Committee: ECOSOC

Agenda: Addressing global responses to the limitations and challenges of the African Continental Free Trade Area (AfCFTA)

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Introduction

In the light of an ever-shrinking world, due to rapid advancement in technology and especially the emergence of social networks, humankind is closer to an ideal global community. International trade has been pivotal for this evolution and the shaping of the technological capacities that have allowed the development of unique economic strengths for each country. Trade provides an opportunity for nations to communicate, collaborate, and exchange goods, services, and knowledge; it forms, therefore, the bedrock of global development. As trade becomes part and parcel of business operations and consumer behavior, frameworks like the WTO and FTA have acquired unprecedented importance. These frameworks underline that cohesive strategies have to be thought out to handle the complexities thrown up by modern trade.

Resourced and potentially rich, Africa has come up with a different approach to free trade through creating the African Continental Free Trade Area. Such an agreement marked a milestone in reaching full economic integration among African countries, succeeding the dreams of the former unions that preceded it, like the Organization of African Unity. The OAU, founded on the pillar of Pan-Africanism, had the objective of uniting and uplifting African nations. However, in practice, the adherence to this principle of non-interference in internal affairs only rendered it toothless in being effective in acting upon human rights abuses and political instabilities within the member states.

Understanding these limitations, the African Union tried to effect deeper economic integration through the African Economic Community. Through this process, the AU began to harmonize various RECs within the continent through landmark instruments such as the Lagos Plan of Action adopted in 1975 and the Abuja Treaty of 1991. In its fullest manifestation, AfCFTA offers an opportunity for Africa to transcend prevailing restrictions on intraregional exchange by redressing current inequalities among nation-states and generating increased industrial productivity through realizing an African community-wide market.

The AfCFTA has the potential to uplift intra-regional trade and ensure industrialization, at least in the manufacturing sector. By creating one single market of 55 countries with more than 1.3 billion people, the agreement has the potential to change the look and feel of Africa's economic landscape. This ambitious initiative also comes with significant challenges. First is the economic inequality among member countries, whereby some nations are at completely different levels from others in terms of development. The income data indicates that the financial gap within AfCFTA is more than twice as wide when compared to regional blocs such as the Association of Southeast Asian Nations or the Caribbean Community.

However, these disparities may exacerbate the already existing inequalities since more developed member states are the ones that could most likely benefit immensely from the free trade arrangements, thus disadvantageous to less developed countries. In addition, weak infrastructure, limited industrial capacity, and governance challenges further hinder the equitable implementation of the agreement. From an international perspective, addressing these limitations involves concerted efforts to establish a more symmetric and inclusive economic integration framework.

Definition of Key Terms

I.AfCFTA

African Continental Free Trade Area The AfCFTA is the world’s largest free trade area bringing together the 55 countries of the African Union (AU) and 8 Regional Economic Communities (RECs) to create a single market for the continent. The aim is to enable the free flow of goods and services across the continent and boost the trading position of Africa in the global market.

II.OAU

The OAU was founded in 1963 to promote self-government, respect for territorial boundaries, and social progress throughout the African Continent. Membership is open to all independent African countries. Morocco withdrew from the OAU when the representative of Western Sahara was seated at the 20th OAU Assembly of Heads of State and Government in 1984. Nine OAU members also belong to the Arab League. There are 52 members.

III.REC

Regional Economic Communities (RECs) are African state groupings aimed at promoting regional economic integration. There are eight main RECs, each with its own structure and focus, such as trade and security. While their roles differ, all RECs contribute to Africa's broader integration goals. They help foster cooperation and development within their regions.

IV.AEC

The African Economic Community is an organization of African Union states establishing grounds for mutual economic development among the majority of African states. The organization's stated goals include creating free trade areas, customs unions, a single market, a central bank, and a common currency (see African Monetary Union) thus establishing an economic and monetary union.

History

The AfCFTA was officially launched on May 30, 2019, marking a new era in Africa's economic integration. Under the auspices of the African Union, AfCFTA seeks to promote intra-regional trade and deepen economic integration on the continent, placing Africa as the largest free trade area in the world with a population of 1.25 billion and a combined market size of $3 trillion. However, many other issues like rules of origin, non-tariff barriers, and regulations regarding trade relief have yet to be sorted out. Even the preferential tariff structures themselves, along with the basic regulations laying the foundation for a free trade zone, remain far from being agreed on. Despite these setbacks, an integrated economic road map by the African Union is still a high dream, though the dream of a single, unified African market is rapidly becoming an undeniable fact.

The roots of AfCFTA go as far back as the 1960s when the Organization of African Unity was the first formal move toward pan-Africanism and integration into the world economy. In the succeeding decades, on the continent, a host of regional economic communities have emerged, as part of the ongoing campaign toward such an ideal. The process had been further consolidated with landmark initiatives such as the Lagos Plan of Action in 1980 and the Abuja Treaty in 1991, which laid the groundwork for a deeper level of economic cooperation. The negotiations for AfCFTA began during the 2012 African Union Summit, while the formal signing was done in Kigali in 2018. AfCFTA aims at intra-regional trade by guaranteeing free movement of goods, services, capital, and labor across African borders. It thus envisions a fully integrated market that should not only strengthen African solidarity but spur economic development by linking up the nations of Africa more closely with each other through trade and economic cooperation.

AfCFTA, despite its great potential for changing the African economy, is also faced with considerable challenges. One key problem is that the economies of the different countries are very unequal in size and industrial capacity; thus, implementing the agreement in a uniform way is difficult. The bigger countries, more industrialized-for example, South Africa, Kenya, Egypt, and Ethiopia- are in a position where they will have more to gain from AfCFTA because of their strong economies with well-developed manufacturing sectors. On the other hand, smaller and less developed economies are likely to suffer from challenges that might increase income inequalities across the continent. While these risks cannot be discounted, the long-term gains of AfCFTA-revitalizing intra-regional trade, strengthening regional value chains and connecting Africa to the global value chain-could balance these risks and provide a foundation for future growth.

The challenges ahead of AfCFTA and existing institutional gaps make its eventual success a necessity. A very important aspect of its success will come from its alignment with the existing regional economic integrations, while infrastructural and institutional deficiencies that act to drag down trade across Africa will have to be addressed. Most African countries have unfriendly business environments, inadequate infrastructure, and limited capacity for handling and managing complex trade networks. In particular, overcoming these barriers will hold the key to benefits under AfCFTA, diffusing within the continent and translating into economic growth that is sustainable. First, this pending implementation of AfCFTA is an important moment in unlocking the economic potential of Africa that was very much waited upon. It now marks the birth of the largest free trade bloc in the world, and if rightly managed, it promises to transform Africa into a major driver of the global economy.

Significant Parties Involved and Their Views

Nations:

Egypt

Being one of the largest and most advanced economies in Africa, Egypt lies at the heart of AfCFTA. Boasting immense manufacturing capacity, Egypt is strategically placed as the gateway between Africa, Europe, and Asia and has actively espoused the agenda to increase intra-regional trade with AfCFTA. However, its relatively advanced industrial base raises fears that smaller economies may view it as dominating regional markets, and its influence needs to be balanced with inclusive policies.

Republic of South Africa

Being the most industrialized country in Africa, South Africa is one of the key proponents of AfCFTA. With its well-established infrastructure and diversified economy, the country stands to gain the most from this agreement. It is, therefore, a strong advocate for increased regional integration as it seeks to spur economic growth with minimal reliance on external markets. However, there are criticisms from less developed countries that feel threatened by its dominance in regional trade due to its strong economic might.

International Organisations:

AU(African Union)

The African Union has been behind the creation and implementation of AfCFTA. The African Union promotes a united and integrated Africa economically to support the political will and strategies for overcoming some problems facing the continent such as income disparities, infrastructure deficiencies, and institutional gaps.

AEC(African Economic Comminity)

The AEC, under the auspices of the AU, is a project for a long-term goal of establishing an economic and monetary union across the African continent. This contributes to the cause of AfCFTA through cooperation between Regional Economic Communities, overlapping memberships, and sometimes conflicting policies. Through the AEC, critical mechanisms of ensuring the goal of AfCFTA not being misaligned with wider aspects of economic integration are done effectively.

Key Issues

The proportion of intra-regional exports relative to Africa's total exports

According to UNCTAD 2021 statistics, Africa's intra-regional exports were 12.7 percent, far below Europe at 68.5 percent, Asia at 58.5 percent, and the Americas at 53.6 percent. The continent's imports were low intra-regionally at 12.9 percent. 77 percent of the continent's exports were raw materials, while 65 percent of imports were manufactured goods. Over-reliance on raw materials exposes Africa to global price variability, with the region contributing little value along the Global Value Chain. A critical consideration in this regard is that a large part of the raw material imports consists of foodstuffs; therefore, in times of supply disruption or price hikes, serious security threats to domestic food security can be taken into consideration.

Monopolization of benefits from free trade by economically advanced countries

AfCFTA, with vastly skewed economic features among the participating countries, shows a broad income gap, unlike the ASEAN and CARICOM. South Africa, Nigeria, and Egypt, which have large economies, account for more than half of Africa's GDP. They have pushed commerce and manufacturing within the continent. The large economies notably, South Africa, will therefore chiefly benefit, and will lead to pushing forward the less developed economies with less infrastructure and industry. It is meant to take care of the disparities through targeted policy and inclusive strategies to achieve balanced economic outcomes across the member states.

Inadequate infrastructure conditions

The huge land size of Africa creates large distances between regional markets, reinforced by the poor transportation infrastructure. The situation essentially isolates the regional market, breaking apart economic exchanges with neighboring countries, and raising the transaction cost for regional trade. Indeed, the current infrastructure in the 55 African LDCs is particularly very low, with special gaps characterizing the transport and power sectors. This deficiency limits production and transportation, hence the limited derived benefits of free trade despite AfCFTA participation. Addressing this gap is one of the important factors in implementing AfCFTA effectively, yet it is quite time-consuming and expensive.

Strategies for compliance with rules of origin

For Korean firms to be competitive under the AfCFTA regime, therefore, there is a need for localization of production to enjoy "Made in Africa" benefits. This may involve dedicated industrial complexes, local firm acquisition, and joint ventures to reduce risks associated with AfCFTA exclusivity.

Issue of distrust

The feeling of distrust runs too deep and is heavily tinged with the remembering of historical colonialism and the consequent exploitation of African economies. That is to say, trade networks were interrupted, economic systems imposed, and consequently, a doubtful spirit between African nations was created. Restoring this requires some sort of collective effort to regain trust through collaborative initiatives and mutual economic gains.

Double membership in Regional Economic Communities (RECs)

Overlapping membership to African Regional Economic Communities (RECs) creates inconsistencies and is, therefore, at odds with the integration agenda. Success in AfCFTA requires clearing up these conflicts and rationalizing regional cooperation. Diverse regulations and customs procedures for overlapping RECs raise transaction costs, which cause inefficiency and loss of resources. Regulations should be aligned and integrated, customs procedures simplified, and coordination enhanced between RECs so that regional trade and economic integration can effectively take place under AfCFTA.

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event
1963	The Organization of African Unity (OAU) was established to promote unity and cooperation among African nations.
1975	The Lagos Plan of Action was adopted, laying the foundation for the establishment of the African Economic Community (AEC).
1991	The Abuja Treaty was signed, officially establishing the African Economic Community, which came into force on May 12, 1994.
1999	The African Union (AU) was founded, replacing the OAU and further strengthening the economic integration and cooperation of African countries.
2008	The Southern African Development Community (SADC) Free Trade Area was launched, promoting economic integration through reduced tariffs and increased intra-regional trade.
2018	The African Continental Free Trade Area (AfCFTA) agreement was signed by 44 African heads of state, initiating efforts to establish a single continental market.
2021	Trade under the AfCFTA began, marking a significant step toward deeper economic integ among African countries.

Evaluation of Previous Attempts to Resolve the Issue

Representative examples of efforts that countries around the world, including in Africa, have made are the Pan-African Payment & Settlement System and the Guided Trade Initiative. PAPSS, conceptualized by the African Export-Import Bank, is a financial market infrastructure in the cross-border market that offers the secure and real-time settling of payments in local currency among African countries. PAPSS, which began operations in January 2022, was first piloted among six countries from the West African Economic and Monetary Union, UEMOA, before its full launch. It works in concert with central banks across Africa and is correctly surmised to enable shopping, remittances, salary payment, stock trading, and business transactions when more commercial banks are brought into the system.

Possible Solutions

Africa is very far from export diversification, having the world's lowest export diversification index, with the current trend even worsening in recent years. In fact, it simply means that the comparative advantages among countries and specialization in Africa are not well developed. Thus, to change this, strategic actions need to be taken for regional trade opportunities and industrialization for competitive niche development. For example, the rise in trade volumes with neighboring countries of imports such as aluminum, oil, peanuts, and cacao indicates the potential for greater intra-regional trade. Encouraging regional value chains in policies and focusing on the increased production of goods in demand can help diminish the over-reliance of African economies on external markets while concurrently strengthening the various economies within the region. In this regard, the operationalization of the PAPSS marks a very important milestone in realizing this objective. With PAPSS, settlement costs and time are reduced for cross-border transactions, hence making trade smooth across the continent, as their needs for third-party currencies in trades, and as such, reducing exchange rate risks to foster financial integration on the continent. These may stir further economic cooperation and pave the way for African businesses to make inroads into markets in their neighborhoods.

Given the large African dependence on imported foodstuffs-46% of raw material imports in Africa involve items the country remains really susceptible to shock from global supplies and prices. Countries, therefore, have the mandate to prioritize investment in local agriculture production while introducing a policy that enhances self-sufficiency in staple crops. This calls for an intensified search and exploitation of products that can be produced locally while promoting agricultural value chains, adopting sustainable farming methods, and modernizing supply chain logistics. Governments should encourage local production through subsidies, tax breaks, and access to cheap credit for farmers and agri-businesses. These forenamed measures would significantly contribute to food security, employment, and rural development. Although African economies have largely been characterized by flexibility, too great a dependence upon world supply chains puts them at risk in crisis periods. It therefore follows that resilience, the sense of diversification, ensuring that important goods are produced or on hand locally-must also be an element of policy design. This encompasses building strategic reserves of essential commodities, investment in infrastructure that promotes local industries, and innovation that enhances the competitiveness of African products in the regional and global markets.

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