly, as employment shifts from sectors of comparative disadvantage to sectors of comparative advantage, agriculture and wholesale and retail trade would provide half of the employment in the continent, though registering shifts in compositional effects. The importance of agriculture as a source of employment is expected to decline (from 36 to less than 30 percent between 2020 and 2035), whereas the participation of wholesale and retail trade sector in total employment is expected to increase from less than 17 percent to 20 percent over the same period. Gains in Nigeria's trade employment share are expected to be twice as high as the continent average at 41 percent (World Bank, 2020a; UNECA, 2017). Increase in job opportunities and the demand for labor, thus reducing unemployment. Create an opportunity for Nigerian professionals to seek employment in other African countries.

5.2. Increase in imports and Exports

A study by Olapade and Onyekwena (2021) finds that the AfCFTA will deliver larger gains to African countries with prior larger shares of imports from the region. For Nigeria, the authors estimate real wage increases and welfare gains at 1.4 and 1.6 percent, respectively, over 2014 levels. Similarly, Increase export of commodities (particularly agricultural and other non-oil commodities), manufactured products as well as services. Based on the benefit of AfCFTA to the Nigerian economy through import and exports, Ifeanyi and Osman (2022) carried out a study on calculating the Revealed Comparative Advantage (RCA) and the Revealed Symmetric Comparative Advantage (RSCA) of Nigeria, and comparing the RCA and RSCA of Nigeria, Ghana and South Africa using time series data of Nigeria's, Ghana's and South Africa's export products namely raw materials, intermediate goods, consumer goods and capital goods obtained from the World Integrated Trade Solution (WITS). The study found that Nigeria has comparative advantage in the export of raw materials but has comparative disadvantage in the export of intermediate goods, consumer goods and capital goods when compared to Ghana and South Africa. Thus, Nigeria can profitably export raw materials to AfCFTA trade partners. In the export of consumer goods, Nigeria, Ghana and South Africa all have comparative disadvantage, but the position of South Africa is better than that of Nigeria and Ghana. Similarly, Nigeria, Ghana and South Africa have comparative disadvantage in the export of capital goods, however, the position of South Africa is better than those of Nigeria and Ghana.

5.3. Access to Large Market

The AfCFTA Agreement will motivate Nigerian small and medium scale enterprises (SMEs) to expand their businesses to, other African countries. Foster business growth and increase profit as well as contribute substantially to the development of the manufacturing sector. This in turn will increase GDP and contribute significantly to external reserves accretion. Thus, larger market aid free movement of labour, goods, services and capital. Example is influx of FDI into the country, in which manufacturers are likely to set up their plants and hubs in Nigeria to take advantage of the large market. This will boost the performance of the capital market and attract foreign and domestic investors (Olorunfoba & Nshimbi, 2017).

6. Conclusion

The main reason for regionalization is to enhance the survival of states, in term of the economy, security and welfare for various countries within the regional block. One of the trade and market integration in the continent of Africa is the African Continental Free Trade Area (AfCFTA). The AfCFTA is a single-minded trade deal to form the world biggest unrestricted trade area by forming a distinct market for goods and services for the people across Africa nations and deepening the economic integration of Africa *and as well boost the trading position* of Africa in the global market. Based on the background above, the paper examined the benefits of AfCFTA to the Nigerian economy with the use of library science method of research which comprises content analysis and interpretation of numerous literature on the subject matter. Based on the content analysis on the subject matter, the benefits of AfCFTA to the Nigerian economy include but not limited to; AfCFTA helps in poverty reduction and creation of employment, it increases imports and exports and as well give access to large market. Based on the findings, this study suggested that, Nigeria should continue to strengthen its raw materials exports and at the same time, pursue policies and programmes that would improve the comparative advantage positions of its intermediate goods, consumer goods and capital goods export trade. In the area of trade negotiations, it was suggested that, Nigerian Office for Trade Negotiations (NOTN) should adopts guidelines on the rules of origin for stakeholders' negotiations under AfCFTA.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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