

## **BRIEF**

**Unlocking Nigeria’s Economic Potentials through Regional Integration”.**  
Presented to the 41<sup>st</sup> Kaduna International Trade Fair Seminar of the Kaduna Chamber of Commerce, Industry, Mines and Agriculture (KADCCIMA).

**Date:** Monday, 2<sup>nd</sup> March 2020

**Time:** 10am

## **PROTOCOL**

Please permit me to stand on all existing protocols.

It truly is an honor and privilege to address such a dignified group of stakeholders and to be here in Kaduna state, where the government and its people are tirelessly working towards structural transformation and infrastructural development, that ensures a sustainable future for the state and its citizens.

Indeed, the theme of this seminar “Unlocking Nigeria’s Economic Potential through regional integration” comes at the most appropriate time, considering the implementation and operationalization of the Africa Continental Free Trade Area (AfCFTA) slated to commence in July 2020. It is on this note that I would like to commend the thoughtfulness of the Chamber’s Executive for bringing this theme to the front burner of national discourse.

There has been a wealth of growing linkages across sub Saharan Africa. In recent years, the continent is much more integrated today than in the past. Regional Integration opens various opportunities for both economic, political and cultural development. It facilitates large scale investments by reinforcing the attractiveness of our economies and reducing the risks; it reduces the costs of developing essential infrastructure, including transport, communication, energy, water systems, research and development, which may often lie beyond the means of individual countries.

In addition, Cultural integration that often occurs as a result of regional integration not only reinforces positive economic and social practices, it creates opportunities to emerge with the potential to rearticulate political relations, and reaffirms trans-local, trans-urban and trans-border solidarities.

However, integration across sub-Saharan Africa has been most notable through trade. Trade between sub-regions holds the greatest potential for further integration. In this regard, the AfCFTA is a kickstart to a new wave of even deeper integration for Nigeria.

The rising integration is the result of the region's higher economic growth relative to that of the world, its tariff reductions, and strengthening of its institutions and policies. Nonetheless intra-regional trade remains relatively low and the business environment continues to be challenging.

Comparative trade data shows why Africa is the least developed region of the world. Intra-African trade in goods was US\$135.4 billion in 2017, representing only 14.6% of Africa's total trade. This means that over 85% of Africa's total trade (exports and imports) was with countries outside the continent. This is in sharp contrast with intra-EU trade (69.8%), intra-American trade (46%) and intra-Asian trade (59.6%).

There is no doubt the potentials that can be unlocked through regional integration particularly through trade. In fact, according to a study conducted by the IMF, a 5% increase in the export weighted growth rate of intra-regional partners is associated with about a 0.5% increase in the growth of a typical sub-Saharan African Country.

Regional integration is pivotal to economic prosperity in Nigeria, hence an important step in unlocking Nigeria's economic potentials. In recent years, Nigeria has been experiencing a growth challenge. In the decade prior to 2014, Nigeria achieved impressive average real GDP growth rate of 6%. This was during the commodities super cycle era - a sustained period of rising commodity prices, supported by population growth and infrastructure expansion in emerging markets like China, which in turn powered demand for industrial and agricultural commodities from African Countries.

In the last 4 years however, China's double-digit economic growth has slowed to an average of 6%. Consequently, demand growth for crude oil and other commodities has slowed. Oil prices are now well below their historical highs attained in the 5 years before and after the global financial crisis in 2008-2009, proving very challenging for fiscal policy and economic growth in Nigeria.

After the recession experienced by the Nigerian economy in 2016, economic recovery has been weak. The economy grew at an average rate of 1.9% - 2.4% in 2019, with the 2020 growth outlook expected to be around the same figure. To unstuck the growth momentum for Nigeria, there needs to be a significant boost in private sector investments and Foreign Direct Investment (FDI) flows. FDI to Nigeria has been declining, it plunged by 43% to \$2bill in 2018 compared to a year earlier. Regional integration thus, presents an opportunity for achieving both outcomes.

As I proceed, this paper will explore three areas: 1) Trade in the Nigerian context, 2) the potential impact of regional trade to the Nigerian economy and finally the challenges that need to be overcome before the dividends of regional trade can be realized.

Nigeria's trade in goods were worth over \$75billion in 2017, with only 8% stemming from intra-African trade. Over the decades, Nigeria's trade has been dominated by oil and gas exports which accounted for over 90% of Nigeria's total exports in the last 5 years. In 2017, Nigeria exported goods of over \$40billion and crude oil and gas accounted for 95% of this value. Of the remaining 5% of exported products, 50% were agricultural produce in their raw state, which implies that only 2% of total exports were manufactured products.

When it comes to trade in services, the opportunities are even greater. Nigeria's global trade in services in 2017 was \$23.2billion, making Nigeria the 4<sup>th</sup> highest African Country in trade in services. However, while Nigeria imported \$18.2bn of services, it exported only 21% of its total trade in services, leaving a huge deficit of \$13.2billion. Transport, travel and other business services account for about 86% of its services imports and 76% of exports. Trade in financial services (including insurance and pension) which is seen as an area of Nigeria's competitive advantage contributed \$1.7billion to Nigeria's trade in services.

Developing Nigeria's health and education institutions which accounts for majority of the travel services imports and growing the capacity of our local transportation sector can potentially boost the Nigerian economy by the value of the import of the transportation services.

Since 2016, the government has tried to bridge the domestic investment gap by borrowing. Nigeria has risen on the World Bank's Ease of Doing Business Index due to many reforms undertaken to improve the ease of doing business in the country. There have been various intervention funds channeled to the MSME segment, these efforts unfortunately, have not been effective in raising economic growth above 2.5%.

Regional integration through trade would unlock the potential for economic prosperity and growth through the following ways:

- It offers preferential access to a much bigger single continental market for goods and services worth \$416bn and \$121.8bn respectively, plus free movement of businesspersons and investments;
- It increases investments in the real sector which provides opportunity to grow and diversify non-oil exports, improve export capacity and the reforms identified;
- It leads to the liberalization of priority sectors that constitutes the country's top imported products and services. This will likely lower cost of imports from African countries, which will reduce prices of products for consumers and cost of inputs for businesses. It will also drive down the cost of production of Nigerian products, thereby increasing its demand.
- It improves the Country's attractiveness for foreign direct investments.
- It leads to the resolution of some of the trade-related issues currently plaguing Nigeria in ECOWAS including, smuggling, abuses of rules of origin and other predatory trade practices. it also offers cooperation on all trade-related areas, investment, intellectual property rights, competition policies, customs matters and the implementation of trade facilitation matters.

While close economic relationships among countries are a welcome sign of development and promising driver of future growth, they also present challenges and risks to that future growth. So, while we explore the positive impact of regional integration on the Nigerian Economy, we need to be aware of all the potential risks that may arise, due to a lack of readiness by the country to adequately benefit from its gains.

To that effect, Is Nigeria ready for regional integration through trade? Are we ready for AfCFTA? Let us look at this from the following perspectives:

- 1). **Trade Capacity**- Nigeria's ability to exploit the African Market in terms of market access, productive capacity, service capacity and quality infrastructure.
- 2). **Trade Infrastructure**- the ability of the country's physical infrastructure (power and transportation) to produce and transport goods for export markets competitively.
- 3). **Trade Environment**- which focuses on the ability for trade facilitations, ease of doing business, cost of money and our fiscal and monetary policies and finally.
- 4). **Trade Enforcement**- Nigeria's ability to enforce its domestic and international trade rules and obligations.

A minimum readiness requirement for Trade capacity is the ability of Nigerian products and services to access foreign markets with limited tariff and non-tariff barriers. Nigeria has negotiated numerous bilateral and multilateral trade agreements with African, European and Asian countries, but is yet to derive benefits from these agreements. This is evident in the low margin of preference and higher tariffs on Nigerian products in destination markets compared to other African countries. This is attributed to the lack of effective interaction between government and the private sector for proper awareness of the provisions and opportunities inherent in these trade agreements, the lack of capacity on the part of the private sector to take advantage of opportunities and inadequate funding for the implementation of agreements such as upgrading to meet standards, technical regulations and sanitary measures of export markets.

In terms of our productive capacity, Nigeria is still far below the needs of the African market. The productive capacity targets for Nigeria's priority sectors were outlined in the Economic Recovery and Growth Plan (ERGP), and apart from agriculture and oil and gas, the targets in the ERGP are far below the needs of the potential African market size.

For Trade Infrastructure, how ready are we in terms of the availability of required infrastructure (Power, Road, Rail, Aviation, Ports) to support trade activities? Let us look at some of the data available: While the 2025 national power demand is estimated at 15,255MW, current generation capacity is roughly 11,000MW, transmission and distribution capacities available are about 5,300MW and 5220MW respectively. This shows the severity of the shortage in power supply in Nigeria and poses a very significant challenge to the country's competitiveness landscape. In terms of road transportation, Nigeria ranks 93<sup>rd</sup> out of 136 countries (score of 3.8/7) in terms of availability and quality of road infrastructure on the Enabling Trade Index. When compared to peer countries such as South Africa (5.8/7), Morocco and Cote d'Ivoire (5.1/7), Kenya (4.3/7), Egypt (4.2/7) and Ghana (4.0/7), Nigeria is lagging behind, especially because of the country's heavy reliance on its road infrastructure for trade due to the limited capacity of other modes of transportation.

The country's port infrastructure also ranked very low, 182 out of 185 countries on the Enabling Trade Index, The current rail infrastructure continues to support trade activities with an increasing movement of goods and cargo, however access to agricultural and industrial clusters is still very minimal and needs to be improved. The successful completion of the Abuja-Kaduna and Warri-Itakpe standard gauge rail lines are notable steps towards improving the rail infrastructure support to trade.

The current state of the Trade environment presents a similar bleak outlook. A major constraint to intra-Africa trade is the high frequency of informal trade which is due to a lack of coordinated mechanism for managing goods in transit. Nigeria is yet to implement the ECOWAS Protocols on the Inter-State Road Transit of Goods (ISRT) scheme expected to resolve this gap., while Ghana and other ECOWAS countries have partially implemented the scheme.

Another aspect that affects the trade environment is cost of money. Nigeria's cost of money that is, access to finance and cost of capital is high for a number of reasons including; Shortage of finance to the real sector, lack of adequate infrastructure to support business operations leading to high cost of capital, Non-performance of loans and inability of borrowers to meet loan obligations, structural rigidities in the economy and lack of adequate collateral for MSMEs to access credit, to name a few.

Overall, Nigeria has made significant strides in improving its trade facilitation scores as monitored on the Trade facilitation index. It has also gone up 15 places to be the 131<sup>st</sup> out of 190 countries in the 2020 Ease of Doing Business ranking index published by the world Bank.

Finally, in terms of Trade enforcement, Nigeria currently faces several rules enforcement challenges in protecting its borders against smuggling, predatory trade practices (transshipment, trade deflection and dumping), human trafficking, proliferation of Small Arms and Light Weapons. For example, the total value of products smuggled into Nigeria in 2017 was estimated at N869bn according to the Industrial Policy and Competitiveness Advisory Council. Nigeria's capacity to interdict the prevalence of predatory trade practices is limited as it operates a pre-independence law, Customs Duties (Dumped and Subsidies Goods) Act 1958 contingency measures.

Regarding Nigeria's security concerns and implementation of protocols on free movement of persons, Nigeria lags

behind its peer countries. Nigeria has a score of 2.87 out of 4 on the level of security indicator of the Global Peace Index, which considers the prevalence of terrorism activities.

For regional integration to be beneficial to the country raising the productivity growth of the private sector is key. A strong coordination of reforms and projects that prepares the country for international trade, would be needed for the country to realize the potential benefits of regional integration.

As a matter of priority, Nigeria needs to:

- 1) Operationalize existing trade agreements that includes provisions to deal with trade barriers and settling trade disputes. A key threat to the success of regional integration for Nigeria is predatory trade practices, primarily on goods from outside the continent. Tackling this threat will require collective efforts at the highest level of ECOWAS and the African Union.
- 2) Implement policies, operational/technical, governance and financial interventions to restore the financial viability of the power sector, improve service delivery and reduce losses. Since electricity is the highest production cost driver for businesses

(both manufacturing and services), electricity tariff for large consumers and strategic sectors should be aligned with cost of electricity in key peer countries.

- 3) Develop a sustainable financing strategy to upgrade and maintain the quality of the nation's transportation systems, particularly those on the export corridors
- 4) Technical assistance and Capacity building of all relevant MDAs that drives organizational reforms, and ease of doing business in the Country
- 5) Resolve issues preventing the full implementation of existing customs cooperation agreements, harmonizing data requirements and updating existing bi-lateral agreements between Nigeria and neighboring countries to include coordinated border management.
- 6) Update existing policies and measures to address supply side constraints of businesses, especially the strategic sectors, products and services. Sustain agricultural financing incentives and expand investment and financing incentives for mining, manufacturing and services sectors
- 7) Aggressively pursue implementation of mobile money licenses for Telecommunication Companies and other innovative Fintech Solutions
- 8) Develop its productive capacity across the value chain in manufacturing, agriculture, services & other industries sectors
- 9) And finally, deepen access to finance to the real sector.

Unlocking Nigeria's economic potential through regional trade is not the responsibility of the government alone as we clearly see. It requires a deliberate and cohesive partnership between key stakeholders that influence the enabling environment that accelerates the pace of structural transformation, diversification of an economy, one that enables a country to fully utilize its factor endowments and efficiently compete regionally and globally for its economic development and sustainability.

This is therefore a call to action to every stakeholder in this room!

As an organization, the Development Bank of Nigeria (DBN) has committed to enhancing the competitiveness of the real sector through the provision of the right types of loans, de-risking the sector and capacity building. This is to augment efforts of all stakeholders in preparing the Country to effectively participate in regional integration. While we have made significant strides in our relatively short time of operations, we have barely even scratched the surface, in terms of market demands.

We remain committed to leveraging partnerships that align with our mandate to further deepen and achieve a catalytic impact of sustainable growth for our great Country.

Thank you

**Tony Okpanachi**

MD/CEO Development Bank of Nigeria