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# **ChaIr REPORT**

## Economic and FINANCIAL COMMITEE (GA6.)

## Establishing measures to further develop the economy of Africa

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**Introduction**

Africa has developed a lot since 2000.  According to Africa’s Development Dynamics report, Africa’s economy grew 4.7% between 2000 and 2017, becoming the world’s second-fastest-growing region. Four of the fastest-growing economies in the world belong to Africa: Cote d’Ivoire, Ethiopia, Rwanda, Ghana. Africa gained a strong economy with small fiscal deficits, stable exchange rates and lower inflation rates. Despite this strong growth, while Africa was having an average growth rate of 2.4% in 2000-2008, the rates have dropped down to 0.3% over 2009-2018 where the global average was 1.9%. The income inequality remains to be high and unemployment rates are higher than 7%. The fiscal deficits have narrowed in every region, but still, the deficits are at risk because of the infrastructure investments. The debts have increased in oil-importing and mineral-resource countries. The debt to GDP ratios is over 100% in Mauritania, Sudan and Mauritius and over 50% in more than one-fourth of African countries.

These data, however, only represent averages. Not every country is showing the same growth, so they don’t accurately reflect specific countries. Depending on the sectors such as oil production, infrastructure, and manufacturing, the growth rate is changing along the regions. East Africa is leading the growth with developing the agriculture sector whereas Central Africa is growing its economy by favorable oil prices, tourism, agribusiness, and diamond production.

Furthermore, economic growth depends on both domestic and external factors and they are different for specific regions of Africa. External factors include global demand and commodity prices whereas domestic factors can be listed as infrastructure investment, private demand, natural resources, and climate. While Mozambique and Zimbabwe can be affected by the tropical cyclones, Sudan with political uprisings and Kenya can experience slow growth due to low agriculture exports. As these are all dependent on countries, it is important to differentiate and come up with individual methods for each country.

In other words, Africa is a big region where economic dynamics cannot be reduced to the same circumstances. In order to have a comprehensive understanding of the topic, one should look further into each country individually. This report aims to

give insights about the common trends and ideas of economic growth in Africa, but delegates are encouraged to search for their own countries.

### **Key Vocabulary**

GDP: Gross Domestic Product (GDP) is the total monetary value gained from the goods and services in a specific country

Tariff: a type of tax that is taken from imported goods

Resource-countries: resource countries are countries with rich natural resources as a source of income

Value Chain: it is a series of activities in from the beginning to the end of the production process of a good

Commodity: they are the basic goods and raw materials that are exchanged, and used in the production of another product

**Focused Overview**

****Overall main exports of Africa consist of the primary commodities and raw materials like fuels, ores, metals and agricultural materials. Commodity prices and production depend on external factors like climate and monetary policies. They also don’t provide high-revenues as processed and manufactured goods. Thus, a commodity-dependent economy is fragile, making the economy vulnerable to changes in the global market. The fragility of the economy can be examined through the local currencies. As the world economy is dominated by the dollar, a rise in the dollar would cause a rise in the prices of Africa’s imports. With increasing interest rates, Africa would need to focus on its imports and fail exporting goods, causing a net capital outflow.  Many of the countries use capital inflows to fund their debts and account deficits. Hence, the net loss of money would cause an increase in the cost of debts, showing weak monetary policies. Similar to local currencies, domestic debts represent the vulnerability of economies. They are easily affected by external shocks. For instance, after the oil price shock in 2014-2015, oil-exporter countries had a huge increase in public debt. Accumulation of domestic debts is especially deterrent because they jeopardize the private sector and prevent public investments on development. Under these circumstances, unless strong fiscal and monetary policies are implemented, economies will continue to face risks from political instabilities, climate, and monetary shocks.

“Picture 1:Economic Growth Graph by Regions”

1. Infrastructure Gap

Infrastructure and access to infrastructures are imperative to a strong economy. According to the reports on the 15th edition of Africa’s Pulse, there is a proportional relationship between the quality and quantity of infrastructure and economy.  The report deduces that infrastructure developments can lead to a 2.6% growth in GDP. Similarly, Africa has been developing its telecommunication systems, yet there are problems with access to electricity. The transportation is also highly undeveloped. Africa was the only region in the world whose road density decreased in 2015. Transportation is crucial for communication and trading networks as well as access to social services and other infrastructures. One cause of this situation is the lack of government spending. Every year, governments allocate a budget for infrastructure from their public capital spending. Between 2009-2015, it was 2% of their GDP, and while this number is not adequate, most governments spent less than they actually allocated. Hence, the infrastructure developments were hindered resulting in the current situation.

1. Relationship with Structural Transformation

 Structural transformation describes a method to increase productive sectors by focusing on high-productive sectors. The relationship between structural transformation and economic growth is proportional and is examined with different modeling. One of the growth models (Lewis, Ranis, and Fei) ground its premise by dividing the economy into two different categories. The first one, the traditional sectors such as agriculture, uses less developed techniques and has low productions. On the other hand, the second consists of modern sectors that are driven by innovations, development and high capital accumulation. According to this understanding of the economic model, the growth highly depends on the modern sectors. In order for a country to sustain growth, the sectors should change from low-productive traditional sectors to high-productive modern sectors. The transition between the modern and traditional sectors is especially intricate in African countries. Most of their high-income sectors are secluded and don’t have strong connections with other sectors. This limits the accessible labor force and production. As a result, in accordance with this model, the structural transformation is essentially beneficial to have high-production levels by increasing the modern sectors and job employment.

Another economical model (Solow) sees all of the economic activities as one entity. The model articulates economic growth is part of the structural transformation. When the countries have transformations in their fiscal sector, they save stocks, develop new technologies and products. Hence, model predicates the economic growth as an outcome of the structural transformation of sectors.

Although models have different approaches to economic sector divisions, both of them acknowledge the importance of structural formation in economic growth. A country must reach high-production rates by using new technologies to accumulate capital. It is also important to note, especially for manufacturing sectors, embarking a new product without former knowledge would be demanding and unrealistic. For example, Mauritius, a country that doesn’t have rich natural resources, has been focusing on industrialization and manufacturing, resulting in exports constituting 65% of its GDP. Henceforth, a country, aiming for sustainable economic growth, can build on its current knowledge and abilities to diversify its product pool and goods to achieve structural transformation.

1. Taxation

African economies have informal sectors that create legal impediments to collect appropriate taxations. As well as not adequately judging the taxations, governments don’t have strong regulations to collect business taxations. Most of them only collect the consumption taxes, disregarding the informal sectors’ taxes. The reports indicate that an improvement in the regulation of the taxation and a more systematic approach would mobilize up to $99 billion a year over. Past tax reforms done in the region show the role of technology in tax regulations. With the developments, tax administrations become digitalized and semi-autonomous. This increases compliance, enlarges the tax base and facilitates the regulations. Rwanda, for example, had an increase in revenue of 6% of GDP by e-taxation.

1. Value-Chains and Trading

In order to become more dominant in international trading, value chains offer great opportunities. Currently, most products consist of different parts that require different technologies and specialties. Through the compartmented products, countries can participate in the value chains without producing the whole product.  Regardless, African countries are under-represented in global value chains. Intra-African trade value is below 9%. Some reasons behind this low participation are service link costs and conflicts in regional integration. The former reason, service link costs, include transportation and trade costs, deficiencies in legal systems, and telecommunication systems. The latter, the lack of regional integration, causes the exports to pass the border twice, exposing them to high border tariffs. The tariff rates became problematic in the manufacturing equipment. Especially for non-resource countries, the constraints in the equipment transactions lower the possibility of manufacturing-sector development. As a result, the chance of representation in the global chain decreases, which adversely affects economic growth.  One method taken against high tariff rates is Free Trade Areas (FTA). These areas assure space for transactions by removing tariff barriers. It allows access to signatory members’ markets on the accepted terms. Free trade areas strengthen regional trade networks. A more diverse regional export network also attracts foreign investment. Thoroughly, FTAs improve regional integration while protecting the country’s individual trade stocks.

**Major Parties Involved and Their Views**

South Africa

South Africa has one of the largest economies in Africa with Angola and Nigeria. It has the biggest exporting rates outside the continent. It dominates the exports of agricultural goods, machinery and transport products. Because it experiences a slow growth rate due to low market investments, it lowers the average rate of the whole region.

East Africa

 It is the fastest-growing region in Africa. Some of the countries showing strong improvements are Kenya, Ethiopia, Rwanda, Tanzania, and Djibouti. There have been increasing explorations of oil and gas. Since main source of income is agriculture, the favorable climate has increased production. Government spending have also been focused on infrastructure investment and the increase in public demand resulted in capital inflow.

### United Nations Economic Commission for Africa (ECA)

### It has been established by ECOSOC as one of the regional commissions with 52 members. It aims to reinforce economic and social development and increase regional and international cooperation. It wants to achieve the 2030 agenda and agenda 2063.

### African Union (AU):

### It compromises of 55 Member states and formed from the succession Organization of African Unity. It aims to strengthen regional networks and collaboration. According to the framework of UN, it wishes to promote peace and sovereignty of the region and developments.

**Timeline of Events**

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| --- | --- |
| **Date of Event (Day/Month/Year)** | **Description of Event** |
| 1960-1980  | Africa started to show increased economical growth, which ended with oil crises.  |
| 2000 | Economic growth started to increase again through major changes.  |
| 2008 | The biggest financial crisis after great depression occurred.  |
| 2002  | African Economic Outlook has been started to publish It is an annual journal which examines the economies of African countries. |
| 27 June 2014  | African Monetary Fund has been has been established by AU |
| January 2015 | 17 Sustainable Development Goals (SDGs) were adopted which include economic growth and ending poverty as two of its goals.  |
| 21 March 2018  | African Continental Free Trade Area (AfCFTA) has been signed. |

### **Evaluation of Previous Attempts to Resolve the Issue**

* AfCFTA:

Most recent attempt to reinforce trading is African Continental Free Trade Area (AfCFTA). It has been recently put into implementation, so the results have not been yet seen effectively. However, AfCFTA plans to have a gradual removal in the tariff barriers aiming for a smooth change rather than a forceful transformation. It is expected to reach an increase of 1-6% of total GDP. The negative side of AfCFTA is that it will decrease the tariffs collected from the imports. However, if it is enforced as expected, it will widen the manufacturing and agribusiness sectors, which provides a more strengthened and sustainable growth.

### **Possible Solutions**

Tax reforms, methods for structural transformation and improving infrastructure can be some of the possible solutions. Another solution to ensure sustainable economic growth is to develop job opportunities. As Africa is rich in its natural resources many investors will likely focus on the extractive sectors such as oil, gold, and diamonds. These sectors have limited job opportunities, and youth employment is not sufficient. So while developing the sectors and coming up with solutions delegates should take the youth employment into consideration. Also, the delegates should keep in mind that not every country has natural resources. So for non-resource countries, alternative sectors should be considered.  Countries like Kenya, Cote d’Ivoire, and Ethiopia are examples of non-resource countries whose growth rate has been rapid due to public investments in infrastructure. Small and middle enterprises can develop the local economy if they are integrated into fiscal policies efficiently. Furthermore, while there have been attempts for regional integration, representation in the global market is crucial to have sustainable economic growth. Through trading agreements or diversifying the exports, African countries should be integrated into the global economy. Finally, economic competition in the region is below the standards. Promoting competition would increase foreign and private investment and increase productivity. Nevertheless, delegates are encouraged to come up with innovative solutions for fiscal policies and implementations.

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### **Further Reading**

* African Economic Outlook- <https://www.afdb.org/en/documents/african-economic-outlook-aeo-2019-english-version>
* FISCAL POLICY FOR FINANCING SUSTAINABLE DEVELOPMENT IN AFRICA-
* <http://repository.uneca.org/bitstream/handle/10855/41804/b11928190.pdf?sequence=1>
* Africa’s Economic Growth-<http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/573891/EPRS_IDA%282016%29573891_EN.pdf>
* Active with Africa-<http://www.oecd.org/africa/Active-with-Africa.pdf>

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