

# African Continental Free Trade Area Agreement – Does the Facts Support the Benefits for Nigeria?

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## Abstract

Hesitantly, but finally, Nigeria joined the African Continental Free Trade Area (AfCFTA) with the Nigerian President, Muhammadu Buhari, signing the protocol at the African Union Summit in Niamey on July 7, 2019 based on perceived benefits. This study interrogated the purported benefits for Nigeria using standard trade costs between Nigeria and peer countries in Africa. Using a content analytical framework on a dataset by World Development Indicators and World Integrated Trade Solutions, the study found that average tariff rate in Nigeria is very high when compared to that of her major trading rivals in Africa like Ghana, Egypt and South Africa. Furthermore, the study found Nigeria in a comparative disadvantaged position on the ease of doing business in the same setting. Also, Nigeria's major export commodity is crude oil and lubricants which has little or no market in the continent. Besides, trade-related infrastructure, especially roads and maritime corridors, in Nigeria is poor even by African standards. With these structural problems, ipso facto, Nigeria may not benefit maximally and comparatively in the enlarged continental market envisioned by the AfCFTA agreement. The study therefore, recommended that Nigerian government should continue to maintain the present cautious approach and refrain from making further commitments on the AfCFTA deal. In the meantime, the country should embark on massive infrastructural and trade-related development, improve the ease of doing business and diversify the economy in order to be in vintage position to exploit the potential opportunities offered by the AfCFTA in the medium-to-long term horizon.

**Keywords:** free trade, continental free trade area, trade cost, international trade cost

## 1. Introduction

### 1.1 General Overview

On March 23, 2019 forty-four (44) African countries met in Kigali, Rwanda at the Summit of the African Union to sign the African Continental Free Trade Area (AfCFTA)<sup>1</sup> agreement in a bid to create the world's largest free trade area. Apart from the AfCFTA agreement, the leaders also signed the Kigali Declaration and the Protocol to the Treaty establishing the African Economic Community relating to Free Movement of Persons, Right to Residence and Rights to Establishment (African Union, 2018). However, not all the African countries simultaneously signed all the three legal instruments. In all, forty-four (44) out of the fifty-five (55) African Union member countries endorsed the consolidated text of the AfCFTA Agreement, forty-seven (47) signed the Kigali Declaration while thirty (30) signed the Protocol on Free Movement. Five (5) countries - Nigeria, Burundi, Eritrea, Sierra Leone and Guinea Bissau- did not sign any of the three instruments at the time, with Nigeria expectedly the most conspicuous of these countries.

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<sup>1</sup> The AfCFTA treaty is one of the flagship initiatives of the African Union Agenda 2063 with the first phase of the agreement adopted and signed by the African Union Heads of States and Governments at its 10th Extraordinary Summit in Kigali, Rwanda, on March 21, 2018. The agreement is aimed at creating a single continental market for goods and services, with free movement of businesses, persons, investments and a single currency across the continent. The agreement also covers rules and procedures on dispute settlement, including a range of provisions to facilitate trade, reduce transaction costs, provide exceptions and flexibilities. The treaty commits countries to removing tariffs on 90 per cent of goods and liberalize services, while sensitive items, which make up the balance of 10 per cent, will be phased out later as tariff-free.

Suffice to mention that Nigeria did not sign the AfCFTA agreement at the Kigali summit because according to the President, Muhammadu Buhari, the envisaged benefits were yet to be ascertained. Particularly, the government wanted to carry along all stakeholders, such as the domestic businesses, the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture; Manufacturers Association of Nigeria and the Nigerian Association of Small and Medium Enterprises. The President harped on the need for proper consultation in order to earn their consent and participation and also to ensure that the nation's interests as well as its regional and international obligations are balanced. Moreover, the free flow of goods into the country was opined to have stifling effect on the growth of domestic businesses in the long run, hence a detailed analysis of costs and benefits was deemed necessary before consent or otherwise.

However, at the African Union Summit in Niamey, July 7, 2019, AfCFTA's potential success received a massive boost when Nigeria, the largest economy in Africa<sup>2</sup> consented to sign the AfCFTA agreement following the recommendation of the relevant committee for the purpose. Benin Republic has also agreed to join and to date, fifty-four (54) of the continent's fifty-five (55) states have now signed up though only about half of those have ratified. Also at the Niamey Summit, Ghana was announced as the host of the trade zone's future headquarter and discussions were held on the operational dynamics of the trade bloc.

Establishing the Continental Free Trade Area, with all 55 member states of the African Union has been the dream of African Leaders<sup>3</sup> (African Union, 2018). The AfCFTA agreement signing has been described as a momentous occasion in the history of the continent, and a major milestone towards the realization of the African Union's Agenda 2063 – *the Africa We Want*- that translates to the strategic framework for the socio-economic transformation of the continent (Ismail, 2016).

Indeed, since the formation of the World Trade Organization (WTO) in 1995, the AfCFTA agreement is believed to be the biggest trade agreement the world has witnessed (Bramdeo, 2018; Songwe, 2018). The AfCFTA agreement and other legal instruments are aimed at fostering a more united Africa as a regional economic block to challenge, or perhaps even surpass the European Union. It is expected that the AfCFTA will help unlock Africa's long-stymied economic potential, by boosting intra-regional trade, strengthening supply chains, and strongly enhancing inter-African trade/exports especially non-extractive exports<sup>4</sup>.

It has been variously canvassed that the AfCFTA agreement if successfully implemented would unite approximately 1.3 billion people, create a \$3.4 trillion economic bloc and usher in a new era of development in Africa (Berthelot, 2017; Azikiwe, 2018). It is believed that Nigeria's active participation in the trade bloc is strategically key to its success.

### *1.2 Research Context*

There is no gainsaying the fact that the implications of the AfCFTA agreement on Nigeria's economy will be huge depending on what the country chose to do with the agreement or unveiling opportunity. Specifically, the AfCFTA aims at boosting intra-Africa trade by making Africa a single market of about 1.3 billion people with a cumulative domestic product of about USD\$3.5 trillion. The United Nations Economic Commission for Africa (UNECA, 2017) estimated that the implementation of AfCFTA could increase intra-African trade by 52 percent by 2022 compared with the trade levels currently, and could double the share (currently at 13%) of Africa's export trade by the start of the next decade.

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<sup>2</sup> With a GDP of about \$405 billion, Nigeria is considered the largest economy in Africa. It is followed by Egypt (\$332 billion) and South Africa (\$295 billion). With a population of about 191 million as at 2017, the nation is also Africa's largest market (Meyer, 2019).

<sup>3</sup> According to a document compiled by the African Trade Policy Centre (ATPC) of the Economic Commission for Africa (ECA) in association with the African Union Commission, the AfCFTA will cover a market of about 1.2 billion people and a gross domestic product (GDP) of about US\$2.5 trillion, across all 55 member States of the African Union (Saygili & Knebel, 2018).

<sup>4</sup> Data has shown that over 75 per cent of Africa's exports outside the continent were extractives from 2012 to 2017, while less than 40 per cent of intra-African trade were extractives in the same period. The volatility of the extractive market makes the development disturbing. Africa's industrial exports are therefore expected to benefit most from AfCFTA, with projections that it will help diversify Africa's trade and encourage a move away from extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports. This will, in turn, result in a more balanced and sustainable export base for countries in the continent.

There are also opportunities for greater employment in the continent which has a teeming youth population<sup>5</sup>. For itinerant traders, businessmen and women who currently operate at the informal level, there is greater potential for trade integration which will facilitate easier mobility across the continent with reduced costs in terms of border fees, transport cost, insecurity and harassment especially for the women<sup>6</sup> (Andriamahatana & Chidede, 2018; Bramdeo, 2018).

However, for an undiversified and relatively under-developed economy like Nigeria, which relies heavily on oil exports, the benefits of AfCFTA, ipso facto, will likely be less compared to countries like South Africa and Egypt. Indeed, Nigeria's officials have already expressed concern that the country could be flooded with low-priced goods, compounding the efforts to resuscitate moribund local manufacturing, agribusinesses and small and medium enterprises<sup>7</sup> in the country (Azikiwe, 2018).

Moreover, there is the fear of dumping of goods from the more manufacturing-oriented nations like South Africa to a consumption-oriented nation like Nigeria. For instance, the cost of production of goods in Nigeria is estimated to be higher compared to some countries like South Africa and Egypt (Azikiwe, 2018.) This means that these countries with low production costs can afford to export goods into Nigeria and sell at lower prices. Consequently, the domestic businesses would be unable to compete favorably as Nigerians would eventually settle for these cheaper alternatives. It has been suggested that as long as Nigeria remains a net importer of goods and services, due to very low technological strength and attendant high production costs (among other reasons) yet with a very large population, it will be a dumping ground for goods and services from other African countries (Ogunyemi, 2017; Ikokwu, 2018). To this end, the Nigeria Labour Congress has argued that the unhindered movement of businesses and professionals which would harm could open the Nigerian borders to unfettered foreign interference local content and pose a threat to national security and safe practices.

According to Berthelot (2017), as soon as the AfCFTA comes into effect, assented member states will need to drop 90 percent of their tariffs for imports from other member states, thereby depriving the partner states of the opportunity to generate revenue through imposition of tariffs and duties. Businesses around the continent currently charge higher tariffs when they export within Africa than when they export outside it. The average tariff is put at 6.1 per cent. AfCFTA is expected to progressively eliminate tariffs on intra-African trade, making it easier for African businesses to trade within the continent and tap from the huge potential of a larger African market.

This will be disheartening for Nigeria which currently has a tax-to-GDP ratio of 6% considered to be the lowest in the continent. From the foregoing therefore, it is hard to conjecture how the AfCFTA deal will ultimately plays out for the Nigeria's economy. To this end, the key objectives of this study are to:

- a) Provide an evidence-based analysis on the purported benefits of AfCFTA on the Nigerian economy using the country's trade dynamics.
- b) Ascertain from the country's trade dynamics<sup>8</sup> whether the facts support the purported benefits enunciated in the AfCFTA agreement.

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<sup>5</sup> Africa's growing youth population and absence of opportunities are huge concerns of development experts in the continent. AfCFTA is projected to produce jobs for this bulging youth population. This is possible because extractive exports, on which Africa's trade is currently based, are less labor-intensive than manufactured products and agricultural goods that will benefit most from AfCFTA. With the promotion of more labor-intensive trade, AfCFTA will generate more employment and create opportunities.

<sup>6</sup> For women across the continent, estimated to account for about 70 per cent of informal cross-border trade in Africa, the agreement will facilitate freer and secured movement and trade. With reduced tariffs, AfCFTA will make it more affordable for informal traders to operate through 'formal channels', which offer more protection from harassment, robbery and confiscation of goods as currently operates. It is also projected to provide simplified clearing procedure alongside reduced import duties for women traders.

<sup>7</sup> With about 80 per cent of the Nigeria's business and indeed the continent's businesses tied to Small and Medium Scale Enterprises – these sectors are key to growth across Africa. Studies have shown that these businesses usually struggle to penetrate more advanced inter-continent markets, but are well positioned to tap into regional export destinations and can use regional markets as stepping stones for expanding into overseas markets in the nearest future through the AfCFTA.

<sup>8</sup> By trade dynamics, the study considers issues relating to international trade like transportation costs, trade policy barriers, communication and information costs, contract enforcement costs, legal and regulatory costs and local distribution costs.

To do this, the paper undertakes an analysis of Nigeria's comparative advantage (or disadvantage) on the basis of trade costs<sup>9</sup> in Nigeria vis-à-vis her major economic rivals in the continent especially South Africa, Egypt and Ghana.

The rest of the paper is structured as follows: section two provides a short review of theoretical and empirical literature and section three presents the methodological approach adopted by the study. Section four focused on Nigeria's trade analytics and discussions that ensued therein, while section five concludes the paper with policy recommendations.

## 2. Theoretical and Empirical Review

The study is underpinned by the Heckscher (1919) and Bertil-Ohlin (1933) or H-O theory. Heckscher and Ohlin (1919) and Bertil-Ohlin (1933) developed a theory to explain the reasons for differences in relative commodity prices and competitive advantage between two nations. According to their joint theory, a nation will export the commodity whose production requires intensive use of the nation's relatively abundant and cheap factors, and import the commodity whose production requires intensive use of the nation's scarce and expensive factors. Thus, a country with an abundance of cheap labour would export labor-intensive products and import capital-intensive goods and vice versa. The theory seems to suggest that the patterns of trade are determined by factor endowment rather than productivity.

Embedded in the H-O model is the assumption of a free trade, but in reality, there is no free trade as there are transport costs and other trade impediments which affect trade flows among countries (Busse, 2003). This study therefore, extends the H-O model with a slight deviation from the specific factors in the model assumptions. This extension allows for the inclusion of total trade costs (TTCs) into the H-O model by relaxing the assumption of free trade (absence of trade costs). The rationale for this extension is because the H-O model failed to capture the entire components of trade costs (Brooks & Ferrarini, 2010). Total trade cost in the context of this study, is defined as the aggregation of international trade costs and domestic trade costs, the introduction of which forms part of the justification for the analysis in this study.

To ascertain the specific indicators for measuring trade cost, the study followed the approach by Barnekow & Kulkarni (2017) which combined trade-related infrastructure with domestic regulatory measures. Moreover, Greenaway, et al. (2009) combined institutional quality with trade-related infrastructure measures, while Duval and Utokham (2012) combined trade policy barrier measures and domestic regulatory measures. For robustness, this study adopted the combination of the four measures of trade costs identified in the literature which include: trade policy barriers indicators, trade-related infrastructure measures, institutional quality measures and domestic (within-border-related) regulatory measures. The rationale for the inclusion of all these trade costs components is due to the modification in the H-O theory in order to elicit the differential impact of each component of the trade costs on trade flows into and out of Nigeria.

It must be noted at this point that there seems to be a broad consensus in literature for a significant trade potential and welfare gains associated with trade costs reduction (Greenaway et al, 2009; Hoekman & Nicita, 2011; Ueki, 2015). For instance, in Sub-Saharan Africa (SSA), a number of studies have investigated the causal link between trade costs and trade flows (Portugal-Perez & Wilson, 2008; Adewuyi & Bankole, 2012; Ackah et al., 2012; Deen-Swarry, et al., 2012; Ackah et al., 2013; Hoppe, et al., 2013).

However, only Adewuyi and Bankole (2012) and Hoppe et al., (2013) focused their study on Nigeria. Adewuyi and Bankole (2012) used largely tariffs in their estimation while Hoppe et al (2013) made use of regulatory and security barriers as trade costs measures.

In recent times, studies have been carried out to estimate the potential benefits of AfCFTA on the economies of various African states in general, and West African region in particular. Notable among such studies is Mevel and Karingi (2012) who worked on "Deepening Regional Integration in Africa: A Computable General Equilibrium (CGE) Assessment of the Establishment of the AfCFTA" in forecasting the broad result of AfCFTA. Oyejide (2018) and Oyejide (2019) focused on the "Impact of AfCFTA on Nigeria's Manufacturing Sector" and "Impact of AfCFTA on Nigeria's Agricultural Sector" respectively. There is also a study by a Nigerian Study Group (2019) on the "Impact and Readiness Assessment for AfCFTA Implementation in Nigeria". However, none of these studies incorporated trade costs in their estimation and modeling of trade benefits to Nigeria which will accrue from the

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<sup>9</sup> Trade costs include all costs incurred which will increase the prices of traded goods from the process of production to delivery, between the exporters (or producers) to the domestic consumers in the importing countries, and from domestic producers to ultimate consumers.

AfCFTA agreement. An exception is the unpublished work of Wahab (2019) which focused on “Trade Costs and Bilateral Trade Flows between Nigeria and its Major Trading Partners”. His work used aggregated trade costs to measure the potential trade benefits (or disequilibrium) to Nigeria vis-à-vis her trading partners. However, his analysis was not within the context of the AfCFTA deal. Ostensibly, this study is the first to incorporate aggregated trade costs to interrogate the potential benefits enunciated in the AfCFTA agreement to which Nigeria has formally assented. It is expected that this approach will help us to better understand how trade costs impact on trade flows into Nigeria and provide the basis for analyzing whether the country can optimally benefit from the AfCFTA agreement to which they are now a party.

### 3. Methodology

#### 3.1 Design

The methodological approach adopted by the study is largely descriptive with anecdotal evidence gleaned from World Development Indicators and World Integrated Trade Solutions for the period 2005 – 2018.

#### 3.2 Analytical Framework

The study adopted the content analytical framework with which data on Nigeria’s tariff regime and border-related regulatory measures were analyzed and compared with selected peer countries and major trading partners in Africa. Analysis was also done on trade-related infrastructure position in the country, maritime logistics and accessibility index, commodity structure of the country’s export and imports as well as trade policy posture. This approach will show in comparative terms whether Nigeria is in a competitive position to gain optimally from the AfCFTA deal vis-à-vis her major competitive rivals in the African region.

### 4. Data Presentation and Analysis

#### 4.1 Nigeria’s Trade Statistics

Available statistics shows that Nigeria has a poor record in terms of contribution to global trade. However, there is no agreement on the approximate cause of the country’s poor performance in global trade. It has been argued that Nigeria’s lack-luster performance in global trade is largely attributable to high and rising cost of trade occasioned by trade policy barriers, trade-related infrastructure deficiencies, domestic regulatory bottlenecks as reflected in the logistics performance index (LPI) and doing business trading across borders index (TBI) and poor institutional quality (UNCTAD, 2012, 2013, 2014, and 2015).

To put the analysis in proper perspective, we present comparative trade statistics for the country vis-à-vis other major trading partners in Europe and potential competitors from the African region for the period 2005 – 2018, covering periods prior to the trade facilitation agreement (TFA) (2005 - 2013) and period of trade facilitation agreement (2014 - 2018).

Table 4.1.1. Nigeria’s Selected Trade Statistics

Year	% of Total Merchandise (Imports)	% of Total Merchandise (Exports)	Total Trade	Tariff	Tariff (All Products)
2005	16.87	1.11	17.98	13.07	-
2006	17.62	1.01	18.63	13.04	10.55
2007	19.86	1.09	21.05	12.07	10.59
2008	17.89	1.07	18.96	9.79	10.62
2009	18.61	1.09	19.70	9.70	10.82
2010	21.42	1.26	22.67	9.61	9.94
2011	22.42	1.31	23.78	10.2	11.06
2012	15.16	1.55	16.71	-	11.16
2013	15.78	1.10	16.88	9.9	-
2014	15.79	1.24	17.03	11.78	11.35
2015	16.06	1.04	17.10	8.4	11.76
2016	19.84	0.99	20.82	9.72	11.27
2017	15.55	1.12	16.67	-	12.44
2018	12.52	1.08	12.60	8.88	12.60

Source: World Development Indicators, 2019

As shown in Table 4.1.1, Nigeria’s trade statistics have been dismal over the last two decades. For instance, for the period 2005 – 2018, the total trade volume in Nigeria has hovered around 16-20%. In terms of contribution to global trade, this amount to less than 1% contribution to global trade (UNCTAD, 2018). Again, the country’s

export trade has hovered around 1% - 2% for the entire period 2005 – 2018. In other words, in terms of contribution to global trade, the country's contribution to global export was approximately 0.6% in 2011 and by 2018; it has depreciated to approximately 0.20% (UNCTAD, 2018). In terms of global imports, the story is not better. Indeed, the country's share of global import has oscillated from 0.15% in 2005 to approximately 0.20% in 2018 (UNCTAD, 2018).

Table 4.1.2. Nigeria's Selected Development Statistics

Year	GDP Growth Rate	GDP Per Capita	Population Growth Rate
2005	6.44	3.72	2.59
2006	6.06	3.33	2.61
2007	6.59	3.82	2.63
2008	6.76	3.97	2.65
2009	8.04	5.20	2.66
2010	8.01	5.16	2.67
2011	5.31	2.53	2.68
2012	4.23	1.47	2.68
2013	6.67	3.85	2.68
2014	6.31	3.51	2.67
2015	2.65	-0.03	2.65
2016	-1.62	-4.17	2.63
2017	0.81	-1.79	2.61
2018	1.94	-0.67	2.59

Source: World Economic Forum, 2018

Moreover, as can be seen from Tables 4.1.1 and 4.1.2, Nigeria's export-GDP ratio has fluctuated between 18.2% in 2005 to approximately 22% in 2017 (WEF, 2018). This trend is not encouraging as the country trails much behind other countries with comparable characteristics in the African continent.

Table 4.1.3. Cross Border Trade Indicators for Nigeria and its major Trading Partners (2005-2013 and 2014-2018)

Countries	EXPORTS				
	PRE-TFA Period (2005-2013)			During TFA-period (2014-2018)	
	Number of Document required	Days spent	Cost (US\$ per container)	Time: Documentary compliance (hours)	Cost (US\$ per container): documentary compliance
Nigeria	9.1	26.6	1195.78	131	250.0
Belgium	4	9	1233.67	1	0
Brazil	6	14.7	1378.81	22	226.00
China	8	212	503.67	21	85.00
Cote d'Ivoire	9	24.1	1659.67	120	136.00
France	3	11.4	1285.00	1	0
Germany	4	8.3	852.78	1	45.00
Ghana	6	22.3	765.00	89	155.00
Egypt	7	19.1	960.00	40	99.00
Italy	3	19.9	1260.33	1	0
Japan	3	11	884.92	2	60.00
Netherlands	4	7	920.00	1	0
Norway	4	8	963.78	2	0
Singapore	3	6	443.11	2	37.00
South Africa	6.6	23	947.02	68	170.00
Spain	4	10	1194.89	1	0
Sweden	3	9	673.44	1	40.00
Turkey	7.2	14.8	909.00	5	87.00
United Arab Emirate	3.4	8	559.22	6	178.00
United Kingdom	4	9.1	1015.00	4	25.00
United States	3	6	1030.44	2	60

Source: Computation based on Data from World Economic Forum (cited in Wahab, 2019)

As presented in Table 4.1.3, cross border trade statistics for Nigeria are not favourable or competitive when juxtaposed with peer countries in the region and major trading partners in Europe and United States. For instance, it takes an average of 9 documents to process export transaction from Nigeria as against 6 in Ghana, 7 in Egypt and 7 in South Africa. Elsewhere, it takes about 3 documents in Sweden, 4 in Spain, 4 in United Kingdom and 3 in the United States for similar transaction. Again, it takes approximately 27 days to complete an export business in Nigeria as against 22 days in Ghana, 19 days in Egypt and 23 days in South Africa. In the United States, it takes only 6 days to complete similar transaction and 7 days in Netherlands.

In terms of cost per container in US dollar, it takes approximately US\$1,200 for export business in Nigeria as against US\$765 in Ghana, US\$960 in Egypt and US\$947 in South Africa prior to the trade facilitation agreement (TFA) in 2014. Elsewhere in Europe, it takes approximately US\$670 in Sweden per container and US\$852 in Germany and approximately US\$1,000 in the United States of America.

Moreover, during the trade facilitation agreement (TFA) era commencing at 2014, it takes 131 hours for documentary compliance for export trade in Nigeria as against 89 hours in Ghana, 40 in Egypt and 68 in South Africa. In the United States, it takes only 2 hours for documentary compliance in export and 1 hour in Spain and Sweden respectively for similar trade.

Finally, the documentary compliance cost per container during the TFA era is US\$250 in Nigeria as against US\$155 in Ghana, US\$99 in Egypt, US\$136 in Cote d'Ivoire and US170 in South Africa. Elsewhere in Europe, the process of documentary compliance for export trade per container is costless in dollar terms as obtained in France, Italy, Netherlands, Norway and Spain.

Table 4.1.4. Cross Border Trade Indicators for Nigeria and its major Trading Partners (2005-2013 and 2014-2018)

IMPORTS					
Countries	PRE-TFA Period (2005-2013)			During TFA-period (2014-2018)	
	Number of Document required	Days spent	Cost (US\$ per container)	Time: Documentary compliance (hours)	Cost (US\$ per container): documentary compliance
Nigeria	13.5	42.1	1408.83	173	564.00
Belgium	4	8.7	1400.00	1	0
Brazil	8	19.2	1567.70	137.33	107.00
China	5.4	24.2	542.78	66	171.00
Cote d'Ivoire	13	38.7	2201.00	113	267.00
France	3.9	12.2	1378.33	1	0
Germany	4	7	874.44	1	45.00
Ghana	7	42.4	1122.78	301.33	474.00
Egypt	10	24.9	1181.67	62.33	142.00
Italy	3	18	1210.33	1	0
Japan	5	11	1090.26	3	100.00
Netherlands	4.8	6	982.67	1	0
Norway	5	7	820.00	2	0
Singapore	3	4	415.11	3	40.00
South Africa	6.8	31.8	1626.11	36	213.00
Spain	4.6	9.8	1265.22	1	0
Sweden	3	6	696.33	1	0
Turkey	9.1	16.7	1067.22	11	142.00
United Arab Emirate	5.9	8.1	548.22	12	283.00
United Kingdom	4	7.1	1166.22	2	0
United States	5	5	1251.22	8	100.00

Source: Computation based on Data from World Economic Forum (Various Years) and Trade Data Analysis (cited in Wahab, 2019)

From Table 4.1.4, Nigeria's trade indicators for imports are not competitive enough compared to peer-countries in the region or selected major trading partners from Europe and the United States of America. For instance, it takes approximately 14 documents to complete an import trade in Nigeria compared to 7 in Ghana, 10 in Egypt and approximately 7 in South Africa. Elsewhere in Europe, it takes an average of 5 documents in Spain, 4 in Germany and the United Kingdom respectively, and 5 in the United States of America. Moreover, it takes approximately 42 days prior to TFA to complete import transactions in Nigeria as against 25 days in Egypt, 32 in South Africa and 42

in Ghana. It takes approximately 17 days in Turkey, 7 in Germany and United Kingdom and 5 days in the United States of America.

In terms of cost per container, it takes approximately US\$1,400 in Nigeria as against US\$1,122 in Ghana, US\$1,181 in Egypt and US\$1,600 in South Africa. In Singapore, it takes about US\$400 for similar transactions while it costs US\$1,166 in the United Kingdom and US\$1,251 in the United States.

Nigeria has a little comparative advantage over Ghana in terms of time taken for documentary compliance during the TFA period 2014 – 2018. It takes 173 hours in Nigeria for documentary compliance as against approximately 300 hours for Ghana. However, Nigeria compares less favourably with Egypt, South Africa and Cote d'Ivoire where it takes 62, 36 and 113 hours respectively for documentary compliance. Elsewhere, it takes only 1 hour in Belgium, France, Germany, Italy, Netherlands, Spain, Sweden and 2 hours in United Kingdom for documentary compliance in import trade for the period under review.

Finally, in terms of cost (US\$) per container for documentary compliance during the TFA period, it takes approximately US\$560 in Nigeria to ensure compliance with required documentation per container as against US\$474 in Ghana, US\$142 in Egypt and US\$213 in South Africa. However, in the United States of America, it costs just US\$100, while elsewhere in Europe such as Belgium, France, Netherlands, Norway, Spain, Sweden and the United Kingdom cost (US\$) per container for documentary compliance during the TFA period is zero.

#### 4.2 Tariff Regime in Nigeria

Table 4.2.1. Nigeria's Tariff Regime (2005 – 2018)

Year	% of Total Merchandise (Imports)	% of Total Merchandise (Exports)	Total Trade	Tariff	Tariff (All Products)
2005	16.87	1.11	17.98	13.07	-
2006	17.62	1.01	18.63	13.04	10.55
2007	19.86	1.09	21.05	12.07	10.59
2008	17.89	1.07	18.96	9.79	10.62
2009	18.61	1.09	19.70	9.70	10.82
2010	21.42	1.26	22.67	9.61	9.94
2011	22.42	1.31	23.78	10.2	11.06
2012	15.16	1.55	16.71	-	11.16
2013	15.78	1.10	16.88	9.9	-
2014	15.79	1.24	17.03	11.78	11.35
2015	16.06	1.04	17.10	8.4	11.76
2016	19.84	0.99	20.82	9.72	11.27
2017	15.55	1.12	16.67	-	12.44
2018	12.52	1.08	12.60	8.88	12.60

Source: World Economic Forum, 2019

Tariff is used extensively in empirical literature as key indicator of trade policy barriers. In Nigeria, simple average tariff has reduced considerably over the years due to several bilateral and multilateral trade agreements to which Nigeria has consented. The most significant of these tariff-reduction measures being the Common External Tariff (CET) in ECOWAS, to which Nigeria is a signatory. However, average tariff regime in Nigeria is still high compared to rates in other neighboring countries and Nigeria's other external trade partners.

As displayed in Table 4.2.1, it is observed that over the last one and half decades, Nigeria's simple average tariff rate has hovered between 8% and 13%. In other words, despite the significant reduction in tariff regimes in Nigeria over the years, the country's average tariff rate remains high compared to its peers in the African region and other countries in Europe (World Economic Forum, 2019). Indeed, most of the countries in Europe have single digit tariff rate while Nigeria's tariff rate has remained in double-digit despite the country's best efforts.

### 4.3 Ease of Doing Business (EoDB) Index

Table 4.3.1. Nigeria's Selected Trade-Related Statistics

Year	Logistics Performance Index*	Public-Private Partnership Investments in Transportation (US\$)	Ease of Doing Business
2005	1.12	2,355,400	120
2006	1.85	322,140	-
2007	2.23	40,000	-
2008	2.20	382,000	120
2009	2.21	-	125
2010	2.43	-	133
2011	-	259,400	133
2012	2.27	-	138
2013	-	-	147
2014	2.56	4,400,000	170
2015	-	-	170
2016	2.40	3,200,000	169
2017	2.42	3,670,003	145
2018	2.50	3,270,665	146

\*Quality of trade and transport-related infrastructure (1 = low to 5 = high)

Source: World Economic Forum (2019)

In terms of the ease of doing business, Nigeria has not also fared well in its global ranking on the EoDB index. The global ranking on the ease of doing business is based on a country's score on the composite indices for ease of doing business. A country is assigned a low numerical value if the regulatory environment is adjudged conducive to doing business. Over the years, Nigeria's ranking based on these indicators shows that the country has never been conducive for businesses to thrive due to restrictive and stifling regulatory and operating environment, especially high cost of doing business.

From Table 4.3.1, the lowest ranking Nigeria has attained is 120 for the entire period under review, with the ranking deteriorating. For instance, for the period 2005 to 2018, it takes an average of 8 to 14 documents respectively when exporting or importing into the country (UNCTAD, 2018; World Bank, 2018). This is high compared with peer countries in Africa and Nigeria's trading partners in Africa and the rest of the world. Moreover, for the period 2005 to 2018, it takes an average of 25 to 43 days respectively to ship goods in and out of Nigeria. This is also considered very high in comparison with the average shipping time for other countries in Africa and other nations of the world.

However, there appears to be a considerable respite with the implementation of trade facilitation agreement (TFA) in December 2013. The requirements for cross border trade has been simplified and integrated into two (that is, time to export/import, documentary compliance (hours) and cost to export/import, documentary compliance (US\$)). Though the TFA has considerably reduced the time and cost of exporting and importing goods in and outside Nigeria, yet these costs remain higher relative to her trading partners that transact at very low time and even zero cost.

### 4.4 Infrastructure Indices in Nigeria

#### 4.4.1 Roads

Generally, infrastructural facilities in Nigeria are grossly inadequate compared to the country's economy and teeming population. In terms of roads infrastructure, Nigeria has the lowest road-to-population ratio in Africa. For instance, the country's total stock of road network is approximately 193,000 km in 2017. The country's population has grown from approximately 95 million in 1990 census to 123 million in 2000 and 191 million in 2017, while total road network has increased from about 122,000 km in 1990 to approximately 194,000 km in 2017. Statistically, the progression has been at the ratio of 0.001:0.002:0.001 in 1990, 2000 and 2017 respectively (World Economic Forum, 2019; World Fact Book, 2018). The road-to-population ratio in Nigeria is extremely low even by African standards, and deteriorating. This has grave implication for movement of people and goods. By implication, huge pressure is created on the available road network, consequently resulting in exorbitant transportation and delivery costs in moving goods from producers to consumers.

#### 4.4.2 Maritime Infrastructure

Maritime infrastructure in Nigeria is not developed either and offers little respite in terms of movement of goods and people. The pressure in road network in Nigeria could have been ameliorated if the maritime avenues are developed. However, very negligible trade-related movement is conducted through the maritime corridor in Nigeria despite the abundance of navigational waterways in the country. Globally, accessibility and connectivity to maritime infrastructure is measured by the Liner Shipping Connectivity Index (LSCI), hence used as proxy for accessibility to global trade. The index ranges from 0 to 100 and is generally computed from five major components of connectivity: the number of ships, the total container-carrying capacity of ships, maximum vessel size, number of services, and number of companies that deploy container ship on services. The higher the connectivity index, the easier it is, ipso facto, to effectively participate in global trade (UNCTAD, 2018).

From Table 4.3.1, it can be seen that over the last one and half decades, Nigeria's LSCI ranking has been very low. For instance, for the period 2005 to 2018, Nigeria's ranking on the LSCI has averaged 18.2. This is considered low relative to peer countries in Africa like South Africa, Egypt and Ghana. This has grave implication for global trade accessibility and facilitation in Nigeria.

#### 4.5 Nigeria's Trade Flows

##### 4.5.1 Nigeria's Exports and Imports Commodity Structure

Nigeria can potentially boast of several exportable commodities like food and live animals, crude minerals, inedible, beverages and tobacco, mineral fuels, lubricants and related products, animal and vegetable oils and fats, chemicals and allied products, manufactured goods classified chiefly into machinery and transport equipment, among many other exportable items.

Nigeria's export and import commodity structure is shown in table 4.5.1 and 4.5.2 for exports and imports components respectively.

Table 4.5.1. Nigeria's Export of Selected Commodities (Trade Value in Million US\$)

<b>Total Exports to all major Trading Partners</b>					
<b>Commodities</b>		<b>2005-2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Food and live animals	Value	1278.14	997.23	765.04	967.07
	Share in total (%)	1.63	1.21	1.66	3.29
Beverages and tobacco	Value	81.71	71.09	22.40	45.73
	Share in total (%)	0.10	0.09	0.05	0.16
Crude Minerals	Value	2422.22	724.37	917.91	731.36
	Share in total (%)	2.75	0.88	2.00	2.49
Mineral fuels and lubricants	Value	60988.12	75157.48	43237.55	27056.60
	Share in total (%)	92.16	93.00	94.01	92.05
Animal and Vegetable oils and fats	Value	1.36	6.15	0.73	6.00
	Share in total (%)	0.00	0.01	0.00	0.02
Chemicals and related products	Value	248.08	127.96	50.91	91.24
	Share in total (%)	0.37	0.16	0.11	0.31
Manufactured goods classified chiefly into:	Value	974.79	1502.86	329.18	311.20
	Share in total (%)	1.37	1.82	0.72	1.06
Machinery and transport equipment	Value	561.26	2344.89	55.80	61.43
	Share in total (%)	0.74	2.84	0.12	0.21
Miscellaneous manufactured articles	Value	194.03	1546.54	34.06	25.87
	Share in total (%)	0.30	1.88	0.07	0.09
Commodities and transactions	Value	134.44	2.47	577.30	103.94
	Share in total (%)	0.27	0.00	1.26	0.35

Source: Computation based on data from World Integrated Trade Solution (cited in Wahab, 2019)

Table 4.5.2. Nigeria's Imports of Selected Commodities (Trade Value in Million US\$)

<b>Total Exports to all major Trading Partners</b>					
<b>Commodities</b>		<b>2005-2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Food and live animals	Value	3908.16	4136.31	2481.60	1945.41
	Share in total (%)	13.51	11.45	7.68	7.87
Beverages and tobacco	Value	184.07	255.41	250.91	221.31
	Share in total (%)	0.67	0.71	0.78	0.90
Crude Minerals	Value	695.15	438.50	229.28	244.98
	Share in total (%)	2.01	1.21	0.71	0.99
Mineral fuels and lubricants	Value	1683.71	6265.70	5561.86	4536.15
	Share in total (%)	5.77	17.34	17.21	18.36
Animal and Vegetable oils and fats	Value	90.75	174.46	75.72	22.67
	Share in total (%)	0.32	0.48	0.23	0.09
Chemicals and related products	Value	2801.00	3845.07	3453.32	3184.41
	Share in total (%)	11.03	10.64	10.69	12.89
Manufactured goods classified chiefly into:	Value	4642.91	5615.64	6520.86	4588.23
	Share in total (%)	18.11	15.54	20.18	18.57
Machinery and transport equipment	Value	11267.79	14060.66	9107.72	6306.77
	Share in total (%)	4.50	3.69	13.04	13.46
Miscellaneous manufactured articles	Value	1170.10	1331.87	4214.02	3327.14
	Share in total (%)	4.50	3.69	13.04	13.46
Commodities and transactions	Value	172.12	11.48	415.21	332.77
	Share in total (%)	0.99	0.03	1.29	1.35

Source: Computation based on data from World Integrated Trade Solution (cited in Wahab, 2019)

As presented in tables 4.5.1 and 4.5.2), Nigeria could rightly be described as a mono-product economy because her exports over the years consist largely of crude oil and lubricants. For instance, for the period 2005 to 2018, the country's export of crude oil and lubricants accounted for approximately 93% of total value of all merchandise exports with export net flows of over US\$60 billion for the period. None of the other export commodities recorded anything near that value in terms of total contribution and dollar net flows.

In terms of the country's import commodities, machinery and transport equipment dominated the scene. For instance, for the period 2005 to 2018, imports of machinery and transport equipment dominated all other commodities, accounting for approximately 34% of total imports. What this means is that Nigeria has only crude oil and lubricants to offer as export commodity, while her importation is largely manufacturing inputs with little or no local contents, as well as manufactured items. This analysis tends to support the H-O model which underpins this study in the sense of Nigeria exporting commodities for which she is naturally endowed, while importing those with no underlying natural endowment.

#### 4.6 Discussion and Implication of the Study

From the country's trade statistics and trade dynamics highlighted in the foregoing sections, we can make the following deductions:

- Nigeria has not performed well in international trade especially export trade both in the continent and globally. The country's export-to-GDP ratio is very low when compared with other countries in Africa. The implementation of AfCFTA agreement has the potential to reduce the trade costs between on-the-border and behind-the-border activities, improve competitiveness and integrate Nigeria into the global value chain. Therefore, the country stands to benefit from the AfCFTA agreement if well implemented, as the deal has potentials to open more opportunities for Nigeria to participate more actively in export trade in the continent, all other things being equal.
- Nigeria has a poor record in terms of ease of doing business index in the continent. This may not be unconnected to the bureaucratic procedural posture as well as insecurity challenges. Nigeria's potential rivals in Africa like Egypt, Ghana and South Africa have better records in this regard. To this end, in a

free contest and AfCFTA-induced trade liberalization, Nigeria has little or no chance in terms of attracting businesses and investments and may end up as dumping ground for manufactured goods from other countries in Africa. Incidentally, this analysis confirms Nigeria to have high appetite for manufactured trade items.

- c) Nigeria has generally poor and inadequate trade-related infrastructure. For instance, the total road networks comprising of motorways, highways and regional roads are highly inadequate and many of them in decrepit and dilapidated states. These can impact negatively on Nigeria's international trade opportunities with implication for higher trade costs and eroding the economy of the trade opportunities available. In other words, the opportunity which AfCFTA purports to provide for improved and increased trade relations in the continent may not be exploitable by Nigeria. Other countries in the continent with better trade-related infrastructures might be the ones that will benefit from the AfCFTA deal ultimately.
- d) Nigeria is a mono-product economy simply because her exports over the years consist largely of crude oil and lubricants. While not disputable that Nigeria is relatively hugely endowed with crude oil (hence its exportation in line with the H-O theory), it has been a running battle the country's inability to diversify the exportable base over the years. Non-diversification has huge implications of over-dependence on crude oil revenue, and relatedly on external or exogenous factors, unexpected truncation of which naturally spells tremendous funding disaster for the smooth operation of the nation. For instance, for the period 2005 to 2018, the country's export of crude oil and lubricants accounted for approximately 93% of the country's total exports. This casts serious doubts on how the country will benefit from the AfCFTA deal if crude oil is the only major product Nigeria has on offer for the continent. Besides, major consumers and buyers of Nigeria's crude oil are countries in America, Asia and Europe with America and China taking the lead. Also Angola is a major rival to Nigeria in crude oil production in the continent and countries like Kenya and South Africa – two of the economic power-houses in Africa, and Ghana (a rising star), will prefer a trade deal with Angola than Nigeria. Moreover, most countries in the African continent have traditionally preferred to import crude oil from outside the continent due to political and other trade-related reasons and it is unlikely this trend will change even with the AfCFTA deal in place. Nigeria's poor trade related infrastructure especially maritime logistics may not help matters in this regards.
- e) Nigeria's trade policy has been rather protective over the years. Only recently, the country made efforts, along with other sub-regional partners, to liberalize trade in order to reap benefits related to trade liberalization. One such effort was Nigeria's acceptance of the ECOWAS CET. Prior to consenting to the CET, Nigeria had a maximum tariff peak of 150 percent in 2005, which was reduced to 35% in 2010, indicating that the country liberalized its trade by about 76.76 percent following the ECOWAS CET. However, the AfCFTA deal means that Nigeria would have to reduce further her tariff regime. Reducing tariff at a time the country is trying to boost non-oil revenue in the face of dwindling government revenue might be asking for too much. Recently, Nigeria closed its land borders with neighboring countries citing security concerns and non-adherence to trade protocols relating to collection of tariffs on 'transit goods' by these neighboring countries. Given this development, it is highly doubtful if Nigeria will be willing to reduce tariff in the short-to-medium term horizon.
- f) The current ravaging corona virus pandemic is likely to alter trade dynamics around the world and most countries may impose higher trade protection post COVID - 19. It is not likely that the country will drop nationalist economic posture in the aftermath of the pandemic for regional or continental imperatives.

## 5. Conclusion and Recommendations

One of the key goals of AfCFTA is to remove restrictions on the ease of doing business in Africa and to promote free trade and movement of merchandise, persons and investments among member states in the continent. After initial hesitation, the Nigerian government signed the agreement while withholding the ratification of some of the protocols. This was to give the government more time to make wider consultation and further interrogate the purported benefits of the deal. From the country's trade costs and associated statistics analyzed by the study, we can posit that there is a slim chance that the country will gain from the AfCFTA deal unless certain measures are taken and key infrastructures put in place.

To this end, the study recommended as follows:

- a) Nigeria should diversify the economy away from crude oil and lubricants, a vision that must be deliberate and determinedly pursued. There is need for the country to explore other exportable products through research and development of value chains. It makes no sense to sign for a liberalized and enlarged market

in the continent if the country has little on offer, otherwise, the country will end up been a dumping ground for other countries, more so that the country's appetite for imported items is high. There are several exportable commodities in various zones in Nigeria whose exploitation and exportation potentials have remained untapped. Government at all levels should be involved in this process and more research and development should be channeled to the existing export commodities to increase their value chain and earn higher returns on them.

- b) There is need for government to embark on massive infrastructural development especially trade-related infrastructures. The country has currently one of the worst trade-related infrastructures in the African continent. International trade is built and facilitated by appropriate trade-related infrastructures like good roads and efficient and navigational maritime networks. Nigeria cannot hope to do any meaningful business with other countries in Africa with poor, inadequate and dilapidated infrastructure. To this end, the government should promptly speed up the completion of the ECOWAS road corridor and invest massively on maritime logistics. Government should explore the public-private-partnership options to deliver promptly in this direction.
- c) Government should work on all fronts to ease doing business in Nigeria. Currently, the country's global ranking is poor even by African standards. There is need for more reforms in the customs and ports, consolidation of tariffs and reconstitution and galvanizing the Presidential Enabling Business Environment Council (PEBEC) which was established in 2016. The PEBEC should work assiduously to ensure that documentation requirements, time and cost of documentary compliance for export and imports are reduced to the barest minimum in line with international best practices. Related technological expertise should be embraced as best as possible.
- d) Government should maintain the current cautious approach on the implementation of the AfCFTA deal. Government should continue to engage stakeholders and allow for further interrogation on the purported benefits of the deal before making further commitments.

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