Current Path

Commodity Dependence

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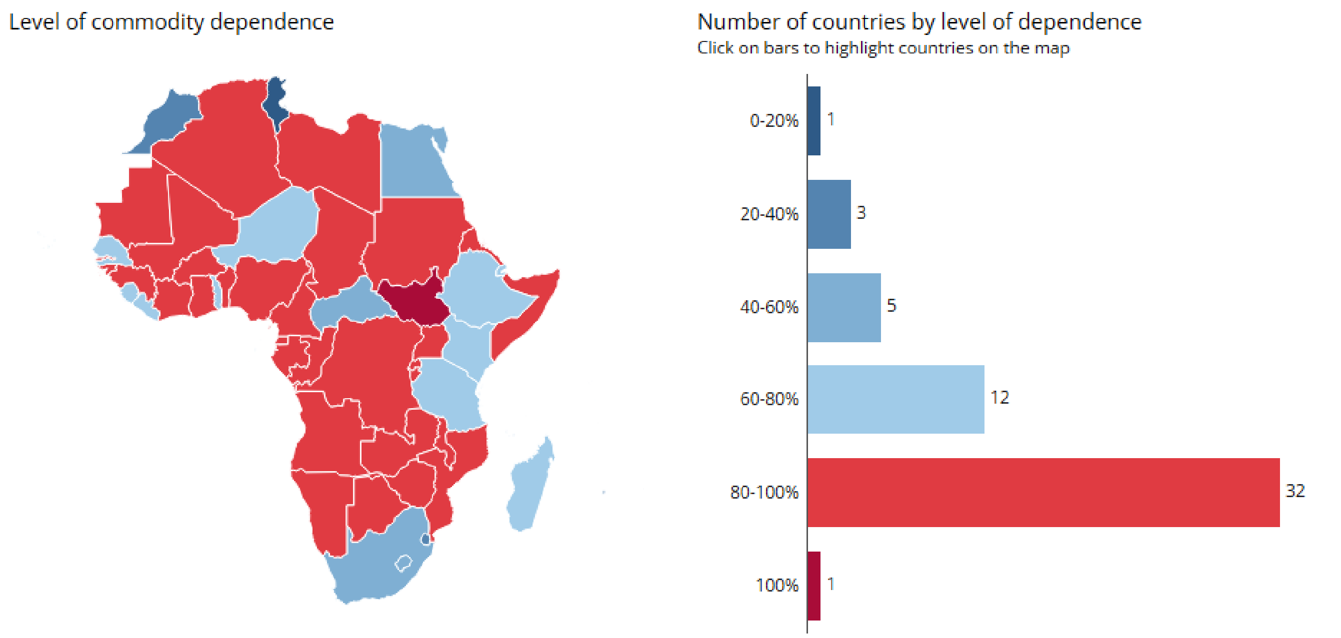
In its 2023 report 'The State of Commodity Dependence', the UN Conference on Trade and Development (UNCTAD) noted that in 2019-2021, 101 out of 189 countries depended on commodity exports with close to half of all commodity-dependent countries being in Africa. Africa was also the region with the highest commodity dependence, with commodity exports constituting 90% by value of all merchandise exports, closely followed by South America. COVID-19 and subsequent global shocks have led to a period of extreme commodity price volatility, further exacerbating the current account balances of many African countries.

While the number of commodity-dependent countries in Africa has steadily increased (Chart 8), it generally remained static elsewhere, contributing to the relative decline in Africa's competitiveness. The extent to which African countries depend on commodities when measured by the value of exports has also increased, deepening the crisis.

Chart 8: Commodity dependence in Africa, 2021



Source: UNCTAD, The State of Commodity Dependence 2021

In addition to the general decline in commodity prices that follows the restructuring of China's economy, oil and gas exporters have been affected by the sharp decline in oil prices that has accompanied the shale revolution in the US.

Ample evidence shows that commodity dependence leads to slow and poor-quality growth over long time horizons. Extreme commodity dependence is closely associated with poor governance. Supporters of the 'resource curse' hypothesis argue that heavy dependence on energy resources such as oil or gas impedes rather than accelerates economic growth and investment. It may also hinder the broadening of the economic base by impeding value added in agriculture and manufacturing, as well as the development of the various institutions of good government.

Some of the severe risks that single-commodity exporters face include:

- Exposure to price volatility, as occurred, for example, in 2014 and again early in 2020 with the collapse of the oil price.

- A decline in the contribution from other economic sectors—the so-called Dutch disease.
- An increased likelihood of undemocratic government as governing elites essentially focus on competition for control over the income stream from a single commodity and not by diverse sectors such as agriculture, manufacturing and services.
- The prevalence of a rentier state, where the state is not accountable to citizens but to special interest groups aligned with the commodity income.
- Pressures to spend within a short-term horizon to maintain support and also to align with the surge in commodity incomes.
- A greater likelihood of low-quality institutions—the sum impact of all of the above.

The result is an 'observable correlation between resource abundance and political corruption.'

To date, Botswana is the only African country that has successfully and sustainably developed its resources sector (diamonds) to the general benefit of its population. Yet, it too struggles to spread its commodity-led growth beyond a small, privileged elite in a country that has the third highest level of inequality globally and declining attraction of natural diamonds.

The result of the resource curse is that resource-poor economies generally outperform resource-rich countries, with South Korea, Japan and Taiwan often cited as the best examples of the former and Nigeria, Angola and Equatorial Guinea as examples of the latter. South Korea has virtually no commodity reserves of significant value. In 1962, the country exported mostly raw materials such as fish, rice, iron ore and unprocessed silk. Today it boasts a well-diversified export portfolio that includes electronics, cars, ships and other high-end machinery.

Nigeria's main exports in 1962 were crude petroleum and assorted agricultural products—mostly groundnuts, soybeans and cocoa beans. In 2019, crude petroleum and liquified petroleum gas accounted for almost 60% of Nigeria's total exports by value. In 1962, the GDP per capita in South Korea was about half that of Nigeria; in 2018, it was seven times more. Similarly, Africa's two richest countries (in terms of GDP per capita), Mauritius and Seychelles, have almost no reliance on commodities, relying instead on their service sectors.

Managed well, commodities can play a powerful role in development. Norway famously makes excellent use of its oil and gas reserves for development, saving much of the proceeds in a sovereign wealth fund. Although politically difficult, managing spending and planning for the future are key to making the most of national commodity endowments.

Several African countries have attempted to use their resource booms by saving some of the associated revenue in sovereign welfare funds, including Angola, Mauritania, Botswana, Chad, Gabon and Equatorial Guinea. After the 2008 financial crisis, Nigeria attempted something similar in the form of an excess crude account.

Although such savings have been associated with better macroeconomic management, they are also regularly undermined by subsequent over-withdrawals from the funds and political interference in their governance. Of all Africa's many resource-rich countries and the many sovereign wealth funds established, Botswana's Pula sovereign wealth fund arguably stands alone in attaining sustained improvements in macroeconomic management, thanks to excellent governance and management but has been severely depleted in recent years.

Eventually, growth in India could reignite deep and broad demand for commodities and there are some indications of a turnaround as liquid natural gas, iron ore, copper, rice and soybeans started to surge early in 2021 as the economies of high-income countries (and China) rebounded after the initial impact of the COVID-19 pandemic. Then Russia's invasion of Ukraine in February 2022 saw oil and gas prices again spike as Europe struggled to balance its desire to assist the government of President Zelensky against Russian aggression while simultaneously paying Russia almost a billion dollars a day for oil and gas.

Today the global energy transition to renewables plays an important role in the demand for copper, cobalt, platinum, nickel and lithium—all important for batteries, generating power from solar and wind and the manufacture of hydrogen fuel cells.

The impact of climate change has exacerbated Africa's commodity dependence issues by reducing agricultural yields in regions prone to drought and desertification, like the Sahel, and increasing resource scarcity, which limits economic options and accelerates migration.

Adaptation strategies, like climate-smart agriculture and sustainable mining practices, are essential to reduce Africa's vulnerability to resource-based income fluctuations and environmental degradation.

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About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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