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iMUN 5.0

United Nations Economic Commission for Africa

"Trade Liberalisation of Africa in the Covid era in order to maintain economic stability"

BACKGROUND GUIDE

INDEX

Letter from the Executive Board

Dear Delegates,

The warmest welcome to each and everyone of you to the United Nations Economic Commision For Africa (UNECA), being simulated at internet Model United Nations 5.0 (iMUN 5.0). Here at iMUN, we aspire to provide you with a great learning experience and an event that will hopefully be etched in your memories, for a long time.

For many it may be your first ever MUN conference in your educational experience, and we are highly pleased to have you on board as a beginning to a long journey.

We highly recommend all delegates to go through this study guide that has been prepared as a part of the conference in order to get a clear understanding of the issue at hand. However, at the same time, we request all of you to remember that there is a lot of content available beyond the guide too. You are expected to research, collate and list down possible points of discussion, important issues and plausible responses, and be prepared to enjoy the energy of the committee at its best. It is important to remember that while MUN is based on speaking and presenting, the ability to listen, understand viewpoints and reach consensus is at the core of such a simulation. In other words, diplomacy, research and practicality will play a major role in the impact you make as delegates.

Lastly, the Executive Board will always be open to questions and queries, so feel free to contact us through the mail ID provided below!

We await your participation in the committee and hope you walk out with a smile and an event to reminisce.

Best Regards,

Hamsini V,
(Chairperson)
Sofia Figueroa Nuche,
(Co Chairperson)
Cyril Clement.
(Vice Chairperson)

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The Committee

About and mandate:

The UNECA, established by the Economic and Social Council (ECOSOC) of the United Nations (UN) in 1958 as one of the UN's five regional commissions, is mandated to advocate for the economic and social development of its member States, foster intra-regional integration, and promote international cooperation for Africa's development.

Consisting of 54 member States, the committee plays a dual role as both a regional arm of the UN and a key component of the African institutional landscape. ECA is well positioned to contribute uniquely in dealing with the Continent's various development challenges. The strength of the commission derives from its role as the only United Nations agency mandated to work at the regional and subregional levels to harness resources and convey them in-tuned on Africa's priorities.

ECA's Core Functions:

The contribution by the ECA towards the task of carrying forward the 2030 Agenda and Agenda 2063 is centred on the Commission's three core functions, that is, its convening function, its function as a think tank and its operational function, as given below:

1. Convening function: This involves providing dedicated regional intergovernmental and multi-stakeholder platforms with strong ownership by member States, regional bodies and development banks that create agreed development policy frameworks, standards and action plans to reinforce multilateralism at both the regional and subregional levels;
2. Think-tank function: This is about conducting multi sectoral research and analysis that nurtures the integration of the three different pillars of sustainable development, and promotes peer learning, innovative thinking and also the advocacy of public policies; while at the same time, fosters intersectoral linkages and synergies;
3. Operational function: The provision of policy advice at the national level through direct demand-based support to member States in areas related to its normative and analytical work, and also alongside the United Nations system at the national level.

The ECA is headed by an executive secretary, who is assisted by two Deputy Executive Secretaries.

ECA’s mission, objective and strategic directions

The committee's mission is to deliver ideas and actions for an empowered and transformed Africa; informed by the 2030 Agenda and Agenda 2063. The mission is guided by ECA’s five new strategic directions which are:

1. Advancing the ECA’s position as a premier knowledge institution which builds on its unique position and privilege to bring global solutions to the continent’s problems and take local solutions to the continent;
2. Developing macroeconomic and structural policy options to accelerate economic diversification and job creation;
3. Designing and implementing innovative financing models for infrastructure, and for human, physical and social assets for a transforming Africa;
4. Contributing solutions to regional and transboundary challenges, with attention on peace security and social inclusion as a crucial development nexus;
5. Advocating Africa’s position at the worldwide level and developing regional responses as a contribution to global governance issues.

The five subregional offices (SROs) of the Commission will, apart from supporting implementation of the five strategic directions through the sub programmes, also concentrate on selected thematic areas to make sure a more practical approach to member State support at the subregional level. The areas of specialization identified for SROs are:

- SRO-NA: Employment skills and balanced development
- SRO-WA: Demographic dynamics for development
- SRO-CA: Economic diversification policy and reforms
- SRO-EA: Deepening regional integration– towards the implementation of AfCFTA
- SRO-SA: Inclusive industrialization

The Agenda

What is liberalisation? Why is it important for the economy?

Trade liberalization refers to the removal or reduction of restrictions/barriers on the free exchange of goods among nations. These barriers may include tariffs, such as duties and surcharges, and nontariff barriers, such as licensing rules and quotas.

Policies that make an economy open to trade and investment with the remainder of the planet are needed for sustained economic development. The evidence on this is clear. No country in recent decades has achieved economic success, in terms of considerable increases in living standards for its people, without being open to the rest of the planet. In contrast, trade opening (along with opening to foreign direct investment) has been an important element in the economic success of several places in the world .

Opening up their economies to the world economy has been essential in enabling many developing countries to develop competitive advantages within the development of certain products. In these countries, defined by the world Bank as the "new globalizers," the quantity of individuals in absolute poverty declined by over 120 million (14 percent) between 1993 and 1998.

There is considerable evidence that more outward-oriented countries tend consistently to grow faster than ones that are inward-looking. Freeing trade frequently benefits the poor especially. Developing countries can ill-afford the massive implicit subsidies, often channeled to narrow privileged interests, that trade protection provides. Moreover, the increased growth that results from freer trade itself tends to extend the incomes of the poor in roughly an equivalent proportion as those of the population as a whole. New jobs are created for unskilled workers, raising them into the middle class. Overall, inequality among countries has been on the decline since 1990, reflecting more rapid economic growth in developing countries, partly the result of trade liberalization. Although there are benefits from improved access to other countries' markets, countries benefit most from liberalizing their own markets.

Trade liberalisation in Africa- a brief history

Seen in a very historical context, Africa’s trade has undergone three distinct phases. Before the early 1960s, when many African countries gained independence, African national trading policy was defined by the colonial Powers. Trade was essentially a two-way relationship between African countries and their metropoles, whereby primary commodities were exported and manufactured products imported. The trade structure of African countries during this era was driven by the interests of the colonial Powers.

In the period from the 1960s to the 1980s, the trade policies of the many countries in Africa were informed by the doctrine of import-substitution industrialization. For example, Burundi, Ethiopia, Ghana, Madagascar, Nigeria, Senegal, Sudan, the United Republic of Tanzania, and Zambia all adopted inward-oriented policies with significant trade restrictions. This strategy advocated the protection of the domestic market from foreign competition so as to promote domestic industrial production. Import-substitution industrialization was widely accepted in the 1960s and 1970s as a viable policy package to assist developing countries achieve structural transformation and lessen their dependence on primary products.

As a result, trade policies in most African countries during this timeframe were characterized by extensive State involvement within the economy, both in production and in marketing. Additionally, the domestic market in these countries was shielded from foreign competition through a variety of policy measures. Non Tariff measures (NTMs) like quantitative import restrictions and government licences were used profusely to limit imports. Tariff structures were often highly complex, with an outsized number of tariff rates, and tariffs were high. Exports were often restricted by a number of export taxes and strict rules and regulations. The exchange rates of nations outside the CFA franc zone were often highly overvalued and access to foreign exchange was rationed.

In response to the depression in Africa, the international financial institutions advocated a policy package of market-oriented reforms, of which trade liberalization was an integral part. Indeed, there was a clear shift in these institutions' approach to policy in Africa as of the first 1980s.

This was most evident within the publication of a World Bank study in 1981 entitled Accelerated Development in Sub-Saharan Africa (commonly referred to as the "Berg report", after its main author, Elliot Berg). This report offered a diagnosis of the African crisis that focused strongly on domestic causes. Among the domestic" policy inadequacies and administrative constraints" that were singled out, overvalued exchange rates and trade regulations featured prominently, as well as excessive taxation of agricultural exports through marketing boards. Substantial currency devaluation and trade liberalization, alongside the dismantlement of industrial protection measures, were advocated as policies urgently needed to halt the crisis and achieve accelerated development.

The Berg report was representative of an increasing emphasis on domestic causes and solutions to depression on the part of international financial institutions. These institutions, backed by large donors and strengthened by the desperate need of African countries for convertible currency to service their external debt obligations, were able to propagate market-oriented policy packages, usually cited as “structural adjustment programmes”, within many African countries. As of the mid-1980s, and often as a part of the programmes, these countries gradually began to liberalize their trade policies. This unilateral liberalization trend is ongoing and indeed picked up speed with the establishment of the world Trade Organization (WTO) in 1995 and the multilateral trade obligations enshrined in its agreements for African countries that are members

The target of economic reforms in the africas was to increase economic growth through increased efficiency of resource allocation. Trade liberalisation was expected to enhance the productivity (total factor productivity) of the economy. Through the price effects, trade liberalisation would increase demand for both imported inputs and exports. This could realign incentives away from the non-tradable sectors and towards the tradable sector leading to increased trade. Efficiency gains were expected because the tradable sector of the economy would be exposed to external competition especially in developing countries. Trade liberalisation was also expected to end in increased investment and productivity gains
as a result of technology transfers, economies of scale would result from increased production within the tradable sector. Increased productivity would cause structural transformation as labor moved to the more productive sectors of the economy. The resulting net effect would be a positive influence of trade liberalisation on long-term growth in Africa.

Trade liberalisation in Eastern Africa occurred both in multilateral WTO/GATT processes and through regional processes (regional trade agreements). The former were partly because of the results of pressure from international organizations like the World Bank and the IMF to liberalise their economies, and also due to export promotion policies adopted by Eastern African governments. As a result Eastern African countries liberalized foreign trade (both at multilateral and regional levels), capital markets and privatized national industries. Trade liberalisation has therefore been a crucial driver of economic integration and export growth in Eastern Africa. As a development strategy, trade liberalisation was expected to lead to increased exports, increased productivity and structural change.

Important liberalisation efforts and initiatives

At the 2012 AU Summit, Heads of State and Government adopted a decision (Assembly/AU/Dec.394 (XVIII)) on the Establishment of a Continental free trade Area (CFTA) by the indicative date of 2017 and endorsed the Action Plan on Boosting Intra-Africa Trade (BIAT) which identifies seven areas of cooperation namely national trading policy , trade facilitation, productive capacity, trade related infrastructure, trade finance, trade information, and factor market integration. Then in June 2015, at the twenty-fifth Summit of the African Union, held in South Africa , African Heads of State and Government agreed to launch negotiations on the creation of the CFTA by 2017 through negotiations on the liberalization of exchange goods and services. This initiative presents major opportunities and challenges to bolster intra-African trade.

In order to multiply the advantages of the CFTA and promote developmental regionalism in Africa, a comprehensive vision of trade and development must be in place. Expanded markets for African goods and services, unobstructed factor movements and the reallocation of resources should promote economic diversification, structural transformation, technological development and also the enhancement of human capital. The CFTA must be ambitious in dismantling barriers and reducing costs to intra-African trade and in improving productivity and competitiveness. It must provide for governments to involve non governmental actors, especially private sector, civil society and academia, within the discussions on the intent, content and design of CFTA in order that the resulting agreement can create opportunities for businesses to take advantage of and bring about benefits to ordinary citizens.

The negotiations on a CFTA agreement are going to be a mammoth task. Other mega-regional FTAs attempted within the past have shown that the method to be challenging, onerous and expansive as well as lengthy. African countries thus ought to be focused on the main vision of boosting intraAfrican trade as a way to eradicating poverty and fostering sustainable and inclusive development of African in line with African's 2063 agenda and global goals enshrined within the 2030 Agenda for Sustainable Development and Sustainable Development Goals. Negotiating the detailed agreement is critical to make sure a development-oriented, balanced, comprehensive and modern agreement which will foster structural transformation, create jobs and reduce poverty. The lessons from the worldwide food, fuel and financial crises have lighted the necessity to create resilient economies and strengthen internal sources of growth to back up economies. Thus the creation of an economic space and marketplace for African countries is kept with the challenges of building economic resilience. The global community is additionally faced with the challenge of global climate change and environmental degradation related to current patterns of production and consumption, augmented by huge population expansion. All countries have agreed to work together to foster more environmentally and climate friendly development paths. The building of the CFTA and complementary policies necessary to unleash the potential of the CFTA should also take into consideration the requirement for sustainable productive processes.

The African Continental Free Trade Area, or AfCFTA for short was brokered by the African Union, and entered into force at the end of May last year for the 24 countries that had deposited their instruments of ratification.The initial deadline to begin trading, had been 1 July this year. According to a new World Bank report, the trade pact could improve regional income by $450 billion – or around seven per cent of current regional income - speed up wage growth for women, and lift 30 million people out of extreme poverty by 2035.

With the aim of creating a single, Africa-wide economic market, AfCFTA offers its members unhindered access to commodities, goods and services across the continent.

In essence the aim of the AfCFTA implies that:

- African businesses, traders and consumers will have to no longer pay tariffs on a wide variety of goods that they trade between African countries;
- Traders that are constrained by non-tariff barriers such as overly burdensome customs procedures or excessive paperwork, will have a mechanism through which to seek the removal of such burdens;
- Cooperation between customs authorities over product standards and regulations, in addition to trade transit and facilitation, will thereby make it easier for goods to flow between Africa's borders;
- Through the progressive liberalization of services, service suppliers will have access to the markets of all African countries on terms that are no less favourable than domestic suppliers;
- Mutual recognition of standards, licensing and certification of service suppliers will make it easier for businesses and individuals to satisfy the regulatory requirements of operating in each other's markets;
- The easing of trade between African countries will facilitate the establishment of regional value chains within which inputs are sourced from different African countries to add value before exporting externally;

- To safeguard against unanticipated trade surges, State Parties will have recourse to trade remedies to make sure that domestic industries will be safeguarded, if necessary;
- A dispute settlement mechanism provides a rule-based avenue for the resolution of any disputes which may arise between State Parties within the application of the agreement;
- Upon conclusion, the "Phase two" negotiations will provide a more conducive environment for recognizing African property rights, facilitating intra-African investment, and addressing anti-competitive challenges.

How successful have trade liberalisation efforts in Africa been?

Regional trade agreements have been proliferating in the past decades in developing countries in order that developing countries have more involved in international trade. The economic performance of most African regional trade agreements, however, has not met the expectations of member countries after they start. It is actually true that regional trade agreements in Africa had been words without actions until African countries began to improve trade infrastructure and system recently.

Many policy analyses examine several reasons for unsuccessful regional trade agreements in Africa. a couple of issues have been identified like a lack of transportation and infrastructure, or a failure of diversification in industries. An empirical study finds that Africa countries' poor financial market access and political instability are the key barriers to trade integration within the region. These two factors account for many disadvantages of African countries in trade. during a dynamic regression, the two factors depress the expansion of trade because of trade liberalization within the region, especially in the long run.

Financial market development is crucial to supply sufficient capital in the early stage of trade creation. In Africa, potential exporters face two financial disadvantages. One disadvantage is predicated on the very fact that up-front cost for export is higher in African countries than the one in advanced countries due to lack of export infrastructure and knowledge . Exporters from African countries also normally need to pay higher financing costs due to country and regional risk premium and fewer opportunity to access finance due to underdeveloped credit market in African countries.

Unstable political system in Africa is infamous. Its impact on trade liberalization policy and trade has two-fold. For instance, even after a trade agreement comes into force, a possibility of termination or at least virtual death of the agreement still exists. The decade-long international violent conflicts between Sierra Leone and Liberia virtually destroyed the Mano River Union, one of the regional trade agreements in Africa. The uncertainty on the agreements between the two countries thereby hinders the entry of potential exporters.

Political instability torments African economy instantaneously similarly as within the long run when its economic potential grows counting on the investment. Foreign investors who provide a primary financial source for Africa countries via foreign direct investments become reluctant to take a position in Africa where the political system that supports and protects their investments is vulnerable. For instance , recent domestic conflicts in Nigeria severely reduced the inflow of foreign investment to its oil production. The channel of political instability's effect on investment is more important when Africa implements regional economic integration because regional economic blocs expect more foreign investment that seeks potential economies of scale in Africa and may stimulate production for export.

Financial market development, political stability, and policy expectancy are necessary for Africa to streamline a comprehensive plan for regional integration into African countries' national level policies in addition to development aid plans for Africa from international institutes and major developed countries. Fortunately, the number of violent international and intra-state conflicts in Africa has decreased significantly. Financial market has been expanded with mobile-base technological innovation in Africa. The results of several researches emphasize a crucial lesson for African countries that have faced financial market volatility and domestic political instability, as indicated above.

What about liberalisation at the global level?

Africa is still marginalised in the global context, as reflected in the global trend towards bilateral free trade agreements. Although numerous regional agreements exist within Africa, the continent remains outside the major global developments. Taken together, the already concluded Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) still under negotiation comprise a significant proportion of the global economy covering about three quarters of global trade.

Bilateral and regional FTAs always in effect tend to discriminate against third countries. Trade is diverted to those participating within the agreement, while trade flows from those that aren't tend to suffer. Exports of certain products from African countries, especially agricultural, will therefore suffer losses when the mega-regionals acquire effect. In a study on the consequences of TTIP, the IFO-Institute points out that Guinea, Ivory Coast , Tanzania, Uganda et al. have reason to fear parts of their exports to the EU being displaced by the US. In 2014 an investigation was conducted on the overlap of export categories between the states of British Commonwealth and internal TPP exports, so as to assess the extent of displacement effects. Their small magnitude (less than 10 percent) reflects the very different trade and production structures of the TPP members and the investigated third countries. It can therefore be assumed that the impact of TPP on the developing countries of the Commonwealth (and other African developing countries) will tend to be weak. That however, doesn't exclude the chance of severe impacts on important industrial sectors of industry in specific countries.

The comparative analysis of trade liberalization policies, such as devaluation, tariff cuts, and tariff harmonization, in conjunction with increased cost-efficiency of the domestic marketing system across five Southern African economies suggests the following conclusions:

• There is no such a thing as a ‘typical’ or ‘archetypal’ African economy. Even within a rather concentrated geographical area, it is observed that substantial differences in countries’ economic structures and, therefore, expect and indeed observe either different intensity in economic response to the same policy changes or even opposite behaviour.

• Comparing different policy scenarios shows that uniform measures, which affect all sectors more or less equally, show (a) more similar effects across countries; (b) larger effects compared with ‘non-uniform’ measures that influence sectors differently; and (c) higher overall effects on a national basis.

The results of comparative analyses and the conclusions drawn above imply to exercise caution when dealing with trade liberalisation policies that aim at structural adjustment. There is no ‘one size fits all’ strategy that would per se satisfy the needs of a particular class of developing countries. However classified, any group of countries still shows heterogeneity in economic structure that matters with respect to country-specific reactions to a common set of policy measures.

The impact of the covid era on the african economy and regional stances

Africa is and will be hard hit by the projected medium to long-term social and economic impacts of the pandemic The drop in GDP could lead on to stalled economies and exacerbate historical structural inequities in most African economies. In many African countries the bulk of individuals earn their livelihoods through the informal economy with little insurance against unexpected disruptions. At the same time many formal businesses, especially small businesses, are running out of reserves to sustain themselves. Over time, we could see a recession and a full-blown financial crisis. Economic recovery measures typically happen after crisis triggers and humanitarian challenges have received some attention. This approach won't work with COVID-19 because unemployment, job losses and wealth depletion (asset stripping) has begun to happen very early on, even before the health impacts.

The July 2020 start date of trade under the AfCFTA has been postponed due to the pandemic, delaying the promise of opportunities for new exports, jobs, investments in infrastructure and financing for Africa’s development. While negotiations for the AfCFTA are on hold, there is an opportunity for African countries to assess the potential impact of a prolonged delay and to lay the technical ground for its implementation. By supporting regional trade and reducing trade costs, the successful implementation of AfCFTA would in fact cushion negative COVID-19 effects on economic growth, the World Bank suggests.

The typical debt-to-GDP ratio has increased from 39.5 percent in 2011, to 61.3 per cent in 2019. Heavy debt burdens are partly due to commercial borrowing to finance the continent’s large annual infrastructure financing gap of US$68 billion to US$108 billion — equivalent to about three to five percent of the continent’s GDP. In addition, most African countries lack the fiscal space to respond adequately to the crisis due to low domestic saving rates; low levels of domestic resource mobilization; high illicit financial outflows; capital flight; volatile commodity prices; high fiscal deficits and stagnating official development assistance (ODA) and FDI flows.

The pandemic has further led to an abrupt slowdown and delays in cross-border trade, often characterised by disputes between neighbouring countries, long lines of trucks awaiting clearance and the divergence of trade to less safe unofficial routes. Informal cross-border trade, which requires traders to cross the border to sell their goods and services on the other side, has been particularly hard hit.

Trade volumes for Africa are projected to decrease by 8% for exports and about 16% for imports for 2020, compared with previous historic trend estimates (WTO). As a result, Africa is expected to be hit particularly hard, as 17% of the world’s ‘COVID-induced’ poverty will be located on the continent, second to East Asia, the continent with the highest concentration of ‘new poor’ (20%). The UNECA estimates that up to 19 million jobs could be lost on the continent.

As of 29 March 2020, 31 African countries had closed their land borders, according to the Africa Centre for Disease Control and Prevention (Africa CDC). Small-scale cross-border trade is a major feature of many African economies, contributing to the income of about 43 percent of Africa's entire population according to some estimates. Such trade supports livelihoods, especially for women, creates employment, and being dominated by agricultural and livestock products is an essential part of food security in many places, hindered by border closures.

Egypt, Libya, Kenya, Malawi, and Morocco have blocked exports of medical masks. Egypt has also restricted exports of rubbing alcohol and Libya, sterilization tools. Export restrictions on food will also undermine the response to the crisis. Egypt has recently introduced a 3-month export ban on legumes, and yet its top export markets for beans are Algeria, Morocco, Libya and Tunisia. Export bans by even these 4 out of 55 African countries may limit the effectiveness of the continent-wide response to the crisis.

Ultimately, country-level economic shocks are tied to the country's level of trade openness, its diversity of exports in terms of sector and destination and its relative competitiveness.

According to a report by the Afro Champions Initiative, countries are about less than 50 percent committed and less than 50 percent prepared for the implementation of the AfCFTA implementation, with Rwanda, Togo and Mali being the most committed nations and Eritrea, Libya and Burundi the least. In terms of implementation readiness, South Africa, Rwanda and Botswana are most ready, whereas South Sudan, Seychelles and Cape Verde are least ready for the AfCFTA. This is concerning, since AfCFTA the agreement will be central in speeding up recovery. The post-COVID world offers the continent the opportunity to demonstrate the merits of unity, regional cooperation, and connectedness.

Therefore, ensuring trade liberalisation in the continent presents one of the only ways to address the situation and to maintain economic stability.

Questions A Resolution Must Answer (QARMA)

1. What measures can be taken by member states towards liberalisation and regional integration?
2. What can be done to ensure continuity of trade during the pandemic? How can efforts of liberalisation take into account the situation brought by the pandemic?

3. How can the negotiations on the AfCFTA continue in order to address the potential impact of a prolonged delay and to lay the technical ground for its implementation?
4. In that context, what would be an ideal timeframe to begin the AfCFTA implementation in light of the current situation ?
5. What can be done to address the issue of political instability leading to the failure of liberalisation efforts?
6. What about the liberalisation of African economy at the global level?
7. What role can the World Trade Organisations and similar UN agencies play in the liberalisation of the continent during this era?

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