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Nigeria's Opportunity to Enhance the CFTA

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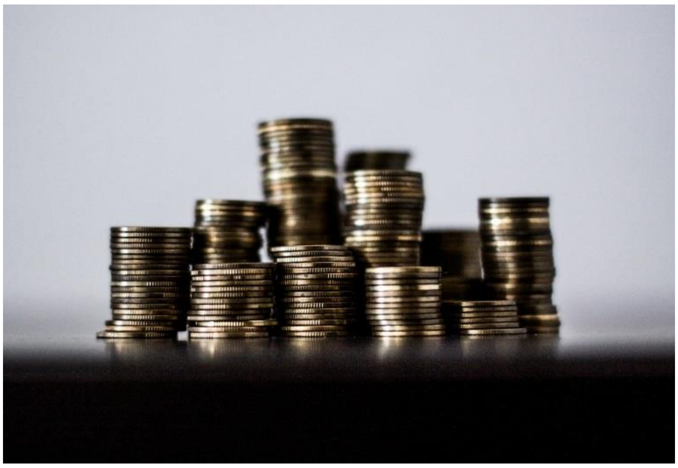

Synopsis: The Continental Free Trade Area negotiations should take the concerns of domestic stakeholders seriously, for its own sustainable development.

Confronting the global headwinds against multilateralism may sound brazen in a time of populism, but African states have been doing just that with the Continental Free Trade Area (CFTA). The CFTA was adopted just one year ago on 21st March 2018 in Kigali, Rwanda, with 44 signing it immediately and another six having signed in the past year. With the backing of nearly all African Union (AU) states, it will be the largest free trade area in the world by number of participating countries – if all of them complete their ratification process. Morocco's ratification in February brings the number of countries that have now ratified to 19, meaning the CFTA is just three countries short of the 22 needed for entering into force.

Upon entering into force, African states will accord preferential trade status to each other and a slew of new institutional mechanisms for the facilitation of trade will be established, including protocols for trade in goods and services and a dispute resolution body. Phase II negotiations will also commence, covering investment, intellectual property rights, and competition policy. These may be far more complex than the general reduction in barriers to trade, but necessary for developing a common market.

So far so good, so what?

This speed is unusual for Africa. The original African Economic Community, adopted by the Abuja Treaty in 1991, did not manage to move past its first stage of setting up regional economic communities (RECs) until the OAU was folded up and the new AU was born in 1999. The precursor to the CFTA, the Tripartite Free Trade Area (TFTA), that joined three existing RECs together with an agreement in May 2017, had just two ratifications one year later. It was then replaced by the CFTA.

On the other hand, the most significant omission to the CFTA is Nigeria, the largest economy in Africa, comprising 17 percent of the continent's total GDP. It pulled out of the signing after domestic groups protested and has since begun consultations with the different interest groups. While its hesitation has not been as calamitous as the US withdrawal from the Trans-Pacific Partnership, the CFTA without Nigeria would certainly lose a great deal of heft and indeed the ability to marshal the resources it needs to facilitate the monitoring and implementation of trade barrier reductions. While it has been fashionable to criticize Nigeria as a holdout undermining Africa's prospects for growth amidst such rare consensus and momentum, this may be unnecessarily pessimistic.

Who are the main opponents and what do they want?

Nigerian opposition stems from labour and local businesses who are highly sensitive to liberalisation – whether in the name of Pan-Africanism or otherwise. Their reluctance explains Nigeria's refusal to sign the Economic Partnership Agreements with the EU, which threatened local industrialisation and manufacturing efforts. Similarly, Morocco's formal request to join the ECOWAS has been met with ambivalence at best, due to the potential deleterious effects of Morocco's more advanced manufacturing base and economic clout.

Compounding the problem is that these opposing groups in Nigeria represent a broad spectrum of business and labour interests. They are diverse but highly representative. They range from the Manufacturers Association of Nigeria (MAN), the Nigeria Labour Congress (NLC), and national airlines, to think-tanks and academics. They are worried about Nigeria becoming a 'dumping ground' for manufactured products from African states with more advanced industrialised economies while local manufacturers and other fledgling businesses wither. While encouraging efficiency through economies of scale and elimination of tariffs, the CFTA may also, according to critics, kill industrialisation. Nigeria's exports are over 90 percent crude oil, with manufacturing representing a small minority of the remainder. As the largest economy in Africa, Nigeria's potential for industrialisation is significant, but also untapped. MAN reported that import surges may range from 27.6 percent on textiles and apparels to over 2000 percent for the automotive assembly sub-sector. These concerns are not unique to Nigeria either, and these impacts will also be felt elsewhere.

Nigeria's hesitation is still a win for the CFTA

The Nigerian government's response was swift – no doubt encouraged by impending national elections. On 27th March, the Nigerian presidency tweeted that "more inclusive (domestic) consultations" were needed before it would sign. Government has used the time accordingly to engage in wide-ranging consultations. In October 2018, it created a Steering Committee on the CFTA to assess Nigeria's domestic situation and engage relevant stakeholders on the matter to produce a report. These consultations continue today.

Despite the backlash, this is still a win for the CFTA for a few reasons. First, national consultations can only make the CFTA more responsive to the needs of business and labour, and therefore better fit the economic conditions. A significant weakness of previous agreements in Africa, such as the African Economic Community (AEC) treaty, has been the lack of input from affected groups. This led to the ironic situation of reams of legally-binding texts never making a national impact. African states have been eager to sign and ratify the CFTA as well.

However, the backlash in Nigeria is a helpful caution for African states to take the domestic implementation of the CFTA more seriously. Ratification of the treaty is only one step in a long, three-phase process of continuing negotiations. Decisions will still need to be made about implementation. Nigeria, in that sense, will be a much-needed litmus test of the practicalities at this early stage and an opportunity to make economic agreements created at the regional level more relevant to business and labour on the ground.

Second, while Nigerian groups oppose the CFTA as currently formulated, their attitude remains constructive: their aim is to be heard, not to obstruct the CFTA. As pointed out by Vice President Yemi Osinbajo, "Although most stakeholders support the agreement, there are concerns about impact especially on the local markets and the need to protect the agreement from abuse by third parties. This is an opportunity for us to get this right and implement the agreement correctly." Similarly, the business mogul Aliko Dangote is quoted as saying, "Industrialisation brings in a lot of wealth and prosperity. Nigeria is not against the AfCFTA but we are only saying let us do things right with a solid foundation." This debate has highlighted important steps Nigeria needs to take to make itself competitive and take full advantage of the CFTA.

Third, for Nigeria the long-term question is when, not if, it will ratify the CFTA. Aloysius Uche Ordu, the former Vice President of the African Development Bank, has observed that Nigeria's lack of participation is an anomaly – historically, the country has been a driving force for economic integration. This consternation underlines a belief that Nigeria's uncharacteristic reluctance is unlikely to last long. With South Africa having ratified the treaty, the remaining countries left outside of the CFTA are a few minor economies. Nigeria cannot ignore the CFTA, which will encompass almost all states, including its neighbours in the West African region. If anything, this backlash is an opportunity to sharpen minds to find practical solutions for long-standing domestic problems.

Scenarios

Nigeria must take seriously the concerns of domestic groups and address weaknesses in its infrastructure, or it will find itself excluded from the new economic momentum on the continent. How its domestic backlash is resolved, will impact the future of African trade – and Nigeria's economy. We see the three plausible scenarios playing out.

The first possibility is that Nigeria is unable to resolve the concerns of its domestic stakeholders and remains outside the CFTA as it enters into force. This could then leave Nigeria absent from the Phase II negotiations, which proceed without it and make it much harder for Nigeria to join at a later date, especially if the Phase II negotiations create standards even further removed from the concerns of Nigeria's domestic bases. With the lack of economic muscle in West Africa, the bulk of the CFTA economic weight mirrors the area covered by the defunct TFTA, which gives the Cape-to-Cairo band significant benefits from integration, while ECOWAS remains the core for Nigeria's participation in regional economic affairs.

A more concerning scenario would be for Nigeria, keen not to be regarded as a holdout undermining Pan-African solidarity, to join the agreement without satisfactorily resolving the differences of the opposed domestic groups. Forcing, say, farmers to open their markets to exports and labour from abroad, this may eventually lead to a more strident backlash. Moreover, in having failed to raise the concerns of these domestic stakeholders in this scenario, if it is found that the CFTA agreements undermine small domestic enterprises elsewhere in Africa, it would spread into populist resentment of the unequal impacts of globalization. Nigeria feels it must exit, while other states lose interest or even consider joining Nigeria on the way out.

The ideal scenario is for the federal government to assuage the concerns of various stakeholders and Nigeria to join the CFTA before it enters into force or Phase II negotiations make much headway. CFTA negotiators then take on board these concerns and time the impact better for a more equitable spread of gains and losses from these changes. This will require a great deal of careful negotiation, study, and keen attention to the varying interests at stake, without prejudice against the opponents of the agreement. While this might entail moving slower, a more sustainable and equitable path might be found as Africa's burgeoning growth brings it into uncharted territories.

The above scenarios will depend on the skilful management and negotiation of interests in Nigeria, and none of them is a foregone conclusion. However, if regional integration is to make a deeper impact in national economies, these debates must be had now, rather than later when groups have moved apart into defensive silos.

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