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Enhancing the Competitiveness of Nigerian Exports within the AfCFTA through Improvements in Trade Logistics and Infrastructure

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The launch of the African Continental Free Trade Agreement (AfCFTA) is aimed at boosting intra-African trade and promoting regional development. A major thrust of the agreement is the removal of tariffs from about 90% of goods, enhancing free flow of goods and services across the continent. According to the United Nations Economic Commission for Africa (UNECA), the agreement has the potential of boosting intra-African trade by 52% by 2022, compared with the trade levels in 2010[1]. The 22 countries needed to bring the agreement into force have been achieved with The Gambia becoming the 22nd country to ratify the agreement in April 2019. Despite this, Nigeria and some other countries are yet to sign the agreement.

There are concerns about the distribution of the costs and benefits of the agreement among the participating countries. According to the Nigerian government and other major stakeholders (the Manufacturers Association of Nigeria, Chambers of Commerce and the Nigeria Labour Congress), the AfCFTA would stifle local manufacturing and encourage anti-competitive practices such as dumping. There are also concerns about its effects on government revenue from import taxes. A research conducted by the United Nations Conference on Trade and Development (UNCTAD) found that the elimination of all tariff among African countries would reduce government revenue across the continent by $4.1 billion annually, but would create an annual welfare gain of $16.1 billion in the long term[2].

The argument that the agreement would stifle local manufacturing capacity in Nigeria is partly premised on the low competitiveness of Nigeria's products in the international market. This brief argues that Nigeria needs major domestic adjustments that reduce (increase) the costs (ease) of doing business and exporting for it to benefit from the export expansion that will be engendered by the agreement. The brief highlights some of the issues that needs to be

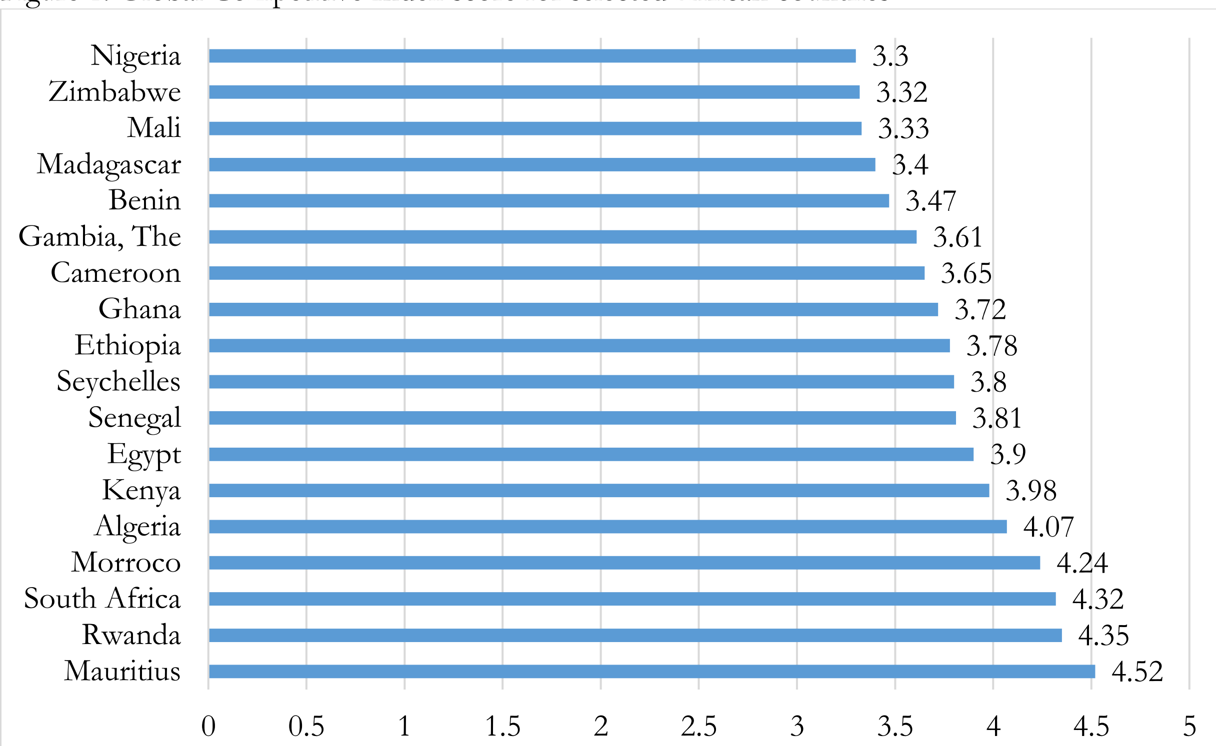
[1]https://www.aljazeera.com/news/2018/03/african-continental-free-trade-area-afcfta-180317191954318.html

[2]Saygili, M., Peters, R. and Knebel, C. (2018). African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions. UNCTAD Research Paper No. 15.

addressed, ranging from infrastructure, port and logistics reforms to institutional reforms.

Firstly, the Nigerian economy is less competitive than a number of other economies in the continent as shown in Figure 1. This to some extent suggests that goods produced in these countries may be cheaper in the international market relative to those produced in Nigeria. In addition to the relatively low competitiveness of the Nigerian economy, the competitiveness level has significantly declined in the past few years, with the score declining from 3.70 in 2012/2013 to 3.30 in 2017/2018 (Figure 2). The low competitiveness of the economy is due to several factors including poor infrastructure, weak institutions and other governance issues as well as macroeconomic instability. The components of the global competitiveness index, except market size, good market and labour market efficiency, are poor and declining. These include infrastructure (2.0/7.0), institutions (3.2/7.0), macroeconomic environment (3.5/7.0), technological readiness (3.0/7.0), and innovation (2.8/7.0).

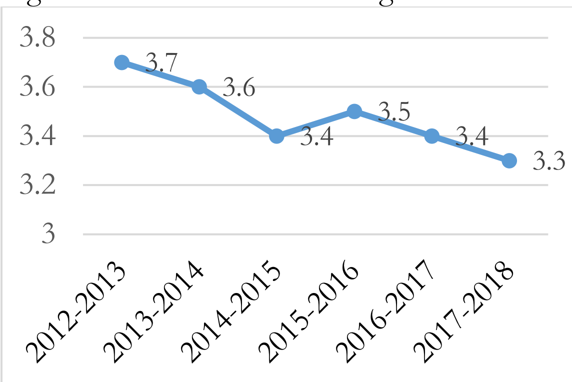
Figure 1: Global Competitive Index score for selected African countries



Source: WEF (2017). The Global Competitiveness Report, 2017-2018; Scores ranges from 1-7

Secondly, infrastructure plays a prominent role in enhancing the competitiveness of the economy. All things being equal, the cost of doing business would be lower with better infrastructure, and hence would enhance the competitiveness of locally made goods in the international and regional markets.

Figure 2: Trend of GCI for Nigeria

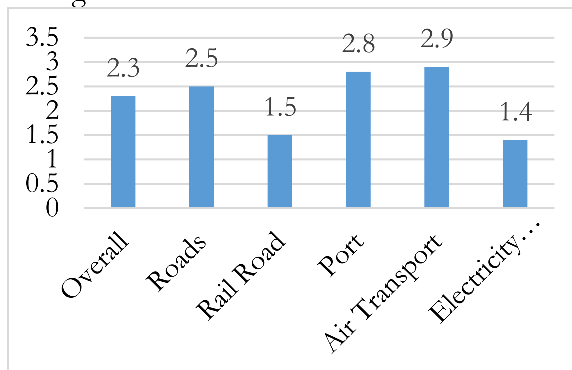


Source: WEF (2017); Scores range from 1-7

Effective modes of transport enable entrepreneurs to get their goods and services to market in a secure and timely manner, facilitate the movement of labour, and encourage foreign direct investment. Economies also depend on electricity supplies that are free from interruptions and shortages so businesses and factories can work unimpeded[3]. In addition, a solid and extensive telecommunication network allows for a rapid and free flow of information, which increases overall economic efficiency by ensuring that businesses can communicate and make timely decisions, taking into account all available relevant information.

Productivity growth and competitiveness are higher in countries with an adequate supply of infrastructure. Analysis by the African Development Bank[4] shows that there is a positive relationship between infrastructure investment and economic growth - solid infrastructure accelerates annual growth convergence rates by as much as 13% and also increases per capita annual growth by almost 1%. But the quality of Nigeria's infrastructure is poor (Figure 3) and insufficient to induce significant cost reduction required to promote competitiveness.

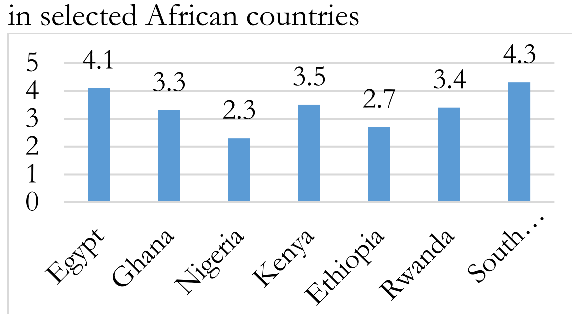
Figure 3: Quality of different infrastructure types in Nigeria



Source: WEF (2017); Scores range from 1-7

Thus, the low quality of infrastructure in Nigeria vis-à-vis other countries in the region (as shown in Figure 4) places Nigerian exports at a competitive disadvantage. Moreover, the time delay and cost of transporting goods from other parts of Nigeria to the Apapa Ports Complex is enormous partly due to poor road infrastructure and traffic gridlock in the Apapa port area.

Figure 4: Comparison of Infrastructure Quality in selected African countries



Source: WEF (2017); Scores range from 1-7

[3] [3] African Development Bank (2013) Improved Infrastructure to Support Africa. Online 09 May 2013. https://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/improved-infrastructure-to-support-africas-competitiveness-11755/

[4] African Development Bank (2013).

In addition to infrastructure challenges, trade logistics, which encompasses logistics quality and competence, tracking and tracing and timeliness, also poses threats to the competitiveness of Nigerian exports in the proposed free trade area. According to Anabel Gonzalez, Senior Director for the World Bank Group's Trade and Competitiveness Global Practice[5], "logistics performance both in international trade and domestically is central to countries' economic growth and competitiveness. Efficient logistics connects people and firms to markets and opportunities, and helps achieve higher levels of productivity and welfare".

Nigeria performed poorly in every area of trade logistics. A recent data from the World Bank's Logistics Performance Index (LPI)[6] shows that Nigeria ranks 103 among 167 countries, with an average logistics performance index score of 2.59 out of 5.0. The score for logistics quality and competence (2.54), tracking and tracing (2.73) and timeliness (3.10) are low. Nigeria's low logistics performance vis-à-vis other African countries would undermine export competitiveness and ultimately the capability of Nigerian exports to easily penetrate other markets. The logistics performance index of Nigeria (2.59) is lower compared to Ghana (2.60), Benin (2.65), Rwanda (2.90) and Kenya (2.93). In terms of timeliness for example, importing and exporting in Nigeria requires at least consultation with six different agencies compared to Benin and other African countries which require average of three agencies.

In terms of customs and border efficiency and administration, Nigeria's performance is also low, implying inefficiency at borders and increased difficulties in importing and exporting goods. According to the LPI, the performance of Nigerian customs services and procedures is rated at 2.15 out of 5.0. The poor performance of the custom services and procedures is also confirmed by the Global Enabling Trade Index[7]. According to the index, Nigeria scored 3.32 (out of 7.00) in 2016 in efficiency and transparency of border administration compared to 3.35 in 2014. This shows a worrisome decline in the efficiency of the border system. The performance of the border system is poor if compared with other African countries such as Kenya (4.44), Ghana (4.18), The Gambia (4.11), Ethiopia (4.00), and Senegal (3.89).

The performances of Nigeria in the sub-components of the border administration are shown in Table 1, and poor relative to some other African countries. For example, the time to comply with export documentation and border procedures totalled 266 hours and cost US$ 1,036 compared to 139 hours and US$ 293 for Rwanda and 168 hours and US$ 598 for South Africa. This places additional time and financial costs on Nigerian exporters,

[5] http://www.worldbank.org/en/news/press-release/2016/06/28/germany-tops-2016-logistics-performance-index

[6] Connecting to Compete 2018: Trade Logistics in the Global Economy – The Logistics Performance Index and its Indicators, The World Bank.

[7] WEF (2016). The Global Enabling Trade Report 2016. World Economic Forum, Geneva, Switzerland.

especially exporters of time-sensitive or perishable items.

Table 1: Efficiency and transparency of border administration

Indicators	Score	Rank
Customs services index 0–1 (best)	0.49	85
Efficiency of the clearance process 1–5 (best)	2.5	88
Time to import: Documentary compliance hours	172.7	124
Time to import: Border compliance hours	283.7	132
Cost to import: Documentary compliance US$	564.3	128
Cost to import: Border compliance US$	1076.8	127
Time to export: Documentary compliance hours	131.4	123
Time to export: Border compliance hours	135.4	130
Cost to export: Documentary compliance US$	250.0	120
Cost to export: Border compliance US$	785.7	125

Source: WEF Enabling Trade Index, 2016

A recent report by Quartz Africa[8] notes that it costs more to ship goods to Nigeria from New York (USA) than any other destinations globally, regardless of the distance. The report finds that shipping a 20-foot container from New York (USA) to Apapa Port (Lagos) costs US$ 4982 compared to US$ 2542 for Cape Town (South Africa), US$ 2797 for Sydney (Australia) and US$ 3086 for Jeddah (Saudi Arabia). The report attributes the gap in costs to entrenched inefficiency - slow pace of inspection and offloading of ships, congestions and bottleneck - at the local destination ports.

The Global Enabling Trade Index, relying on a survey conducted for businesses and exporters in Nigeria, summarises the problematic factors for exporting in Nigeria in the order of importance as follows: access to trade finance, inappropriate production technology and skills, difficulties in meeting quality/quantity requirements of buyers, access to imported inputs at competitive prices, high costs or delays caused by domestic transportation, identifying potential markets and buyers, technical requirements and standards abroad, burdensome procedures at foreign borders, corruptions at foreign borders. Others include high cost or delays caused by international transportation, tariff barriers abroad, and rules of origin requirements abroad. This should serve as a basis for policy makers to design measures to enhance the competitiveness of Nigerian exports.

As the government and other major stakeholders continue to consult and deliberate on the participation in the AfCFTA, there is need to focus on the various factors that unnecessarily increase the cost of Nigerian-made goods in the international market.

Issues such as infrastructure, trade logistics, and custom administration need to be looked into in order to reduce the time and cost of producing and exporting Nigerian-made goods. There is need to boost financial investment in

[8] https://moverdb.com/freight-costs-usa/

critical transport, electricity, port infrastructure through public-private partnerships. As it is, the Lagos port complex has reached its economically viable carrying capacity in terms of facilities and transportation linkages. Indeed, the situation can only worsen. Any further investment to shore up the Lagos port complex would amount to sunk cost as it is most unlikely to be cost-effective because of the spatial binding constraint and deeply entrenched inefficiencies which have a significant add-on impact on the non-competitiveness of Nigerian exports. Thus, measures to boost the competitiveness of Nigerian exports in the medium-long term must include leveraging private domestic and foreign investment to rapidly develop other coastal and inland ports to decongest the Lagos port complex.

A major weakness in Nigeria's trade policy management arsenal is the absence of a Trade Remedy Infrastructure. This has hampered the country's ability to manage and adjust its trade policy to emerging dynamics in the light of its experience in implementing bilateral and multilateral trade agreements. Happily, work is being done to strengthen capacity in this area with the establishment of the Nigerian Office for Trade Negotiations (NOTN).

Nigeria needs to mainstream trade facilitation into its overall trade agenda. The country should prioritize the implementation of the World Trade Organisation (WTO) Trade Facilitation Agreement (TFA) to identify areas in which it could apply for technical and financial supports from WTO and UNCTAD to build capacity to relax constraints militating against its export competitiveness. Government should also improve on port reforms to enhance efficiency in port operations and custom administration. In this respect, emphasis should be placed on streamlining the exporting processes and procedures and eliminating the activities of middlemen and irrelevant government agencies. Other factors such as trade remedy infrastructure, availability of trade financing, skills development and better production technologies and compliance with quality and quantity requirements should also be at the forefront of considerations. Overall, the government should aim at creating stable macro-economic environment. These will also benefit Nigeria's external trade performance and competitiveness outside the AfCFTA.

Conclusions

Economies that are open to trade and investment and provide appropriate, pro-development safeguards will prosper, flourish and develop. Nigeria cannot be an exception. Africa's preeminent economy must take its place at the continental table without further delay, as it is poised to benefit from the AfCFTA if appropriate measures are taken to reduce the costs of doing business and exporting in the country.

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