

Maximizing the Potentials of Trade Agreements: Free Trade Areas and Expectations from Brexit

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INTRODUCTION

What is a Free Trade Area

- ❑ FTA involves cooperation between at least two countries to **reduce trade barriers** in order to **increase trade** of goods and services with each other
- ❑ It is the first basic step to achieve common market and monetary union
- ❑ Following a well functioning FTA is graduation to a Customs Union (CU)
- ❑ Followed by creation of CU + Common External Tariff (CET)
- ❑ Africa Continental Free Trade Area (AfCFTA) is therefore only a basic step to Agenda 2063 with the ambition to have common market in Africa

AFCFTA

PARTICIPATION

- ❑ Nigeria Eventually Signed the Framework Document at the Extra-Ordinary Meeting of ECOWAS Heads of States and Government in Niamey, Niger republic in July 2019.
- ❑ By implication Nigeria endorsed the outcomes of the negotiations so far (by other State Parties) prior to Nigeria's decision to join the AfCFTA
- ❑ Nigeria became the 54th and the last country to sign the Agreement till date leaving only Eritrea yet to sign
- ❑ With this Nigeria join the ambitious and collaborative move to One Africa 2063 target.
- ❑ The Agreements contains **Two Core** elements:
 - Commitment to **Gradual** Elimination of Tariffs and Non-Tariffs Impediments to Trade with Africa;
 - Safeguard and Remedy

CORE ELEMENTS I – COMMITMENTS

PART I: ESTABLISHMENT, OBJECTIVES PRINCIPLES AND SCOPE – ARTICLES 2 -9

2.1 General and Specific Objectives of AfCFTA :Article 2-7

- The general objective of the agreement is to;
 - Liberalize market for goods, services and movement of persons ***through successive rounds of negotiations;***
 - Lay foundation for the establishment, ***at a later stage***, a continental ***customs union;***
 - Promote ***sustainable inclusive*** economic growth through enhanced competitiveness and industrial growth, diversification and development of continental value chain.
- Through:
 - ***Progressive elimination*** of tariffs and non-tariff barriers;
 - ***Progressive liberalization*** of trade in services; Mode 1: cross border trade; Mode 2: consumption abroad; Mode 3: commercial presence; Mode 3: presence/movement of natural persons.
 - ***Cooperate on*** investment, intellectual property rights, and competition policies;
 - ***Cooperate on*** customs and trade facilitation matters; and
 - ***Design*** dispute management mechanism.

CORE ELEMENTS 2 - SAFEGUARDS AND REMEDIES

Rendez-Vous Clause – Part I Articles 8 And 9.

- This provides for *need-based periodic revision* of the agreement subject to outcomes periodic evaluation.
- The clause leaves *room for continuous negotiations and continuous adjustments* whenever necessary.
- It provides *for special negotiations* (consideration) for intellectual property (IP), investments and competitions policies. *Special negotiations under successive rounds for these sensitive areas.*

TRADE REMEDIES (SAFEGUARDS) -PART V;Article 16-19

- Nothing in AfCFTA prevents State Parties from applying anti-dumping countervailing measures and safeguards in accordance with relevant WTO Agreements
- **Product Standards PART VI Articles 20 and 21:** Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary (SPS) shall be in accordance to WTO Agreements.
- **Special & Differential Treatment** - Subject to WTO safegurads. Not specific, but provides flexibilities based on levels of development and specific specificities as recognised by other state parties.
- **Infant Industries – PART VII: Complementary Policies – Article 23:** There are provisions for *protection of infant industries* at national level, provided *necessary measures* are taken to *overcome difficulties* faced by such industry

SAFEGUARDS AND REMEDIES

Review

- The agreement is subject **to review every five years** after entry into force by state parties.

Withdrawal

- A state party **may withdraw from** the agreement five year from the date of entry into force. Withdrawing party must forward written notification to states parties through the Depository.
- Withdrawal shall **be effective** two years after notification
- Withdrawal **shall not affect** pending rights and obligations of prior to withdrawal.

SAFEGUARDS AND REMEDIES

Exceptions

- The agreement makes provisions for adoption or enforcement of rules or measures in the following cases in a non-arbitrary or un-justifiable discriminatory manner:
 - Protection public morals and order
 - Protection of human, animal or plant life or health
 - Importations and exportations of gold or silver
 - Products of prison labour

- Other key exceptions are in the cases of:
 - Security
 - Balance of payments crisis

STATUS IN THE CONTINENT

- ❑ Nigeria is one of the three largest intra-Africa exporter – South Africa, Nigeria and Egypt. Nigeria is not one of the largest intra-regional importer – South Africa, Namibia and Botswana
- ❑ Nigeria is 4th largest in terms of Manufacturing Value Addition (\$35.45bn) in the continent behind Algeria, RSA and Egypt
- ❑ Its size of services sector is the largest in the continent - \$225.10bn. Nigeria's global trade in services: \$23.26bn in 2017, and the 4th largest in terms position of trade in services in the continent.
- ❑ Nigeria's trade with Africa: \$6 bn (\$4.9bn exports, \$1.1bn imports), represents 8% of its total trade in goods, making her the 4th highest intra-African trader
- ❑ However, Nigeria's export concentration index is one of the poorest in the continent 0.73 and 44th position in the Continent, behind RSA (0.12), Tunisia (0.13), Egypt (0.15), Morocco (0.17) etc.
- ❑ Nigeria ranked **123rd** out of **136** countries ranked in terms of **foreign market access**. This provides clear evidence that Nigeria's products face acceptance hurdles in foreign markets.

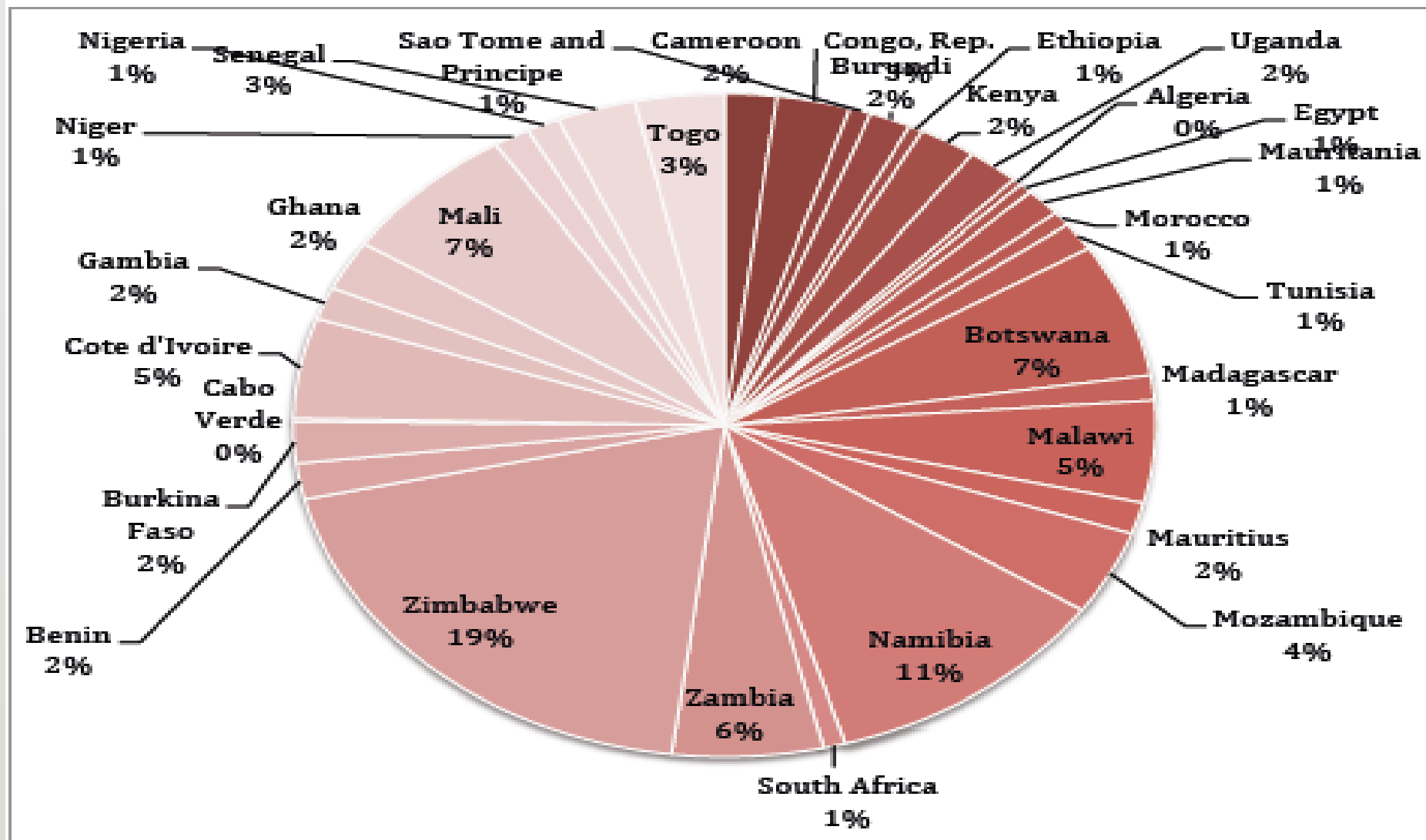
NIGERIA IN INTRA-AFRICAN TRADE

AfCFTA: Intra-Africa Trade Profile for selected Countries in 2017 (US\$ billion)

Country	Export	Import	Trade Balance
South Africa	14.1	8.68	+5.52
Nigeria	5.13	1.27	+3.86
Egypt	3.63	2.31	+1.32
Ghana	2.1	1.56	+0.53
Morocco	1.29	1.17	+0.12
Benin	0.13	0.21	-0.08
Nigeria Trade to Selected African Countries			
Total West Africa	2.59	0.26	+2.33
Benin	0.012	0.014	-0.002
South Africa	1.72	0.51	+1.21
Ghana	0.30	0.056	+0.23
Egypt	0.35	0.08	+0.27
Kenya	0.003	0.023	+0.020
Cameroon	0.25	0.036	+0.022

Source: Compiled from <https://atlas.media.mit.edu/>

COUNTRIES INTRA-AFRICA EXPORT OUT OF TOTAL EXPORT



Source: Adapted from AfDB, Database.

PRIVATE SECTOR IN THE AFCFTA

- ❑ The private sector, particularly the MSMEs, are the main actor/stakeholder in AfCFTA and therefore must be well positioned to maximize its benefits.
- ❑ According to the Trade Law Centre of Southern Africa (TRALAC) Private sector in Africa, of which SMEs constitutes 90%, contributes:
 - 80% of total production
 - 67% of total investment
 - 75% of total credit
 - 90% of total employment
- ❑ The AfCFTA will make it easier for such MSMEs to supply inputs to larger regional companies, which in turn tap into export markets, creating regional value chains across the continent."

POTENTIAL BENEFITS OF AFCFTA TO THE PRIVATE SECTOR

- ❑ Potential opportunity for the private sector to access larger market with less stringent entry rules – 54 countries currently, 1.2 billion consumers and around US\$3 Trillion in Domestic Activities (measured by the GDP)
- ❑ The AfCFTA takes into account the dominances of SMEs in the continent, and thus major consideration in its negotiations
- ❑ With the AfCFTA SMEs have opportunity to gain access to bigger/larger foreign market
- ❑ It provides potentials for SMEs to key into regional value chain,
- ❑ It creates alternative markets in the face of negative externalities associated with global trade politics, e.g ongoing Trade War on-going between two global trade giants. Case Sample – B&B Tannery in Kano

POTENTIAL BENEFITS OF AFCFTA TO THE PRIVATE SECTOR

- ❑ Open franchising opportunity for SMEs – leather and leather products is a good case sample
- ❑ AfCFTA could break limitation to sources of inputs into production for export – A case sample – NTM Textile Mill in Kano
- ❑ AfCFTA could make it easier for SMEs to supply inputs to larger regional companies, who then export.
- ❑ It will expose SMEs to harmonized regional quality standard for better competitive capacity

MAXIMIZING THE POTENTIALS OF AFCFTA



POLICY AND STRATEGY

- ❑ Government and the Private Sector must collaborate to create a well targeted implementation strategy
- ❑ Ensure coherence among the following is critical: (1) fiscal policy, (2) monetary policy, (3) national industrial policies, (4) trade policy, and (5) trade promotion initiatives.
- ❑ Create a generally stable policy environment to facilitate the evolution of competitive industrial sector that is able to capture opportunities arising from the AfCFTA.

- ❑ Key reforms are required to ensure that industrialization, investment and trade generate optimum benefits to the private sector. Comprehensive reform towards competitiveness must be accelerated in the following areas:
 - Outward oriented trade policy – border closure may be counter-productive in this regard
 - trade facilitation,
 - Trade related infrastructure development,
 - access to trade related finance
 - Energize doing business reforms to further create a better environment for the private sector,
 - **product quality and standards – key impediment to market access**



PRODUCTION AND ACCESS TO MARKET

- ❑ The government and the OPS must cooperate to facilitate production environment mainstream local manufacturing and processing into enhanced regional value chain;
- ❑ improvement in production and trade related infrastructure;
- ❑ encourage targeted access to finance;
- ❑ rejig standards and quality assurance institutions and ensure harmonization of mandates and upgrade them for global acceptability;
- ❑ identify and eliminate all supply side constraints;
- ❑ promote economic diversification through the development of policies that steer away focus from oil and commodity exports into value addition and manufacturing



COLLABORATION

- ❑ Businesses would need to collaborate amongst themselves and with government to reposition towards competitive export orientation
- ❑ better advocacy for policy influencing improved export performance,
- ❑ leveraging their collective strength to contribute to value added production and transformation.
- ❑ Cooperate to identify market opportunities and strategize to take advantage of them.

EXPECTATIONS FROM BREXIT



BREXIT :THE POST-REFERENDUM CONCERNS

- ❑ The post-Brexit referendum pulling of trigger relating to Article 50 began a formal process towards the UK withdrawal from the European Union (EU);
- ❑ The last few months have witnessed intense politicking in the UK parliament regarding what constitutes “a deal” with respect to withdrawal agreement with the EU.

❖ DEAL OR NO DEAL BREXIT:

- A No Deal Brexit describes a situation in which the UK leaves the EU without concluding a withdrawal agreement.
- A deal Brexit describe a situation where mutually agreed withdrawal agreement is concluded.
- A No Deal Brexit has various implications, particularly for citizens’ right and trade relations
- In case of A No-Deal Brexit a **New Trade Relation** will have to emerge to build a new future in respect trade

BREXIT AND ITS IMPLICATIONS FOR NIGERIA

- ❑ For developing and least developed countries in trade relations with UK within the context of the EU, Brexit will somewhat redefine such relationships;
- ❑ A No-Deal Brexit is, in fact, capable of changing such relationships without recourse to existing trade agreements reached within the context of UK in the EU
- ❑ Although UK has robust relationships with the Commonwealth States, new round of trade agreements may be inevitable
- ❑ While trade linkages between the Commonwealth States and the UK are strong, Brexit may provide opportunities to invigorate them further.
- Nigeria trade relation with the UK is relatively strong. The UK component of Nigeria's total export to the world between 2013-15 is 4.2%; above that of South Africa (3.9%), Ghana (3.5%), Cameroon (3.2%), Rwanda (1.4%) and Zambia (1.1%) among others
- In a situation where the UK is already a significant trading partner, mobilising pro-active policy support would be required to expand trade

WITH RANKING OF ***123RD*** OUT OF ***136*** IN TERMS OF ***FOREIGN
MARKET ACCESS.***

HOW DO WE MINIMIZE THE RISKS AND MAXIMIZE THE BENEFITS OF AFCFTA AND
EXPECTATIONS FROM NO-DEAL BREXIT?



FOCUS OF THE DIALOGUE

