THE NIGERIAN ECONOMIC SUMMIT GROUP

POLICY BRIEF
December 2019

Effects of the African Continental Free Trade Area Agreement (AfCFTA) on the Nigerian Agricultural Sector

Executive Summary

The framework agreement for the establishment of the AfCFTA was endorsed by 44 African countries in Kigali, Rwanda on 21 March, 2018. On July 8, 2019, Nigeria signed up to the AfCFTA framework Agreement. One main objective of the AfCFTA is to create a single continental market for goods and services across Africa. While stakeholders in Nigeria have expressed concerns that the agreement will have negative consequences on the economy, others have echoed optimism and highlighted potential benefits for Nigeria, if the agreement is well implemented. This policy brief examines the implications of the AfCFTA agreement on the agricultural sector in Nigeria and provides recommendations on how the Nigerian government can maximise the benefits of the agreement and minimise associated costs. In this brief, four scenarios were created and the results for each scenario were compared with a baseline which showed the direction of a specific variable if Nigeria had not signed the AfCFTA. When the results of each scenario were compared with the baseline (if Nigeria had not signed the AfCFTA), it was observed that the removal of tariffs led to a marginal decline in Nigeria's agricultural outputs across all four scenarios, as imported produce become cheaper, thus, creating a disincentive for investment and local production in the sector. Agricultural imports, on the other hand, increased in all scenarios while exports increased in the first two scenarios but declined in scenario 3 and 4. This brief concludes that without the implementation of support policies and incentives for players in the sector, the agricultural sector in Nigeria will be adversely affected by the agreement. To improve agriculture output, it was recommended that the government must identify key agriculture and agro-processing commodities that Nigeria can build competitive advantages in, over the medium to long term and summon the political commitment to implement business support reforms in the sector. The need for coordination and collaboration between and among government agencies both at the federal and state level to address key policy challenges in the agricultural sector and promote export was deemed important. Proper monitoring and enforcement of standards for agricultural produce by government agencies such as SON, NAFDAC, NAQS among others must be prioritised. Other critical recommendations include the need for the Nigerian government to address specific constraints that limit competitiveness of Nigerian exports and the need for involvement of key stakeholders including the private sector during the AfCFTA negotiation process. Lastly, the brief recommends that the Nigerian government must improve border scrutiny and security to prevent dumping and abuse of the rules of origin by traders.

Introduction

The African Continental Free Trade Area (AfCFTA) represents one of the most ambitious attempts of the African Union Heads of States and Governments to economically unite Africans and economies. It also represents a bold attempt by the African Union Heads of States and Governments to provide or at the least, experiment with an “African solution” to “an African” problem. The AfCFTA is the first step in the implementation of African Union (AU) Agenda 2063: the “Vision” for an integrated, prosperous and peaceful Africa. The proponents of the Continental Free Trade Area project are deeply convinced of the potential of the AfCFTA to broaden and strengthen the scope for intra-African trade as well as improve the well-being of African people.

The antagonists of continental free trade area in Africa, unfortunately, do not agree with the proponents. The antagonists believe the AfCFTA will be damaging to participating countries’ economies. This group specifically argue that by eliminating tariffs and non-tariffs barriers, the AfCFTA will severely decrease government revenue, thereby worsen the fiscal stance of many African countries. They also argue that it will exacerbate firm losses and that the exposure of domestic firms to foreign competition will reduce demand and profitability, which in turn will have an adverse effect on productivity.

Given the huge market potential in Africa, there is a tremendous possibility that AfCFTA will become an African success story. However, the amount of success that is achievable in this “African Project” will depend to a large extent on the quality of preparation that is infused to the negotiation and implementation of the AfCFTA agreement by African countries.

Despite Nigeria being the largest economy in the continent with a GDP of US$420 billion in 2018, several stakeholders in the country have argued that the removal of tariff and other non-trade barriers under the AfCFTA arrangement would adversely affect the country’s economic output, government revenue and the performance of key sectors. Some of these concerns are highlighted below:

- The Nigerian economy is largely reliant on crude oil for foreign exchange earnings and revenue; and relies on imports at the expense of local production. This makes the economy fragile and susceptible to external shocks.
- High production cost occasioned by poor power supply, infrastructure deficits, high interest rates and other factors limit competitiveness of businesses and, of course, exports.
- The Nigerian economy is still on the recovery path from the economic recession in 2016. GDP growth was 1.9% in 2018, far below its potential.
- Poor state of the manufacturing sector which accounts for 9% of GDP and 3.4% of total exports; among other factors.

Although Nigeria signed the AfCFTA framework agreement in July 2019, the initial reluctance of the Nigerian Government to sign the agreement was borne out of the above concerns of different stakeholders regarding the possible harmful consequences of joining the AfCFTA. Now that Nigeria has opted in on the agreement, some key questions remain: What are the implications of the AfCFTA on the performance of key sectors of the economy? What should be Nigeria's offensive and defensive interests during the negotiations? How can Nigeria reposition to ensure it reaps the gains of the AfCFTA?

The agricultural sector is one of Nigeria's strategic sectors, especially given its contribution to GDP which stood at 25% in 2018 and its share of employment- 48% of the employed labour force. The sector's output is valued at N27.4 trillion, comprising crop production (88%), livestock (7.5%), fishery (3.1%) and forestry (1.0%). Although Nigeria has a huge agricultural resources and potential, the challenges of lower yields, communal conflicts, poor market access and storage facilities, poor quality and standards and high cost of doing business continue to limit growth of the sector. In the last two years for instance, the sector only grew by 3.5% in 2017 and 2.12% in 2018, a far cry from over 6% growth experienced in 2014.

In terms of external trade, Nigeria's relation with other African countries particularly the agricultural sector remains low. Imports from Africa accounted for 3.5% of total imports in 2018. For the agricultural sector, of the total agricultural goods imported, 7.5% are from Africa. Of the total imports from Africa, agricultural products account for 13.2%. Nigeria's total agricultural goods export was valued at US$851 million in 2018 and represents just 1.6% of the country's total export. The major traded agricultural commodities include Sesame seeds, Cocoa and Cashew nuts. It is expected that as a result of the AfCFTA, trade figures among African countries will improve significantly.

The aim of this policy brief is to examine the implications of the AfCFTA agreement on the agricultural sector in Nigeria. This brief also examines how the Nigerian government can maximise the benefits of the agreement and minimise associated costs. Major indicators examined include agricultural sector outputs, agricultural goods imports as well as exports.

Methodology

To achieve the aim of this brief, we adopt the NESG Computable General Equilibrium (CGE) model which was specifically developed to estimate the impact of the AfCFTA agreement on the macro economy, economic agents such as businesses, rich and poor households and sectoral outputs, etc.

The model has eight blocks: production, income and savings, demand, international trade, prices, equilibrium, dynamic equations, and other variables blocks. The model does not involve any intertemporal or truly dynamic optimization behavioural assumption but rather recursive optimization, characterized by a sequence of temporary equilibria.

Scenarios Setting

To better examine the impact of the AfCFTA on the Nigerian economy, we provided, first, a baseline, which shows the movement of the interested variable if Nigeria had not signed the AfCFTA. Secondly, we developed four different scenarios, detailing several assumptions relating to the gradual removal of tariffs, introduction of special products, increase in government investment in key sectors and inflow of Foreign Direct Investment (FDI) and labour into strategic sectors.

	Scenarios	Assumption	Period 1 0 - 5 years	Period 2 6 - 10 years
Nigeria does not sign the AfCFTA	**Baseline**	This shows the movement of economic variables if the government had not signed the AfCFTA		
Nigeria signs the AfCFTA and the agreement comes into force	**Scenario 1: Full Liberalisation**	The Nigerian government imposes a linear cut in tariff on all imported products in 10 years	Tariff removal for 50% of imported products	Tariff removal for the remaining 50% of imported products
	Scenario 2: Partial Liberalisation	The Nigerian government imposes a linear cut in tariff on 90% of imported products The remaining 10% imported products are protected	Tariff removal for 45% of imported products	Tariff removal for 45% of imported products
	Scenario 3: Full Liberalisation with increase in government spending	The Nigerian government imposes a linear cut in tariff on all imported products in 10 years 10% increase in government investment	Tariff removal for 50% of imported products and 10% increase in government investment	Tariff removal for 50% of imported products and 10% increase in government investment
	Scenario 4: Full Liberalisation with increase in foreign capital inflow	The Nigerian government imposes a linear cut in tariff on all imported products in 10 years 5% increase in labour supply 5% increase in foreign capital inflow	Tariff removal for 50% of imported products; 5% increase in labour supply; 5% increase in foreign capital inflow	Tariff removal for 50% of imported products; 5% increase in labour supply; 5% increase in foreign capital inflow

In **Scenario 1**, it is assumed that at the end of the 10 years of the AfCFTA, the Nigerian government would have lifted tariffs on all imported items produced in Africa. However, the tariff removal is done in two phases: removal of tariffs on half of all imported items within the first five years (period 1) and removal of tariffs on the remaining imported items in the next five years (period 2).

Scenario 2 assumes the tariffs are removed on 45% of all imported items within the first five years and 45% within the next five years. The remaining 10% of imported products are exempted from tariffs removal, as the Nigerian government plans to protect "special" or infant industries from foreign competition in the form of imported goods.

Scenario 3 holds the assumption of Scenario 1, but introduces a 10% increase in government investment/spending on critical areas of the economy such as infrastructure, education, health, security etc. It is believed that such increase in investment would ameliorate the conditions of local businesses and further drive down cost of production to make their products competitive.

Scenario 4 holds the assumption of Scenario 1, but assumes an increase in labour supply particularly foreign workers as well as an increase in foreign capital inflow into strategic sectors of the economy. This assumption is based on the expectation that as tariffs are removed, foreign and local investors seek to maximise the opportunities of cheap Nigerian exports to other African countries and therefore make significant investment in the productive sectors of the economy.

The rest of this Policy Brief examines the performance of agricultural output, exports and imports under each scenario.

Results/Findings

The results for each scenario are compared with baseline data, which captures the movement of a particular variable if the AfCFTA does not come into effect.

Effect on Output

The removal of tariffs under the AfCFTA Agreement resulted in a marginal decline in agricultural output (compared with baseline output) across all four scenarios created in this report. The decline in output was rather more significant in the second period than in the first. For instance, in period 1, outputs declined marginally by 0.003%, 0.003%, 0.6% and 0.13% in the four scenarios respectively, when compared with projected baseline outputs if Nigeria had not signed the agreement. In period 2, output fell by 0.013%, 0.013%, 1.9% and 0.56% in the four scenarios. Among all scenarios, the least negative impact was experienced in scenario 1 which assumes full liberalisation during the implementation of the trade agreement.

Table 1: Nigeria's real Agricultural Output under the AfCFTA Agreement (Trillion, Naira)

	Baseline Agric Output (if Nigeria had not signed)	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Average Output (Year 1 to 5)	19.4	19.4	19.4	19.3	19.4
Average Output (Year 6 to 10)	22.5	22.5	22.5	22.1	22.4

For crop production which accounts for 88% of total agriculture output in Nigeria, in scenario 1 and 2, the full and partial liberalisation of tariffs under the AfCFTA agreement did not have any impact on crop output in both periods. However, the introduction of government spending and foreign capital inflow led to a marginal decline in crop production by -0.6% and -0.1% respectively in period 1; and by -1.2% and -0.5% in period 2.

When compared with the baseline data (if Nigeria had not signed), Livestock GDP remained the unchanged in scenario 1 and 2 in both period 1 and 2. In scenario 3 and 4, it declined by -1.2% and -0.5% In the first five years (period 1). There was a much more significant decline in Livestock output in period 2 when government spending and capital inflows are introduced. Livestock output declined by -3.3% and -1.2% when compared with the baseline data.

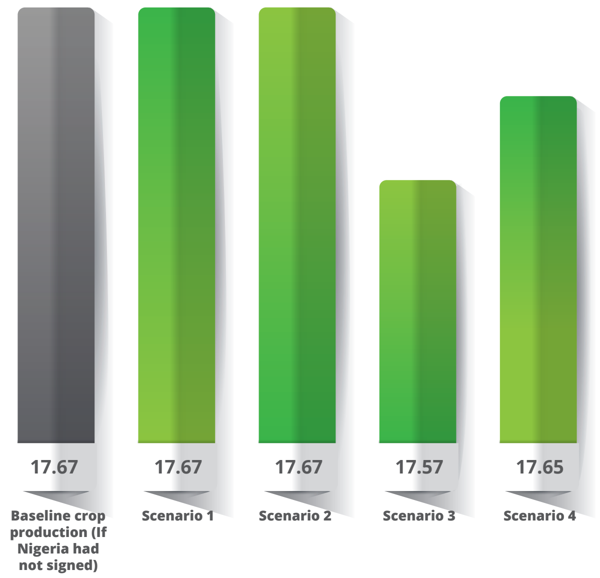


Figure 1: Average Crop Production GDP from Year 1 to Year 5 (Trillion Naira)

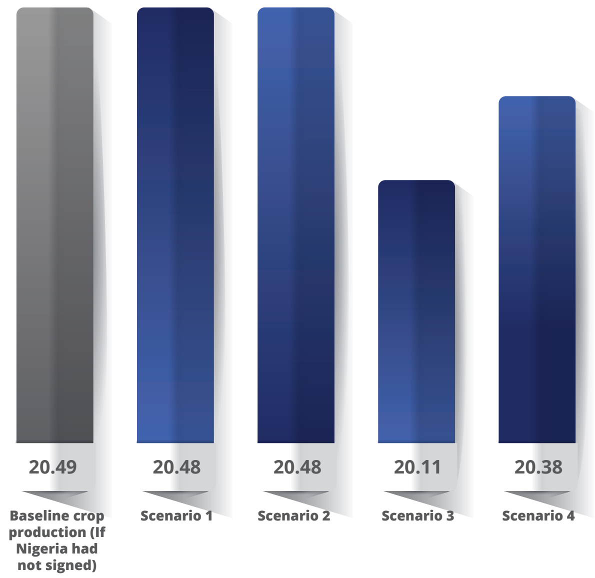


Figure 2: Average Crop Production GDP from Year 6 to Year 10 (Trillion Naira)

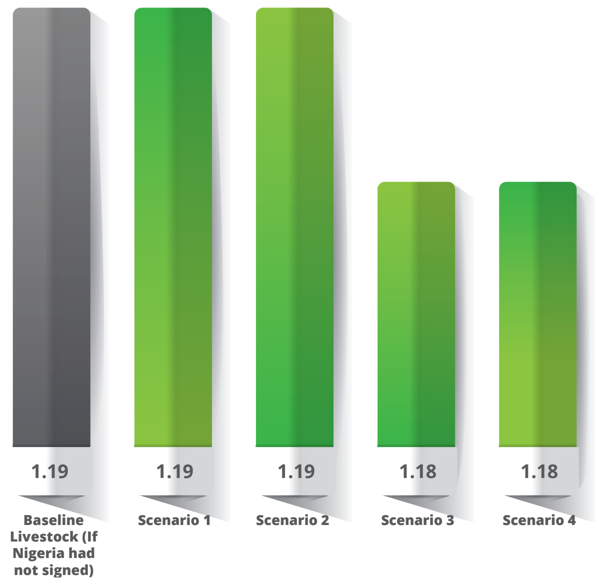


Figure 3: Average Livestock GDP from Year 1 to Year 5 (Trillion Naira)

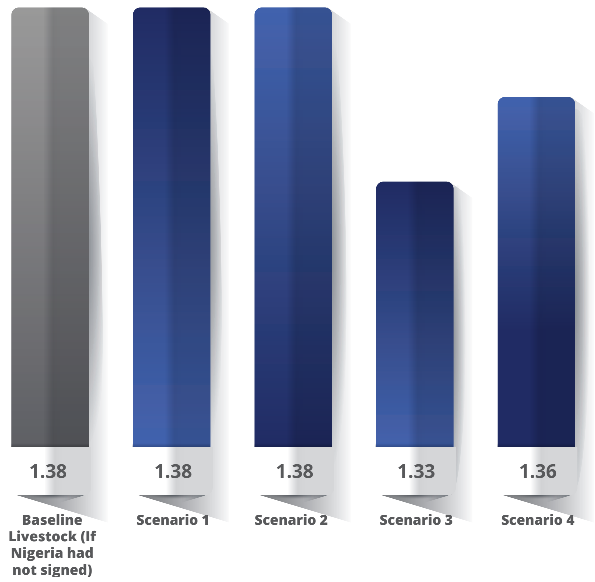


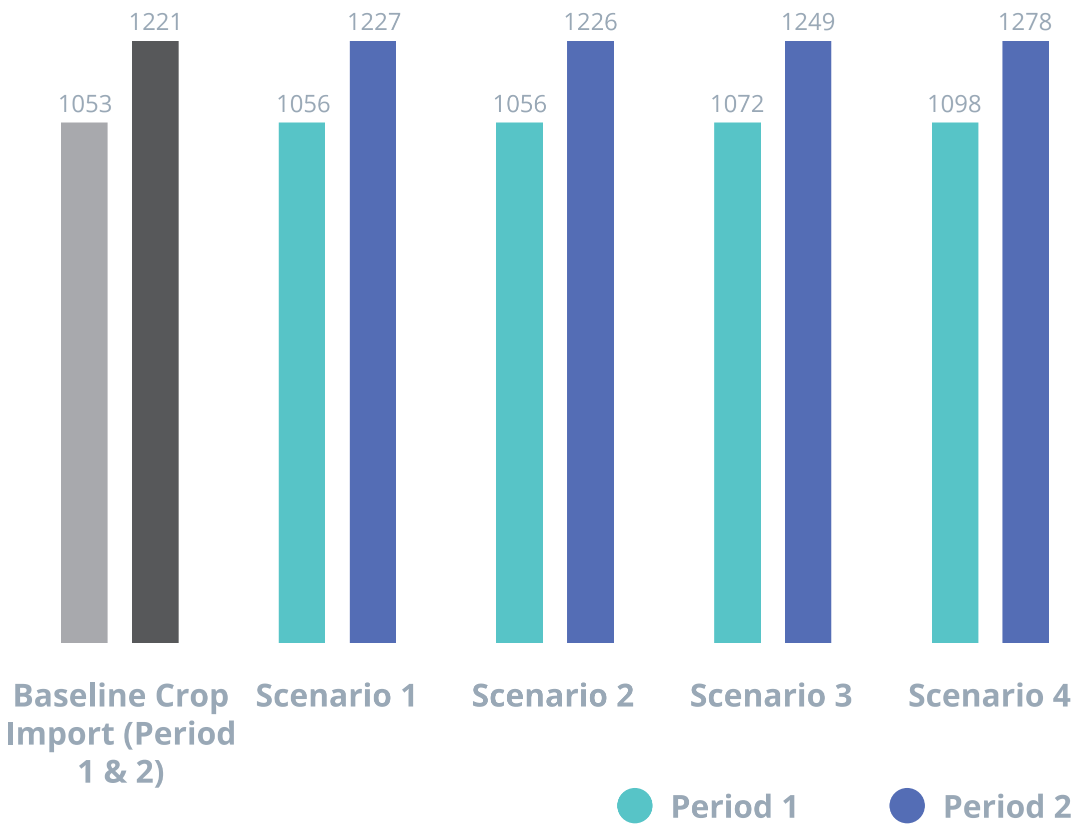
Figure 4: Average Livestock GDP from Year 6 to Year 10 (Trillion Naira)

In summary, the decline of agricultural output can be traced to high influx of imported agricultural products as a result of the liberalisation, which serves as a disincentive to local production. In addition, as the investment destination in Africa becomes more competitive as a result of the agreement, the increase in government spending crowds out domestic investment in the sector, thus, affecting agricultural output.

Effect on Imports

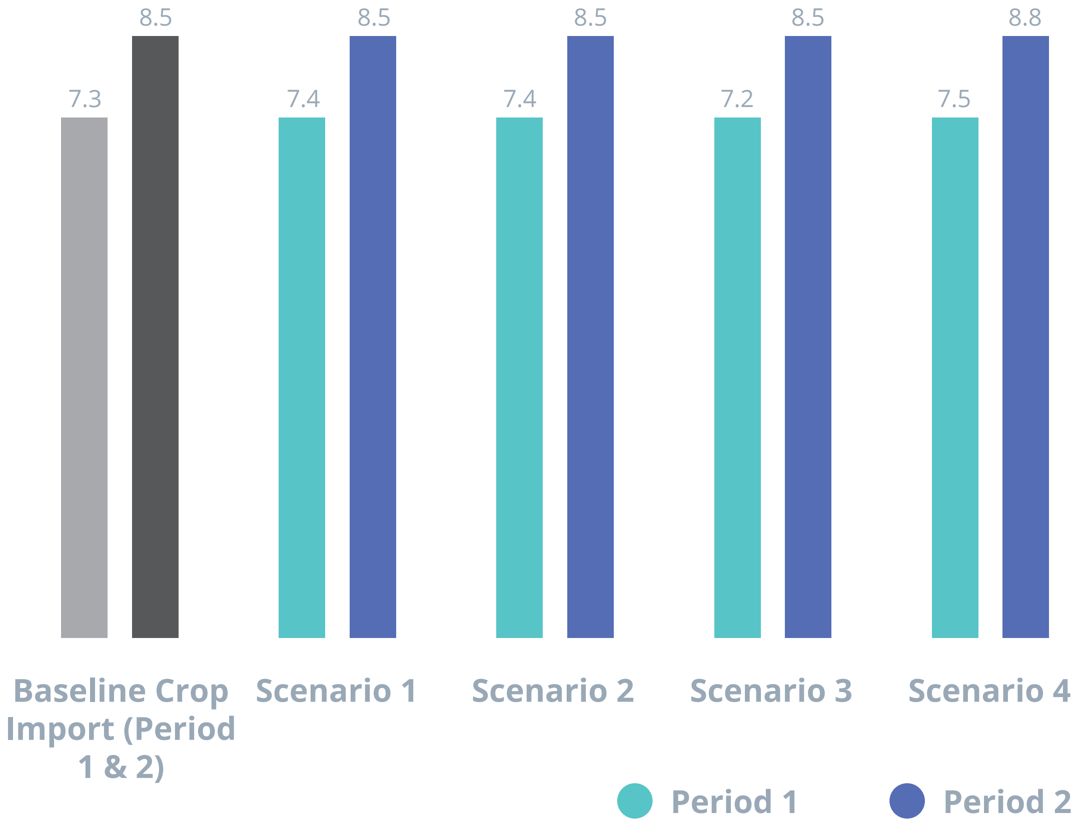
On an aggregate level, imports of agricultural products increased under all the scenarios and during period 1 and 2. The increase in imports were more visible in scenario 3 and 4, when government spending and capital inflows were introduced. In scenario 3 and 4, total imports of agricultural products increased by 1.8% and 4.2% in period 1 and by 2.3% and 4.7% in period 2, respectively. The importation of crop produce was also significant in scenario 3 and 4, with an increase of 1.8% and 4.2% in period 1 respectively; and 2.3% and 4.7% in period 2. Tariff removal will generally result in an increase in importation of crop produce.

Figure 5: Average Crop Imports in Nigeria (Billion Naira)



Within the livestock sub-sector, when compared with baseline data, imports, in period 1, grew in scenario 1, 2 and 4 but declined by 2.1% in scenario 3, with the introduction of government spending. The same pattern was experienced in period 2, across the four scenarios.

Figure 6: Average Livestock Imports in Nigeria (Billion Naira)

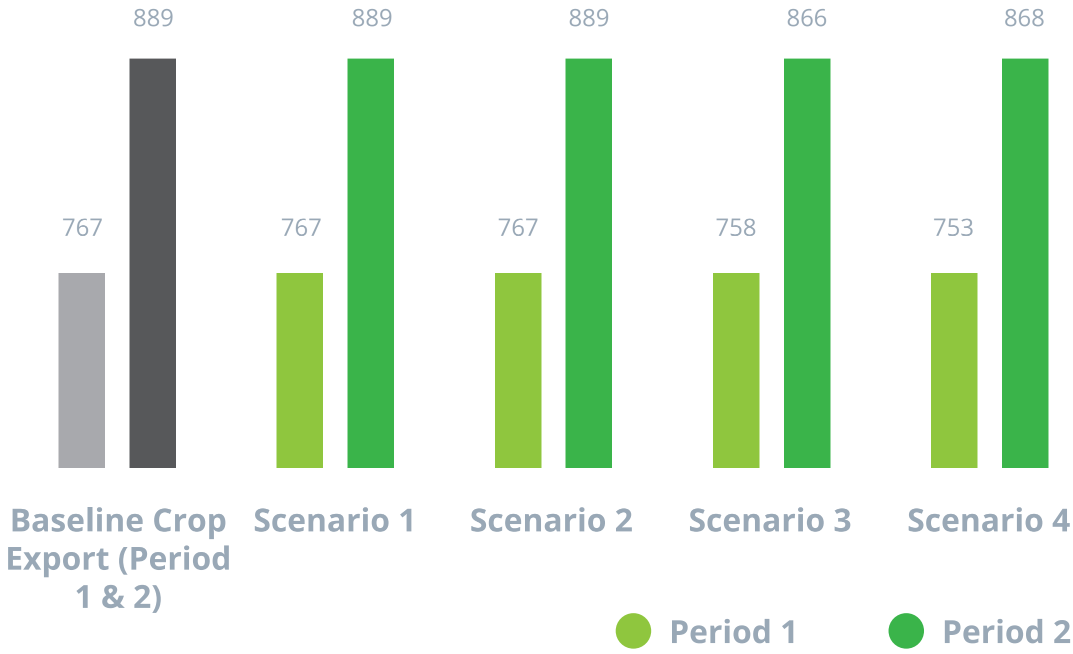


In summary, this finding is not unexpected given the size of the country's import, which predominantly comprises manufactured goods, crops, fishery, extractive industry products, other petroleum products, as well as agriculture produce and raw materials. The basic intuition from these results is that removal of tariffs is a disincentive for domestic production, especially where imported commodities become cheaper, thus, raising the demand for imports.

Effect on Export

Agricultural exports increased marginally in scenario 1 and 2 but declined in the third and fourth scenarios in both periods. The performance of overall agricultural exports was largely a reflection of crop exports, which account for a significant share of total agricultural exports. Crop exports declined the most in scenario 4 by -1.9% and -2.4% in both periods, respectively. These declines also mirror the fall in overall agricultural output as a result of the trade deal. One possible reason for this is the inability of Nigeria to take advantage of the opportunities that the trade deal offers.

Figure 5: Average Crop Exports in Nigeria (Million Naira)



Conclusion and Recommendations

This policy brief examined the impact of Nigeria's signing of the AfCFTA on the agricultural sector. The brief specifically examined the impact on agricultural output, import and export. When the results of each scenario were compared with the baseline data (if Nigeria had not signed the AfCFTA), it was generally observed that agricultural outputs declined marginally during the period of the AfCFTA. Similarly, agricultural exports declined in scenarios 3 and 4 – full liberalisation with increases in government spending as well as full liberalisation with increase in foreign capital inflow. However, in scenario 1 and 2, agricultural exports slightly increased. For imports, there was an increase across all the scenarios during the AfCFTA implementation period.

One major reason for the decline in agricultural output is largely as a result of the lower level of investments into the sector. Because imported produce become cheaper, this creates a disincentive for investment and local production in the sector. On the investment aspect, countries will now have to compete for investments since there is a common tariff and more likely, countries with more favourable investment climate will attract large investments than others. The issues of high cost of doing business occasioned by poor infrastructure, poor power supply and concerns relating to poor standards of local and exportable produce will play a major role in influencing investments and outputs in the agricultural sector. Nigeria has a lot of catch up to do in these areas.

Although Nigeria imports only 7.5% of its total imported agricultural commodities from other African countries, as the AfCFTA deal comes into fusion, Nigeria's agricultural imports from other African countries will increase. African countries as well as large agricultural foreign companies in other African countries view Nigeria as a large market and will more likely leverage on the absence on tariff to penetrate the Nigerian market. There is the possibility of Nigeria becoming a dumping ground if concrete measures are not taken to boost local agricultural production and exports.

Nigeria's exports are largely crude and other oil products. Agricultural goods exports were valued at US$851 million in 2018 and accounted for just 1.6% of total export, according to data by the National Bureau of Statistics. While the deal presents a great opportunity for Nigeria to tap into African markets by boosting exports, a lot depends on how the country is able to leverage these opportunities by addressing export bottlenecks and implementing export support policies. Without the implementation of such support policies and incentives, the agricultural sector in Nigeria will be adversely affected by the agreement.

For Nigeria to leverage and maximise the benefits of the AfCFTA in the agricultural sector, the following recommendations are crucial:

- ***To improve agriculture output, it is crucial for the government to identify key agriculture and agro-processing commodities that Nigeria can build competitive advantages in, over the medium to long term and summon the political commitment to implement business support reforms.*** According to the USAID bee keeping pollination project, Nigeria can generate at least US$10 billion from harnessing the honey value chain for both local and international market. Similarly, there are several agricultural products that great market value and potential but have remained untapped and explored either as a result of poor market information or limited government support. Several studies have revealed the potential of produce such as tomato, cassava, cocoa, fish products etc, however, the government and stakeholders must collaborate to address specific challenges across these products' value chain. Furthermore, incentivizing local production are deemed necessary for the growth and expansion of the sector. On exports, while the Nigerian Export Promotion Council (NEPC) has identified 10 strategic products for exports under the Zero Oil Plan, more engagement of relevant stakeholders to remove export bottlenecks and provide incentives are important measures to be taken.

- ***Proper monitoring and enforcement of standards for agricultural produce by government agencies such as SON, NAFDAC, NAQS among others needs to be prioritised.*** There are no local standards for produce such as tomatoes, yam, garri etc which are large consumables in Nigeria. To improve safety of Nigerians, local standards must be established and enforced for both locally made goods and imported products. In addition, to improve market access of Nigerian agricultural produce, regulatory agencies need to step up particularly in areas of process simplification and monitoring & enforcing standards for exportable produce. The NEPC and other government agencies must also intensify efforts to integrate informal exporters, who largely do not conform to international standards, into the formal export sector and ensure their produce meet relevant standards.

- ***Urgent coordination and collaboration between and among government agencies both at the federal and state level to address key policy challenges in the agricultural sector and promote export are crucial.*** It is obvious that the agricultural sector cannot expand without the involvement of the state governments. States governments must take the lead and collaborate with federal government Ministries, Departments and Agencies (MDAs) and the private sector to improve the sector.

- ***One major risk for Nigeria when the AfCFTA comes into force is the abuse of rules of origin, a situation where traders or producers disguise that goods are produced within Africa so they can qualify for tariff-free treatment.*** To address this risk, there is need for strict and enforceable mechanism within the trade agreement. Nigeria must also improve border scrutiny and security to prevent dumping.

- ***Nigerian government must intensify the implementation of regulatory reforms to remove constraints facing the growth of exports in Nigeria.*** For instance, there are over 26 checkpoints and stoppages by regulatory agencies along the Seme border route. The unnecessary checkpoints result in delays and unwarranted charges are levied on exporters, thereby making their products costlier and uncompetitive. The government therefore must urgently reduce the number of checkpoints along all border routes across the country. Other measures to stimulate non-oil exports include:

    - Develop seaports in the South South and South East to reduce congestion of the Lagos ports

    - Monitor and enforce standards and certification of made in Nigeria products

    - Address Infrastructure and electricity constraints

    - Automate and simplify the export process and procedures and create an export single window in Nigeria.

- ***The Federal Government of Nigeria must constantly involve and engage the private sector before, during and after the AfCFTA negotiation process*** The private sector, academia and business member organisations must be engaged and fully carried along in the negotiation process to ensure their views and concerns are considered and addressed. The negotiation process must be all-inclusive as this is crucial in understanding the technicalities involved and negotiating for a better deal for the country.

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About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

www.nesgroup.org| Info@nesgroup.org

Contact

For more information about the content of this report and other research services, please contact:

NESG Research Team

Email: research@nesgroup.org

Tel: +234-01-295 2849 +234-01-295 2003

THE SUMMIT HOUSE
6 Oba Elegushi Street,
Off Oba Adeyinka Oyekan Avenue,
Ikoyi, Lagos.
P.M.B 71347, Victorial Island, Lagos.

ABUJA LIAISON OFFICE:
4th Floor, Unity Bank Tower,
Beside Reinsurance building
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja

www.nesgroup.org
Email: info@nesgroup.org
+234 1 2952849

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