AfCFTA
Thriving in a New Africa

Part 1

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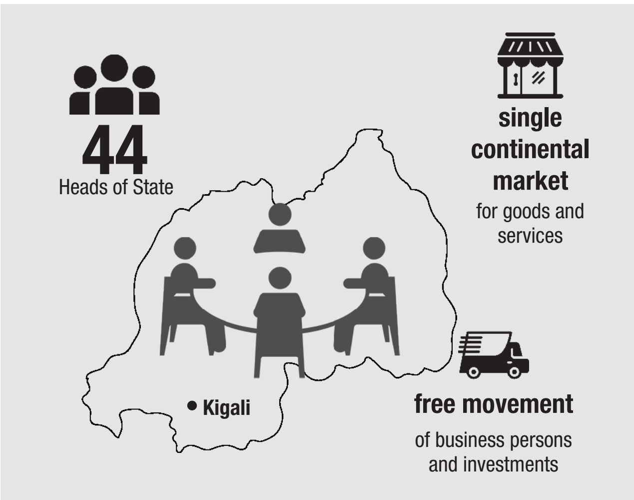
Summary

The Establishment of the AfCFTA was signed in Kigali, Rwanda (Kigali declaration), by 44 Heads of State on 21 March 2018. The broad objective of the AfCFTA is to create a single continental market for goods and services, with free movement of business persons and investments, paving the way for accelerating the establishment of the Continental Customs Union. Additionally, the AfCFTA is expected to enhance competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better reallocation of resources.



The AfCFTA agreement went into effect on the 30th of May 2019. As at the time of this article, Nigeria is yet to either assent to the Kigali declaration or sign the AfCFTA Agreement. Being the seventh (7th) most populous country in the world and Africa's largest market, Nigeria is attractive to many economies and companies looking to make inroads with their products and services. Regardless of Nigeria's assent, the AfCFTA agreement will create a new trade environment in Africa.

The Nigerian market faces new competition from businesses in member countries across Africa with inward flow of goods and services, as competitors can take advantage of existing trade agreements such as the ECOWAS Trade Liberalization Scheme (ETLS) to access the Nigerian and African market simultaneously, through an ECOWAS country like Ghana, which has existing trade agreements with Nigeria under the ETLS, allowing it to obey the Rules of Origin (ROO)[1] requirements.

While Nigeria is the largest economy in Africa, there are several countries with businesses that have the scale to compete with Nigerian businesses in terms of productive capacity, exports and logistics. In addition, there are smaller countries with the comparative advantage to penetrate the Nigerian market. Consequently, Nigerian businesses must adapt to the new form of competition on the back of the new trade environment created with the AfCFTA. Additionally, Nigerian businesses must learn to position themselves to take advantage of the new markets that have been opened up.

It is important to note that this article does not aim to offer an opinion on whether Nigeria should sign the AfCFTA agreement. The objective of this article, divided into 3 parts, is to provide Nigerian businesses with ideas on thriving in the new trade environment created by the AfCFTA.

01 In the first part, we provide general information about intra-African trade, and highlight how businesses have succeeded following regional integration in other continents.

02 In the second part, we take a more in-depth look at Nigeria's trading patterns, and highlight countries with businesses that could serve as a threat to Nigerian businesses.

03 In the last part, we provide ideas on how Nigerian businesses can thrive in a “New Africa”, in specific sectors including FMCGs, Retail and Trade, and Processed Agriculture.

1. giz2012-en-ecowas-trade-liberization.pdf

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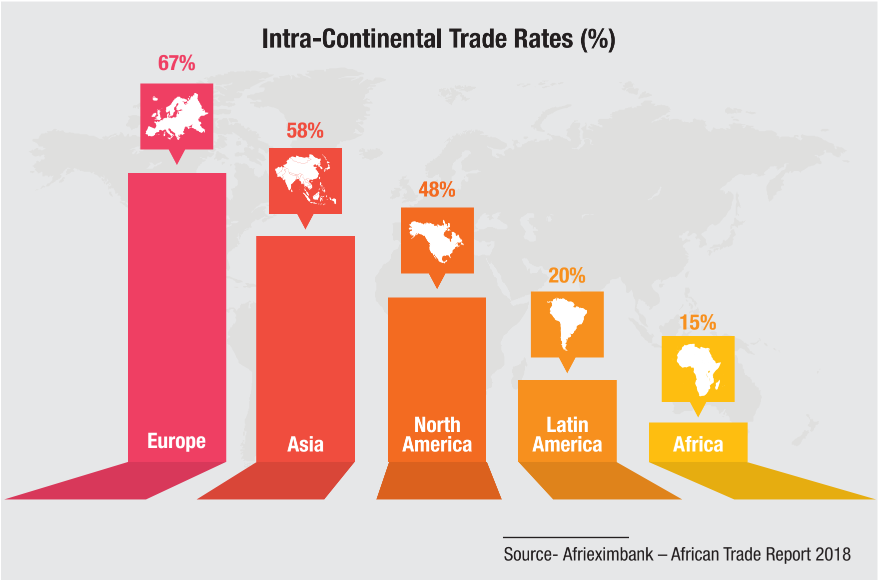
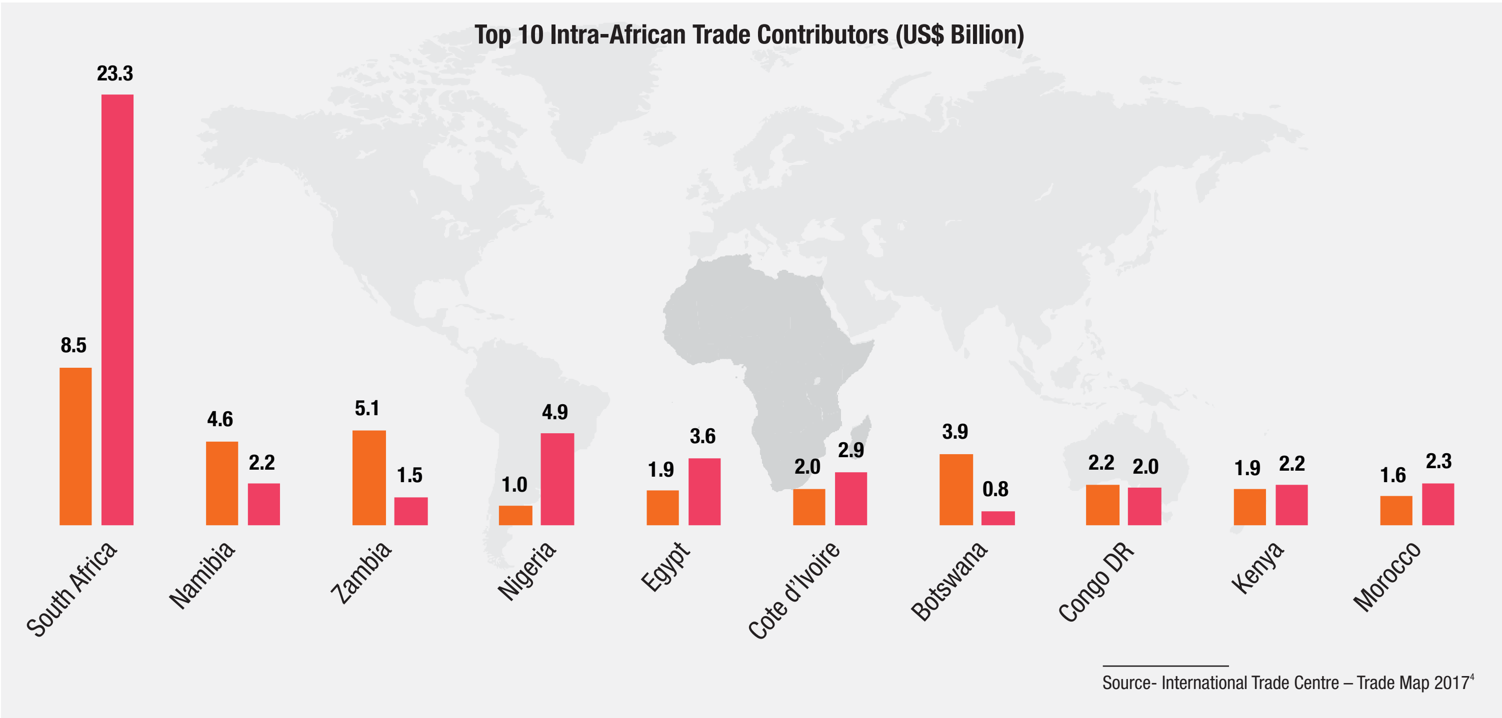
Part 1 - Intra-African Trade

Dominated by commodities and natural resources as the key exports, trade in Africa forms less than 3% of global trade. With intra-continental trade at 15%, Africa compares unfavourably to Europe (67%), North America (48%), Asia (58%), and Latin America (20%)[2], which have drawn on vibrant intra-continental trade to sustain growth, economic development and integration into the global economy.



In 2017, intra-African trade was estimated at US$135 billion, growing by 9% year-on-year from US$124 billion in 2016[3]. This growth was primarily driven by South Africa, Namibia, Zambia and Nigeria, which jointly accounted for over 37% of intra-African trade in 2017. In 2017, Namibia and Zambia became the 2nd and 3rd largest contributors to intra-African trade respectively. However, Nigeria remains one of the main drivers of intra-African trade, with its total intra-African trade growing by 8% in 2017, from a contraction of 27% in 2016. It is important to note that while the listed figures are the official figures, unofficial trade, including diaspora remittances, contribute to intra-African trade.



While there has been a recent increase in intra-African trade, the rates are still significantly lower than other continents. In order to boost economic growth and prosperity on the continent, it is imperative that African countries improve trading with each other, and invest in infrastructure to drive trade.

2. Afreximbank: African Trade Report 2018
3. International Trade Centre
4. International Trade Centre – Trade Map 2017

The AfCFTA

The Continental Free Trade Area (CFTA) in Africa was conceptualised during the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) in January 2012, which adopted the decision to establish a free trade area by 2017.

Ultimately, the establishment of the CFTA is poised to unify fifty-five (55) African countries with a combined population of over one billion people and a combined Gross Domestic Product (GDP) of more than US$ 2.5 trillion.

Importance of Intra-Africa trade

01 Trade partnership
Eliminate tariff and non-tariff barriers and restrictions on investment

02 Economics of scale
Enhance competition between industries within the Africa continent through exploiting economies of scale and weeding out producers that are less productive in the market place

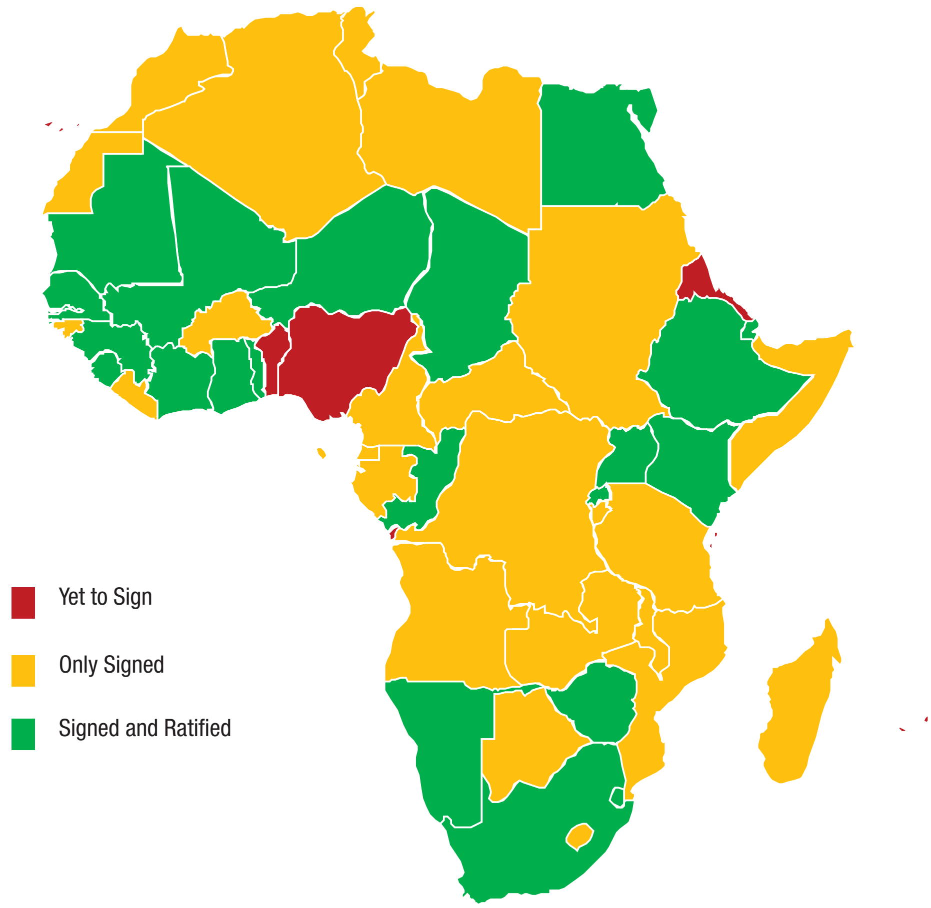
03 Linkages
Establish and strengthen product value chains and facilitate the transfer of technology and knowledge via spillover effects

04 Food security
Facilitate trade in food products, and support the development of international production chains and greater value addition in Africa

05 Accelerate economic activity
Potential to promote diversification, thereby increasing the prospects for growth and development of emerging economies into the global economy

06 Infrastructural development
Incentivize and encourage infrastructure development and attract foreign direct investment

The African Continental Free Trade Area (AfCFTA) Agreement was introduced on the 21st of March 2018. 52 out of 55 African countries have signed on to the AfCFTA Agreement, and 22 of these have ratified the agreement[5]. The AfCFTA agreement went into effect on May 30th 2019.



5. The 22 countries that have ratified include Chad, Congo, Côte d'Ivoire, Djibouti, Egypt, Eswatini, Ethiopia, Ghana, Gambia, Guinea, Kenya, Mali, Mauritania, Namibia, Niger, Rwanda, Senegal, Sierra Leone, South Africa, Togo, Uganda and Zimbabwe. Benin, Eriteria and Nigeria are yet to sign the agreement.

The Pan-Continental Approach

Following regional integration in Southeast Asia, businesses adopted a pan-continental strategy, i.e. developed businesses that are designed to provide goods and services that meet standards across different countries on the continent. Businesses implemented this approach by establishing offices or production factories in locations close to key markets, making it easier to reach target customers.

The Association of Southeast Asian Nations, or ASEAN, is a ten-member state including Indonesia, Malaysia, Philippines, Singapore and Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia. Like the AfCFTA, the ASEAN Economic Community (AEC) was established to implement economic integration initiatives to create a single market across ASEAN member states -through the free movement of skilled labour, goods, services and investment.

By 2017, when the ASEAN marked its 50th anniversary, the association had become the 6th largest economy globally, with the 3rd largest labour force in the world. In addition, the ASEAN community was the 4th most popular investment destination globally, and the 2nd largest in Asia after China. Between 1999 and 2016, the region's GDP has more than quadrupled, from US$577 billion in 1999 to an estimated US$3 trillion in 2018.

Trade in goods in the region reached US$2.57 trillion in 2017, representing increase of 15% from 2016, according to the ASEAN Economic Integration Brief[6]. ASEAN's main external trade partners were China (17.1%), EU (10.1%), and US (9.1%). Intra-ASEAN trade accounted for the largest share of ASEAN's total trade, at 22.9%. Meanwhile, ASEAN trade in services increased by 6.1%, from US$663 billion in 2016 to US$703 billion in 2017.

Foreign direct investments to ASEAN, increased by 11.6% to US$137 billion. Of the total FDI inflows, 19.4% came from within the region, followed by the EU (18.4%), Japan (9.6%), and China (8.2%). FDI to the services sector accounted for 65.8% of total FDI, or US$90 billion[7].

With a population of over 640 million and GDP at US$3 trillion in 2018, disposable income rates are due to grow in all ASEAN markets until 2030, with the highest growth rate over 2016 to 2030 coming from Vietnam (9.6% CAGR), Indonesia (8.7% CAGR), and the Philippines (8.4% CAGR)[8].

Real Gross Domestic Product (GDP) Growth Rate (%)

	2016	2017	2018	2019f
Global	3.3	3.8	3.6	3.3
Advanced economies	1.7	2.4	2.2	1.8
Emerging and developing economies	4.7	4.8	4.6	4.3
SSA	1.4	2.9	3.1	3.5
ASEAN	4.8	5.3	5.1	5.2

Source: ASEAN Secretariat (August 2018); ADB; IMF; PwC analysis

6. ASEAN Economic Integration Brief (No. 04, November 2018)
7. PwC: The Future of ASEAN – Time to Act (May 2018)
8. Euromonitor, Economies and Consumer, 2018

In the case study below, we present a company that successfully exploited regional integration in Southeast Asia, its strategy and subsequent impact.

Siam Cement Group

Siam Cement Group (SCG) is a leading cement manufacturing company in Thailand. SCG is a leading business conglomerate in the ASEAN, established in 1913 for producing cement, the essential material for the construction of Thailand's infrastructure projects. SCG is comprised of three core businesses: cement-building materials, chemicals, and packaging.

Following regional integration in ASEAN, the company implemented the following strategies:

Regional Expansion

- Established cement plant in Indonesia and began expansion of their cement plant in Cambodia in 2015
- In 2017, established cement plants in Myanmar and Laos

Competitor Merger and Acquisition

- Acquired an 80% stake in Vietnam's major flexible packaging manufacturer
- Acquired Vietnam Construction Materials Joint Stock Company, an integrated cement company in Central Vietnam with a production capacity of 3.1 million tons per year
- Increased ownership stake from 46% to 71% in the integrated Long Son Petrochemicals Company in Southern Vietnam

New Business Creation

- Expanded business beyond cement production to include chemicals and packaging production

Impact

- SCG cement now operates in six major ASEAN nations, including Thailand, with a total production capacity of 33.5 million tons per year
- In 2018, SCG's ASEAN revenue from sales grew 11% year-on-year to 118,014 million Baht, representing 25% of its total revenue from sales
- 28% of the company's total assets in 2018 was in ASEAN countries outside Thailand, with Vietnam having the highest percentage of assets

This example demonstrates that while it is possible to thrive in new trade environments, there is no "one size fits all" approach to achieving this. Following the implementation of the new trade environment created by the AfCFTA, Nigerian businesses will need to apply innovative strategies to remain successful.

In the next part of this series, we discuss Nigeria's current trading patterns, and present an overview of countries that serve as threats to Nigerian businesses. In the last part, we provide ideas for success to business owners in the FMCGs, Retail and Trade, and Processed Agriculture sectors.

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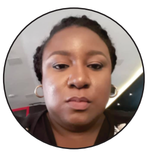

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