

## **AFRICAN ECONOMY DISADVANTAGE 1NC SHELL**

### **A. Uniqueness: African growth is improving, holding down inflation is key.**

**The Reporter 07** (Bethlehem Negash, "Despite Growth African Economies Face Major Development Challenges," 6-9-07, <http://allafrica.com/stories/printable/200706110711.html>)

Despite registering more than five percent growth for the last four consecutive years, there are many challenges that the continent's economies are facing, an African Development Bank (ADB) report stated. Presenting the bank's report "African economic outlook 2006/07", ADB's chief research economist, Dr. Barfour Osei, said that economic activities in Africa are increasing as can be observed from the rising of GDP. The report underscored that the growth is sustainable at least for the short term if the favorable conditions continue to support it. The expert mentioned that the continent's overall growth is 5.9 percent in 2007 and it is expected to be 5.7 percent in 2008 if the oil price stabilizes (at present 60 USD per barrel) and the global economy continues to support growth in Africa. The report also noted that there is difference in economic growth between net oil importing and exporting countries. In the case of Ethiopia, the report stated that the country registered rapid growth exceeding the regional average. According to the report, East African average was 5.1 percent of the GDP in 2006 while Ethiopia's growth was 5.9 percent. Projections for 2007 and 2008 are 5.8 percent and 6.3 percent respectively for the region, and 6.3 percent for Ethiopia for both years. Central Africa was a region that registered slow growth due to end of oil production in countries like Equatorial Guinea. Northern Africa registered high growth due to oil and gas production in Mauritania and agricultural expansions in Morocco and Egypt. When it comes to the challenges, inflation is the major challenge since there is worldwide increase in inflation. This phenomenon will have a big impact on oil importing countries' economies.

## **B. Link:**

### **1. Aid to African economies causes rapid inflation, spilling over into other sectors of the economy.**

**Steele et al., 2006**-- environmental economist in Sri Lanka – 2006 (Paul, Sisira Jayasuriya, Director Asian Economics Center, Dr. Dushni Weerakoon, Deputy Director and Fellow at the UNDP Office in Colombo, "Aid, Cost Inflation and 'Dutch Disease': Effects and Implications," Asian Development Bank institute, research paper no. 71, June 6, <http://www.adbi.org/research-paper/2006/06/06/1888.tsunami.sri.lanka/aid.cost.inflation.and.dutch.disease.effects.and.implications/>)

Domestic cost inflation is often observed whenever there is a large inflow of foreign funds. These cost increases lead to reduced profitability in industries that do not gain an offsetting increase in their prices and can adversely affect a country's export performance. This phenomenon is known as the Dutch Disease, named after the Netherlands experienced a contraction of its industries in the wake of large inflows of export revenues after discovery of North Sea Oil in the late 1970s. This is a common phenomenon whereby increased demand in one sector of the economy—for whatever reason—leads to bidding up of prices of production factors.<sup>34</sup> The cost increases observed in the construction sector are a reflection of these Dutch Disease effects associated with absorption of capital inflows into an economy. However, there are some unique features associated with this phenomenon in the context of aid flows to finance asset replacement as part of the reconstruction effort. These have important policy implications. Increases of prices and wages in response to increased demand for construction activities are greater the more difficult it is to increase their supply (i.e., when supply is relatively inelastic). This, for example, is the reason for the sharp increase in wages of skilled construction workers such as carpenters, whose skills cannot be easily acquired by others. If those factors can be imported from larger world markets—some building materials fall into this category—then their supply tends to be more elastic and resulting price increases can be moderated. But many factors, particularly labor, must be supplied from domestic sources ('non-traded'), as for various reasons they cannot be bought from international markets. (Of course it is possible to import skilled labor from other countries, and it has been suggested that skilled labor shortages in Sri Lanka's construction sector should be met by importing Indian labor. Whether this is politically feasible remains to be seen.) It is by offering higher rewards—higher wages, prices—that a particular sector is able to attract extra resources. Because this tends to increase costs for all other sectors that also employ those factors, there is a negative impact on their profitability, and the other sectors contract. Sometimes the higher incomes accruing to factor owners increase demand for certain goods and services, and those industries then experience an off-setting positive impact through price increases if their supplies are inelastic—which is normally the case if they are not internationally traded ('non-traded'). Typically goods that enter international trade do not experience offsetting price increases because they can be imported at more or less exogenously fixed world prices and are the hardest hit. This fall in the relative profitability of tradable industries is the standard 'real exchange rate appreciation' that is a necessary and unavoidable outcome of foreign capital absorption by the domestic economy. This can be minimized in the short-term through foreign exchange market interventions, but cannot be entirely avoided. The rapid ('localized') inflation of domestic costs (at a rate higher than average inflation in the economy) will spill over into the rest of the economy, as aid flows increase expenditure on local non-tradable factors. In principle, this is an unavoidable outcome of extra spending financed by foreign funds.

### **2. Their plan increases aid [Explain how]**

**C. Internal link: High inflation destroys economies.**

**Greenspan '02**

(Alan, former Federal Reserve Chairman, "Macroeconomic Stability, Financial Markets, and Economic Development," , <http://www.federalreserve.gov/BoardDocs/Speeches/2002/20021112/default.htm>, 11/12/02)

Controlling inflation is essential to creating an environment of sustained growth. Once inflation gets above a certain point, it has a large negative effect on growth, according to most research. Stanley Fischer, for example, concluded that if a country with inflation of 10 percent becomes a country with inflation of 110 percent, its annual growth rate would fall 4 percentage points; the consequences of this for standards of living can hardly be overemphasized.<sup>17</sup> This effect may help to explain why East Asia, where inflation has been relatively low on average, has been more successful than Latin America, where many countries have suffered bouts of hyperinflation.

D. Impact

**1. INFLATION CAUSES POVERTY**

**Siger '07**

(Surrey Institute of Global Economic Research, The Anatomy of Modern "African Capitalist States", [http://jim.com/African\\_capitalism.htm](http://jim.com/African_capitalism.htm), 3/18/07)

As a result, expansion in Africa's primary sectors of agriculture, mining, fisheries and forestry came to a halt while industry and service sectors also experienced retarded growth. The 1980s saw inflation rising while per capita GDP plummeted, driving much of the African population into unemployment and below the threshold of poverty. Currencies also showed signs of fatigue as a result of declining reserves. Overall confidence diminished as major economic parameters registered negative growth rates.

**2. Inflation leads to food shortages--over 4 million people will starve in Zimbabwe.**

**Africa News, 07**

(6-5 "Zimbabwe; Four Million Will Need Food Aid, Says UN", [http://web.lexis-nexis.com/universe/document?\\_m=c3330ca4f8c8def9c9b60a61224a9f94&\\_docnum=17&wchp=dGLbVlz-zSkVb&\\_md5=97e99ea8cbacf4eb2c7ae3cc70c34085](http://web.lexis-nexis.com/universe/document?_m=c3330ca4f8c8def9c9b60a61224a9f94&_docnum=17&wchp=dGLbVlz-zSkVb&_md5=97e99ea8cbacf4eb2c7ae3cc70c34085))

Crop failures in the southern provinces and the rapid erosion of incomes caused by Zimbabwe's annual inflation rate of 3,714 percent - the world's highest - has escalated poverty in both rural and urban areas. The report said about "2.1 million people will face serious food shortages as early as the third quarter of 2007. The number of people at risk will peak at 4.1 million in the first three months of 2008 - more than a third of Zimbabwe's estimated population of 11.8 million." The actual percentage of Zimbabweans requiring food assistance could in reality be much higher, as millions of migrants are believed to have crossed into neighbouring countries such as South Africa and Botswana, or further a field to the United States and Europe, in search of work. Some estimates have put the exodus of Zimbabweans at about four million, or more than a third of the population. Zimbabwe has an unemployment rate of about 80 percent.