

## **African Continental Free Trade Area and the Nigerian Economy: An Analysis in Challenges and Opportunities**

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### **Abstract**

*African Continental Free Trade Area was lauded by the United Nations Economic Commission for Africa that the agreement will boost intra-African trade by 52 percent by 2022. This notwithstanding, Nigeria dragged foot with signing the Agreement expressing worries over the fate of the local manufacturers and entrepreneurs, but later signed it anyway. Based on the foregoing, this study investigated the implications of the African Continental Free Trade Area (AfCFTA) on Nigeria's economy. The study was qualitative in nature as data was gotten from secondary sources of textbooks, the Internet, library, magazine, newspaper, while the theory of functionalism which is important component part of the broad theory of integration was adopted as the framework of analysis. The study revealed that the Nigeria's low industrial base and the practice of mono-economic system represents a serious challenge to its Nigeria's capacity to benefit adequately from the AfCFTA. The study recommends among other things that: there is need for Nigeria to incorporate the collaboration and initiatives of both the private and public sectors to invest in cross-border infrastructure of the country which will help in closing up Nigeria's physical infrastructure gap which already requires a huge capital investment as well as the revenue losses in smuggling, dumping and illicit trade flows.*

**Keywords:** AfCFTA, Economy, Nigeria, Integration, Trade

### **1. Introduction**

The African Continental Free Trade Area (AfCFTA) was developed during the Summit of the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, which met in January 2012 at Addis Ababa, Ethiopia. The Action Plan of AfCFTA as initiated by African heads of state is based on Boosting Intra-African Trade (BIAT). The Action Plan cuts across seven priority areas of action: such as trade policy, productive capacity, trade finance, trade facilitation, trade related infrastructure, factor market integration and trade information (Tralac, 2019). The AfCFTA has key objectives of creating a single continental market for goods and services, with free movement of people and investments. This is expected to promote the creation of a Custom Union. It aims to boost intra-African trade by accelerating strong harmonization and coordination of trade liberalization and economic policies across the various African states, and particularly among the various Regional Economic Communities (RECs). By so doing AfCFTA will encourage competitive trade both in terms of investment and human enterprise especially by exploiting vast opportunities for industrial production, continental market access and efficient management of state resources (Tralac, 2019).

The AfCFTA represents world's largest free trade zone since the establishment of the World Trade Organization, and has the promise of integrating the 55 AU member states, including a market of over 1.2 billion people, with a collective GDP of worth over US\$3.4 trillion. The Economic Commission for Africa (UNECA) estimates that with the removal of import duties, AfCFTA can boost intra-African trade by 52.3 percent by the year 2022, and this trade volume will be doubled if there are adequate reductions in non-tariff barriers (Witschge, 2018; Crabtree, 2018; Tralac, 2019). The AfCFTA Agreement as of July 2019 has been signed by 54 member states of the African Union excluding Eritrea and ratified by 30 countries (Tralac 2019). The 12th Extraordinary Session of the Assembly of the Heads of States of African Union which held on July 7, 2019 in Niamey, Niger facilitated the operational phase of the AfCFTA. The operational guidelines of AfCFTA are stipulated as follows: Rules of Origin; the monitoring and elimination of non-tariff barriers; the online negotiating forum; a digital payments

system and the African Trade Observatory. The AfCFTA Agreement has about six protocols such as protocol on goods, trade in services, rules and procedures for dispute settlement, competition policy, investment, and intellectual property rights (Africa Renewal, 2018).

Nigeria's hesitation and feet-dragging in committing promptly to the AfCFTA is particularly hinged on the consideration of its peculiar economic realities – including its productive base, industrial capacity, export and import trade relations, and general market conditions. President Muhammadu Buhari argued that Nigeria will not engage in any free trade agreement that would affect the local manufactures and the upcoming entrepreneurs in the country (Mumbere, 2018). Nigeria had several consultations with the local manufacturers through the Chief Trade Negotiator and Director General, Nigerian Office for Trade Negotiations, Ambassador Chinedu Osakwe, to ensure their effective involvement towards the take-off of the AfCFTA deal (The Conversation, July 26, 2018). However, the local businesses expressed strong skepticism to buy-in to the ACFTA deal. Many trade unions, stakeholders and industrial firms, especially the Nigeria Labour Congress (NLC), opposed Nigeria's endorsement of the AfCFTA Agreement. The NLC stated that it is a "renewed, extremely dangerous and radioactive neo-liberal policy initiative" that will create unsafe and difficult work conditions, increase economic pressure on the workers, and potentially exposing workers to migration to other countries. The Trade unions and manufacturers generally challenge Nigeria's engagement in AfCFTA particularly on the grounds that Nigeria still has low industrial capacity and those local manufacturers are not yet fully developed to withstand the shock of external market competition (Crabtree, 2018). This is because currently, Nigeria's export goods are mainly composed of oil products, with little or no export diversification on non-oil sectors of the economy.

## 2. Literature Review

### **Nigeria's Industrial Base and Mono-Economy**

The effects of AfCFTA on Nigeria's industrial economy are yet to be fully articulated and critically evaluated. It is not yet clear how the AfCFTA Agreement will affect Nigeria's mostly low-level manufacturers, and emerging entrepreneurs and small-scale business men and women who are not capitally competent enough and lack productive capacities to withstand regional market competition that would arise from the AfCFTA agreement. Africa Renewal (2018) observes that most traders and business men and women are enthusiastic about the free trade policy as it affects the export of their locally manufactured goods but are quite afraid at what would happen at the long-term in terms of being able to face the stiff competition that would arise in intra-regional trade. Although some traders have already expressed satisfaction that they now find it easier to take delivery of some products they use in their local production and services at cheaper rate.

In this respect Nigeria, being a significant economy and Africa's most populous country, which also has a very large market in the region has continued to interact with local manufacturers and trade unions on how they can fully be incorporated into the AfCFTA deal to avoid the adverse effects therein or at least manage it properly (Africa Renewal, 2018). Trade unions in Nigerian opposed the free trade area agreement on the bases that it will widely open Nigeria's borders for the importation of very cheap and inferior products. This will be a backlash from the free market operation in the region. The Nigeria Labour Congress, stated that the AfCFTA Agreement is a "radioactive neoliberal policy initiative" that will ultimately result to excessive and unprecedented interference of external forces on Nigerian economy. President Muhammadu Buhari expressed mixed feelings about the AfCFTA Agreement which Nigeria entered into and stated that "Our industries cannot compete with the more efficient and highly technologically driven industries in Europe" (Africa Renewal, 2018: 6). Moreover, there are serious concerns about Nigeria losing its tax revenues with the free trade area policy and the challenge of having continued firm control of its industrial and economic policies. While the economically strong countries and big firms are bound to benefit from the AfCFTA agreement, the smaller firms and local manufacturers who are still operating at small scale level will find it difficult to survive the market competition and reduced pricing system that comes with free trade area. Although there is but only

little hope that large firms will source their production inputs from small states for value-added outputs.

It is observed that the AfCFTA agreement will however take care of the fears of countries regarding multi-level membership in other regional economic communities, which may complicate or affect the general objective of a single, harmonized, free trade market system in the region. This is because any of such multiple involvement in regional economic communities by AfCFTA countries will undermine the operation of the AfCFTA from the start. The general idea therefore is that the AfCFTA Agreement has potentials to transform Africa economically and bring forth economic growth and development but the challenge of achieving effective implementation remains a serious concern and such become the possible weakness of the agreement. The need for a free trade area cannot be over-emphasized, however, there is need to apply strong political will by the African Union and individual member states participating in the agreement in order to achieve the goals of the agreement, including economic integration in the region (Africa Renewal, 2018). Chatam House (2019) sees Africa as the best environment to achieve a free trade agreement because it is a new destination for global economic growth. Africa has great human and natural resources, vibrant youth population with thriving GDP growth rates, and has also made some headway towards effective security in the region. The continent is seen as having or possessing huge economic potentials that are attractive at the global economic point and could adequately propel multilateral trade and investment in the region through the opportunities from AfCFTA.

However, the gains of AfCFTA agreement may not be visible at hand for a number of reasons. First is that the African Union, an umbrella body that is vested with the responsibility of overseeing the operation and implementation of the AfCFTA, does not yet have any observer status in the World Trade Organization (WTO), even though some attempts have been made towards that but all to no avail. Currently, Africa has a very little percentage – about 3 percent share of world trade, and this unwelcome development has been linked to its protectionist tendencies on imported products and this continues to make African economies vulnerable to external shocks. The intra-trade in Africa has remained far lower than what obtains in other regions of the world, with intra-African trade rates at just 18 percent of all exports. The AfCFTA serves as a weapon to dismantle the inequality existing in global trade and investment relations; so that Africa will no longer remain at the wayside in global trade regime. This will offer very great long-term gains (Chatham House, 2019). Being African Union's Agenda 2063 brainchild, deriving from past economic programs like the Abuja Treaty and the Lagos Plan of Action, the agreement is expected to boost trade in Africa and promote trade liberalization in the region which will be linked definitely to the global economic system. The idea of creating common markets and low-cost tariff system is geared toward assisting individual firms and business owners to grow their businesses and expand their production scale, create good jobs for the teeming African population, and in doing so cut down the high incidences of poverty that has pervaded African countries over the years. There is also more promise of attracting foreign investments to African countries which will help small economies in Africa to grow and achieve economic growth and development (Chatam House, 2019; Balistreri, Tarr, and Yonezawa, 2015). In 2018, the signing of the instruments governing the Single Air Transport Market and the Protocol on Free Movement of Persons, Right of Residence and Right of Establishment provided another step towards the gradual elimination of barriers to the movement of goods, services and people within the continent.

Although the report of Chatam House (2019), observes that a lot of efforts are still needed in order to fully benefit from the estimated gains of the AfCFTA agreement. Among other things the required trade infrastructures and facilities are still lacking in most African countries and such are highly important for the expected massive investment that will occur as a result of the AfCFTA programmer. The challenge is that leaders of African countries are yet to fully make the agreement their economic priorities ad consensus on its implementation must be established by the member states if any meaningful progress will be achieved. More disturbing is the fact that the gains of the agreement will be likely uneven and unequally distributed among the participating countries likewise the benefits, so it may always depend on the level of productive capacity of individual countries and their business

status. This depends largely on the level of industrialization and economic growth rates as well as the willingness of countries involved to open up their national borders and allow for seamless and free movement of people and goods. Unfortunately, it is seen that most African leaders may not be politically disposed to implement these economic packages, perhaps due to some political and economic reasons or that they lack political will to do such. Some countries are unable to maintain negotiation that will be unified and implement it. In some countries the private sector, trade unions, stakeholders and manufacturing sector are yet to fully accept to adapt by the provisions of the AfCFTA agreement. There is more concern as to how AfCFTA is harmonized to existing agreements on intra-trade in Africa. The African Union already has existing trade relationships and agreements with other regional bodies like the European Union and Latin America such as the Economic partnership agreement under EU with the Caribbean and Pacific (ACP) to which all African countries belong except very few North African states including Morocco, Algeria, Egypt, Tunisia, Libya and then South Africa. The Economic Partnership Agreement will be due in 2020, and negotiations are already ongoing to replace the existing Cotonou Agreement, which serves as the mechanism for governing trade relations between AU countries and the EU. It is therefore not easy to reconcile existing economic agreements in African states with the new AfCFTA agreement as there could be some overlapping responsibilities and loopholes or gaps in implementation of the different economic packages. However, the ideal thing is for AfCFTA to oversee all other agreements including daily trading activities and the general market economy (UNCTAD, 2018).

On the other hand, the African Union has big role to play because it interfaces between AfCFTA and African states as well as the global market system and should therefore take the full responsibility as the key trade negotiator with any other regional economic bloc and international business interests. The AU's involvement will cut across trade dispute settlement, trade negotiation, and security provision – these will ensure smooth operation of the AfCFTA from the beginning to the end. Active involvement of the African Union is important for the achievement of all the expected gains of AfCFTA including economic growth and continental development, trade and production or industrial diversification and job opportunities for the massive African population. The AU will also mount pressure on individual countries to ensure full implementation of the AfCFTA for sustainable economic growth (UNCTAD, 2018). Hartzenberg (2019) conceives that many of African countries especially the least developed countries (LDCs) already have trading relations and agreement with developed countries and international partners, and such trade deals are mostly based on primary products making African countries to benefit less from such trade relations. Therefore, the nature of these trade relations will not change any time soon and such lopsided trade and economic dependence will likely continue even in the future despite the existing trade agreement under the new AfCFTA. However intra-African trade under the new AfCFTA could actually guarantee certain incentives to diversify production and make African economies more attractive for trade. It has the capacity measures to settle some non-tariff difficulties that face intra-trade in Africa. It has the promise of improving the African trade culture and its environment for enhanced economic growth. Common market for instance, will draw investments from far and new including from outside the continent with the enabling and right environment for export diversification and necessary technologies for trade improvement and monitoring mechanisms as well as enhanced productive base within the continent. Trade Law Center for AfCFTA Monitor report (2019) noted that the existing regional economic communities (RECs) in Africa should not be seen as an overlapping or multiplicity of responsibility that could generate problem of policy contradictions in the implementation of AfCFTA but should rather be seen as important frameworks that are relevant for the smooth operation of the AfCFTA. This is because most African trade within the continent are already concentrated under the RECs and such the RECs do not have to be eliminated. Already over 50 percent of the intra-trade in Africa are conducted under the customs union of Southern African sub-region under the SACU, and about 65 percent being conducted within the SADC. Hence, intra-trade in Africa is more and better diversified under different existing RECs in the region. While AfCFTA continues operating and developing, there is every tendency for more consolidation and harmonization of trade rules and regulations with adequate measure for their

effective implementation even under several peculiar trade regimes (Trade Law Centre's AfCFTA ratification monitor, May 30, 2019).

Although there is still enormous task to fine-tune in order to get the AfCFTA working well especially in all specific aspects of the two levels and phases of the negotiations on AfCFTA. The first phase which involves trade in goods and services disciplines, includes settlement of dispute and this must be carefully noted and certain strong measures must be taken in order to ensure that trade conflicts emanating from the agreement are being effectively managed and sorted during the implementation stage to avoid huge economic losses and negative growth at the long-term. For instance, the issue of tariff negotiations which are yet to be clearly defined and streamlined in uniformity across the countries involved. Such negotiations on concessions on tariff therefore have to be finalized as well as rules of origin, and for trade in services, with all required commitment of countries spelt out and clearly negotiated and finalized accordingly (see AfCFTA Agreement, 2019). Similarly, the second phase of the AfCFTA agreement on trade deals with the issue of investors and cooperation, competitive trade and intellectual property rights. It does appear that the issue of concession would critically affect LDCs who deals on very poor goods, with little trade-in-services. Although African trade is generally not robust, tax revenue is sensitive and highly useful means of revenue to the government, both for more industrialization, export diversification and for putting in place necessary infrastructures for economic development. Generally, the overall role of tariff as an economic tool and instrument for cutting down high competition on import in order to protect the infant local industries cannot be dismissed as a result of AfCFTA. Hence, even though AfCFTA participating countries have agreed on trade liberalization to the tune of 90 percent cut on tariffs, strong measures must be put in place to safeguard poor countries and local producers against the impending shock at the long-term (AfCFTA document, 2019).

Many local manufacturers, including the Lagos Chamber of Commerce and Industry (LCCI), Dangote Group, and Manufacturers Association of Nigeria (MAN) expressed negative views about Nigeria's involvement in the AfCFTA agreement and urged the Nigerian government to carefully exercise caution before engaging and committing fully in the AfCFTA deal. For Onwunyi and Mba (2025), the trade unions warned that adequate measures must be established in order to avert the adverse effects of the AfCFTA deal which include flooding inferior goods into Nigeria, in the form of dumping; excessive low prices of goods resulting to little profits for local manufacturers, loss of government tax revenue and displacement of local firms who cannot withstand the external shocks of stiff competition. Particularly, during a two-day Africa Trade Forum 2018 in Lagos, the Chairman Dangote Group, Mr. Aliko Dangote, encouraged the idea of regional economic formations such as the AfCFTA which pursue reduction or elimination of trade barriers and cut off the certain economic hurdles/challenges his company and other local firms pass through in the process of exporting their products to other African countries. However, Dangote foresaw the need for government to make wider consultation with critical stakeholders in manufacturing and industrial sector as well as key business operators in order to adopt best strategies on how to approach the AfCFTA agreement for the benefit of all and sundry. If not, it means that the benefit of the AfCFTA deal will be lopsided and enjoyed only by the big companies who can easily form monopolies and displace small firms out of business. Dangote encouraged the government to do more thorough examination and evaluation of existing trade agreement and find out why they are not working and how possible they can work together with the AfCFTA without creating undue frictions and conflicts that could in return mar the progress of the AfCFTA and intra-African trade at large. Dangote further clarified that several trade barriers obstruct smooth export intra-trade in Africa. For example, Dangote group signed up to 38 documents before it could get its cement imported to Ghana; and likewise similar number of agreements were signed in order to get Dangote products to Benin Republic despite its closeness to Nigeria, which is about 24 kilometers from Nigeria. These difficulties therefore have to be addressed; hence, Dangote believes that backward integration is needed in order to achieve productive competition in the region.

On the other hand, the Director-General of Manufacturing Association of Nigeria (MAN), Mr, Segun Ajayi-Kadir, stated the views of the MAN on AfCFTA which generally welcome intra-trade in Africa, especially such that has wider market reach that connects producers and buyers of commodity together from diverse national governments. However, he warned that the implications of such trade agreement on Nigeria's manufacturing sector and business firms must first of all be ascertained along with their solutions before fully committing to its full implementation in Nigeria. The MAN called for a devoted specific-country study to ascertain long-term effects of AfCFTA on Nigeria's productive sector and the economy in general. For example, it is believed that any country that can't boast of creating jobs for its people, and that any of such countries which has most of its working population leaving the country to look for greener pastures elsewhere is rather exporting job and would therefore import poverty in return. One good thing however is that the Nigerian government was able to set up a presidential committee on the AfCFTA agreement with the private sector fully incorporated, to carry out wide consultation across the country in order to arrive at the solutions to perceived grey areas and challenges of the AfCFTA (Vanguard News, November 8, 2018). The President of the Lagos Chamber of Commerce and Industry, Mr. Babatunde Ruwase emphasized that the government must come up with adequate solutions and measures to safeguard the vulnerable sectors in Nigeria in view of the effects and backlash of the AfCFTA agreement. The AfCFTA is seen as an important agreement that Nigeria should buy into especially in consideration that it serves as a large framework for small industries and SMEs to be linked up and incorporated to the regional intra-trade and its economy. This generally serves to empower women traders and promote their economic gains. Stuart (2019) expresses those developing nations have the opportunity of achieving long-term economic growth if they develop their economies to be export-dependent through maintaining sustainable export markets.

Generally, lack of export diversification makes for developing countries that enter into free trade agreement to be highly vulnerable with little or no trade benefits. This is because countries that have undiversified economies are usually those that export goods. Although there could be temporary economic gains but such benefits may not be sustainable for economies that are not diversified at the long-run (Odikpo & Onwunyi, 2020). If the economy is diversified on varieties of export goods, it will be possible therefore to incur less effects of fall in prices out of free trade policies on various products. It is important to put up some government economic policies that support export diversification as well as leverage on some productive advantages in order to achieve meaningful long-term economic prosperity within the AfCFTA agreement. Improving on industrial expansion is important for African economies, including capital formation in order to attract necessary investment opportunities (Stuart, 2019).

### **Theoretical Framework**

This study was based on the theories of Functionalism which is an important component part of the broad theories of integration. The theory of functionalism was built upon the unified goal and needs shared by countries, including non-state entities and actors, in the course of global integration. The key proponents of the functional approach of integration are Mitrany (1933), Ernest B. Haas (1964), Held (1996), Scholte (1993), Rosamond (2000) etc. The Functional theory of integration is fundamentally built from the liberal and idealist ideologies which derived mainly from Emmanuel Kant and Woodrow Wilson (Rosamond, 2000). The functional theory is developed in the pattern of authority based on functions and needs of states, scientific knowledge, technological development, and the idea or structure of a supra-territorial authority.

The theory of functionalism proposes the system of international or regional integration based on the collective governance and 'material interdependence' (Mitrany, 1933:101) among states. This informs a level of internal economic structures in states that integrate in limited functional, technical, and/or economic areas.

In this function, the international organizations are expected to accomplish important human needs, aided by technology and expertise. The gains provided by the functional organizations would attract the loyalty of the populations and stimulate their involvement and broaden the levels of

integration (Scholte, 1993; Held, 1996). Key assumptions that functionalism proposed include the following: (1) That the process of integration occurs in the context of human freedom (2) That knowledge and skill are now available to fulfill the needs that the functional organizations are made to fulfill (3) That countries should not undermine the process of integration (Rosamond, 2000). The functionalist approach to integration was useful in this study in many ways. It helps to explain the fundamental idea behind the formation of the African Continental Free Trade Area by the African Union as an economic development strategy at a regional level. The theory goes to confirm that a regional economic development strategy such as the AfCFTA has the prospects of boosting economic development at a continental level – which means that any state that is able to develop its economic and industrial base will be in a vantage position to maximize the benefits of the AfCFTA agreement with perhaps very minimal losses if at all. In addition, Nigeria's prospects under the AfCFTA will be worse considering its porous borders with no effective border-control mechanisms thereby allowing for the influx of illegal goods into the country. This potentially results to loss of huge tax revenues and could lead to dumping. This explains that Nigeria has very gloomy picture ahead of the implementation of the African Continental Free Trade Area.

### 3. Methodology

This research was based on *ex-post facto* research design which is a method of presenting likely antecedents of events that have happened and cannot, therefore, engineered or manipulated by the investigator (Cooper and Schindler, 2001). This paper was based on qualitative data collection method. The data and information used are mainly sourced from books, journal articles, periodic reviews, internet materials, newspaper reports, and official documents and reports on African free trade issues. These include data from United Nations Economic Commission for Africa (UNECA), Brookings Institute, World Bank reports, African Union, AfCFTA agreement, World Economic Forum, PricewaterhouseCoopers, Chatham House, UNCTAD, Manufacturing Association of Nigeria, etc. This paper adopted the qualitative descriptive method of data analysis. The qualitative descriptive analytical method is used to make descriptive analysis and explanation on information that is generated in research so as to build an empirical connection between the independent and dependent variables of the study.

### 4. Nigeria's Problem of Low Industrialization and Prospects of the AfCFTA Agreement

Maximizing the benefit of any continental free trade area agreement lies in the level of industrial and manufacturing capacities of the relevant countries (Artuç, Lederman, and Porto, 2013). Cazares (2018) noted that the AfCFTA has strong prospects for offering opportunities for economic growth in Africa and sustainable development. However, this will largely depend on the industrial capacity of the individual countries involved. Countries that do not already have fairly developed agricultural, industrial and manufacturing sectors may have to incur some long-term negative growth rate based on their AfCFTA agreement commitments. In essence, the gains of having a common market and economic integration, (including gains of welfare from low prices of products, productive efficiency and rise in exports and value-added jobs as well as technological improvements and product specialization), will all depend heavily on the ability of AfCFTA countries to capitalize on well-developed industrial sectors for long-term sustainable economic growth (Kituyi, 2016). On the other hand, low industrial base will result to loss of trade revenue, elimination of local SMEs who cannot face stiffer competition from the AfCFTA free trade area, adjusting unemployment etc). In the words of Onwunyi, Asukwo and Ojukwu (2024), this therefore shows the need for massive investment in infrastructure for industrial stimulation and growth of a wide range of businesses. The expected gains of the AfCFTA Agreement during its first phase implementation are estimated by the UNCTAD as shown in table 1 below based on selected comparable indicators in intra-Africa trade.

**Table 2. Selected indicators comparative table**

	Scenario 1 (Full FTA)	Scenario 2 (Special Product Categorization)
Welfare (billion US\$)	16.1	10.7
GDP growth rate (per cent)	0.97	0.66
Employment growth rate (GDP weighted, per cent)	1.17	0.82
Intra-Africa Exports (billion US\$)	68.0	63.6
Change in Intra-Africa Exports (billion US\$)	16.8	12.4
Change in Intra-Africa Exports (per cent)	32.8	24.2
Change in Total Exports (billion US\$)	13.5	10.0
Change in Total Exports (per cent)	2.5	1.9
Change in Total Imports (billion US\$)	9.7	9.7
Change in Total Imports (per cent)	1.8	1.8
Trade Deficit (billion US\$)	3.7	7.2
Trade Deficit (per cent change)	-50.9	-3.8
Tariff Revenue Loss (billion US\$)	4.1	3.2
Tariff Revenue Loss from intra-African trade (billion US\$)	3.1	2.3
Tariff Revenue Change (per cent)	-9.1	-7.2

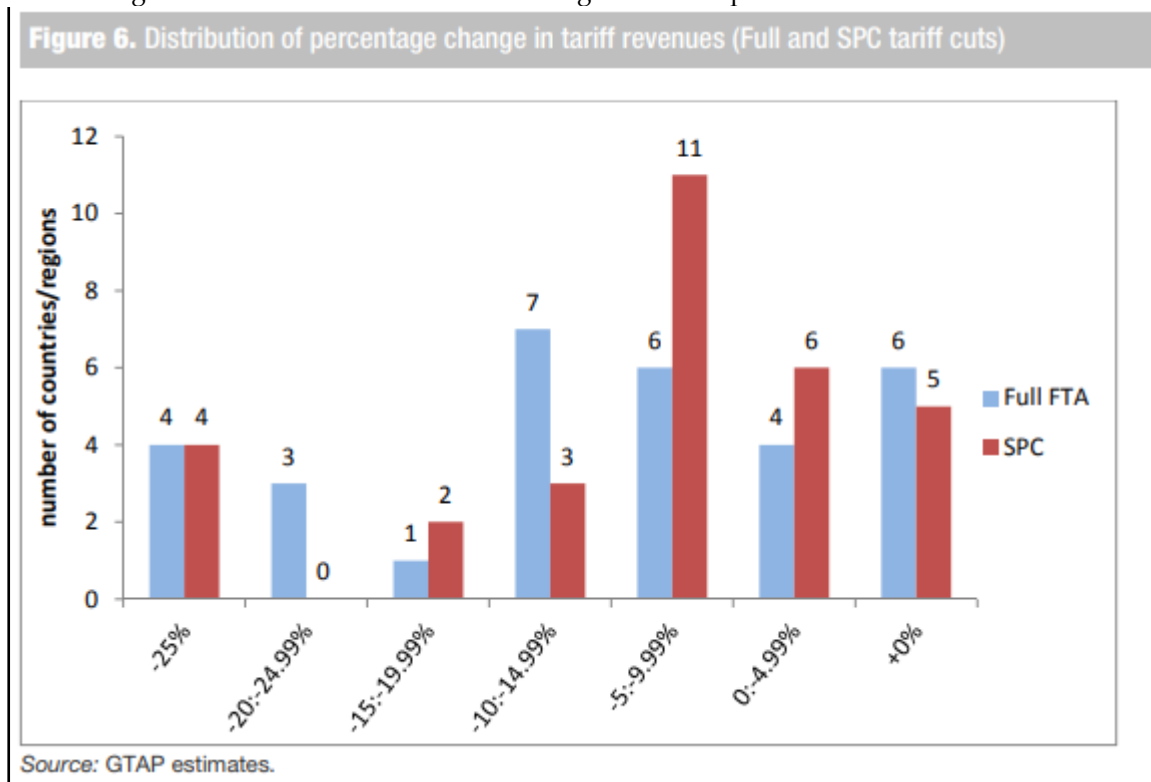
Source: GTAP estimates.

Source: Saygili, Mesut; Peters, Ralf and Knebel, Christian (2018) *African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions*. Geneva: UNCTAD Research Paper, No. 15, p. 3.

The above table is quite illustrative as it depicts the long-term changes and cost of the implementation of AfCFTA Agreement on free trade and proposed near-total 90 percent tariff elimination in intra-African trade. The implication is that only insignificant economic progress will be achieved and this is as a result of the poor industrial capacity and lack of adequate trade and investment diversification among African countries. For example, the table shows that AfCFTA will only record only about 0.97 percent of upward increase in GDP growth rate annually within the first phase of its implementation. The growth rate on employment and job opportunities will also be minimal at a mere 1.17 percent increase. However, the estimated positive changes in intra-African export trade transactions based on the implementation of AfCFTA will result to an increase in trade benefits worth \$68 billion showing a breaking all-time high record of 32.8 percent. Observed changes in total exports will still be minimal at \$13.5 billion representing only 2.5 percent in total export-trade. Similarly, changes resulting from total imports will increase the volume of trade gains by \$9.7 billion which represents about 1.8 percent growth rate. It is also important to see that there are some trade deficits therein. According to the table, the volume of trade deficit or negative growth rate in intra-African trade under the AfCFTA regime will increase to \$3.7 billion representing -50.9 percent of negative growth rate. Worse still, the volume of tariff revenue loss in intra-African trade will rise to \$3.1 billion representing about -9.1 percent negative trend. This is quite an unprecedented unfavourable negative trend in intra-African trade.

Again, there are also some serious implications of AfCFTA on employment generation according to different sub-sectors. Although intra-trade relations in Africa under some existing trade agreements have offered substantial employment and job opportunities in the region employing up to 53 percent of Africa's labor force in the year 2016 (Kituyi, 2016; Saygili, Peters, and Knebel, 2018). However, many countries participating in the AfCFTA Agreement are apprehensive and concerned about the possible negative effects of the agreement on the different industrial sectors of the economy including the manufacturing and agricultural sectors of the economy. Any negative economic growth that occurs will drastically affect the level of employment already created in intra-African trade and may likely lead to huge job losses in individual countries. If for instance, there is stiff competition that local firms cannot without they will gradually get out of business at the long-term and such will lead to massive job losses across the countries involved. This is highly possible as great fears have already set in among many

AfCFTA countries, including Nigeria, especially about the survivability of most firms based on their low industrial capacities. The national governments are therefore in great apprehension regarding the estimated adverse effects of AfCFTA on employment across the continent. Although the highest possible growth rates have been found in the services and manufacturing sub-sectors, agricultural sub-sectors which compose high volume of the exported items in intra-African trade will also record some growth rates. However, these are only very insignificant increases that will occur at the short-run and may not likely result to massive employment opportunities. The fear is that such minimal and marginal employment gains see at the short-run may quickly disappear at the long-run when stiffer competition sets in and will automatically result to negative growth rate with huge job losses once the small firms can no longer withstand the market shock of heightened competition.

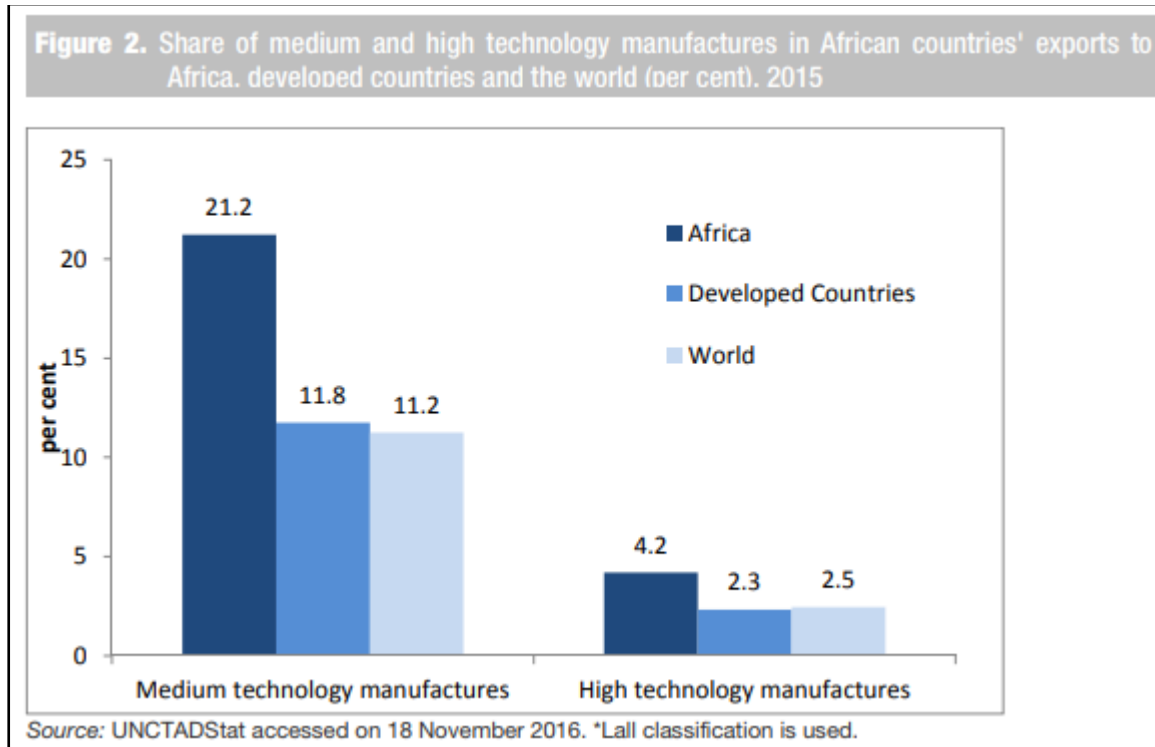


Source: Saygili, Mesut; Peters, Ralf and Knebel, Christian (2018) *African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions*. Geneva: UNCTAD Research Paper, No. 15, p. 3.

The table illustrates the different stages of tax revenue cuts and losses that will occur during the implementation stage of AfCFTA – which will be borne mostly by countries such as Nigeria that have undiversified low industrial and weak manufacturing sector that cannot compete effectively on diversified intra-Africa export trade. The implementation the AfCFTA agreement will therefore result to uncontrollable revenue losses and negative growth rate in different stages and phases accordingly. This as shown in the table includes -25%; -20% –24.99%; -15% to -19.99%; -10% to -14.99%; -6% to -9.99%; 0% to 4.99% and +0% respectively. This therefore shows that the implementation of AfCFTA have sever revenue losses which will be suffered by low-industrial countries like Nigeria, while diversified export-countries may record only but insignificant gains.

Generally, African export-trade to the global market are not diversified and are mainly based on primary products and raw materials, but Africa’s intra-trade exports are expected to contain more value-added products including locally manufactured goods and services (Kituyi, 2016). Manufactured goods that feature in intra-Africa trade are estimated at 43% during 2012-2016; this shows only 20 percent of exports to the international market. On the other hand, medium and high technology producers represent 25.4% of intra-African trade in 2015, but only accounted for about 14.1% of Africa’s exports to the international market and 13.7% of Africa’s exports to the global market (Kituyi, 2016; Saygili, Peters, and Knebel, 2018).

THE FIGURE BELOW SHOWS SHARE OF MEDIUM AND HIGH TECHNOLOGY MANUFACTURES IN INTRA-AFRICAN EXPORTS COMPARED WITH DEVELOPED COUNTRIES.



This above table shows those AfCFTA countries such as South Africa, Kenya, Morocco, Ethiopia, and Egypt, with relatively improved and developed industrial and manufacturing sectors – with the required industrial, social and productive infrastructure will gain more favourably from the benefits of AfCFTA than others including Nigeria that do not have such improved industrial and manufacturing sectors required for diversified export intra-Africa trade (Saygili, Peters, and Knebel, 2018).

## 5. Conclusion and Recommendations

The study investigated Nigerian Economy and the Challenges of African Continental Free Trade Area. Therefore, based on the empirical analysis made in the study, it has been established that the Nigeria's low industrial base and operation of a mono-economic system of economy with low export diversification undermine its capacity to benefit significantly from the African Continental Free Trade Area Agreement. This is mainly because Nigeria that has not been able to interlink its various economic sub-sectors and aspects in order to attain backward and forward linkages that would enable its economic diversify export trade. Nigerian Economy and the Challenges of African Continental Free Trade Area.

Based on the findings and conclusions of the study, the following recommendations are expedient and useful: (a) There is need for Nigeria to incorporate the collaboration and initiatives of both the private and public sectors to invest in cross-border infrastructure of the country. This will help in closing up Nigeria's physical infrastructure gap which already requires a huge capital investment. It will also close up Nigeria's losses in tax revenue as a result of commodity smuggling, dumping and illicit trade and financial flows. (b) It will be necessary for Nigeria to ensure strict implementation of the removal of non-tariff barriers, promote the convergence on regulatory measures, and encourage greater trade facilitation among the participating states.

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