



# Current Path

Africa's growing dependence on commodities

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## Africa's growing dependence on commodities

Instead of the more productive (re)structuring of its economies, much of Africa's recent growth was enabled by the commodities supercycle that started in 1996 and peaked in 2011.

What made this cycle so powerful was that the prices for oil, base metals and agricultural produce all started to increase at roughly the same time. It was, therefore, generally a stronger and more uniform up and down than previous supercycles, lifting economic growth across all regions in the world, including in Africa, resulting in rapid growth before the 2007/08 financial crisis.

The demand behind the supercycle came from the higher primary export volumes required to feed Asia's manufacturing and construction boom, much of which was in China. In the process, China's commodity consumption grew from 10% and 15% of total world demand to more than 50% for most commodities. The subsequent decline in commodity prices largely results from economic restructuring and modestly lower growth in China.

The Arab Spring caused a brief spike in oil prices, but the ongoing shale oil and gas revolution in the US led to a subsequent downswing ahead of the COVID-19 pandemic. 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.

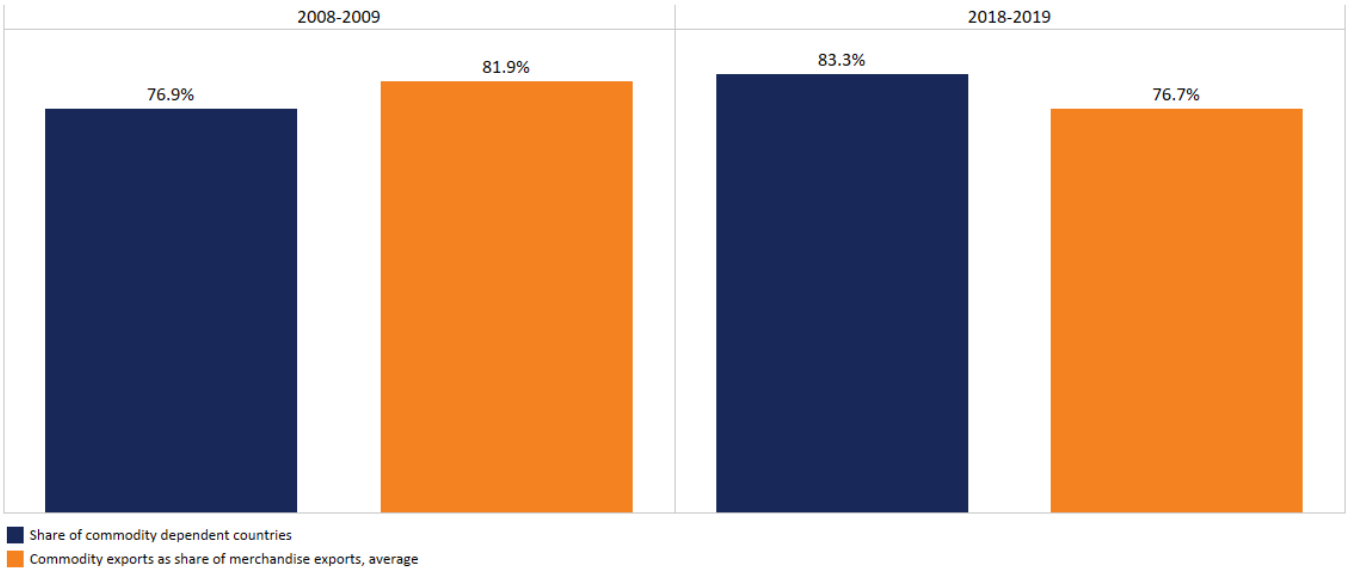
Russia's invasion of Ukraine in February 2022 saw oil and gas prices spike as Europe struggled to balance its desire to assist the government of President Zelensky against Russian aggression while simultaneously paying Russia almost a billion dollars a day for oil and gas.

The global energy transition will eventually play an important role in a next upward commodities cycle, as 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—accelerates as part of the fight against climate change and the shift to build renewable energy infrastructure. In addition to more aggressive environmental policies, commentators speculated that the upswing was being driven by stimulus spending, growth in China, rising inflation and a weaker US [dollar](#).

Supercycles are not smooth; consequently, ups and downs can vary greatly. It is too early to see a decades-long, above-trend movement in a wide range of base material prices (the definition of a supercycle). Typically, each commodity class has its pendulum so shifts in the price of base metals do not generally correspond with that of livestock, agricultural products or oil, which has evidenced the most volatility as the Organization of Petroleum Exporting Countries (OPEC) tries to govern oil prices. For example, commodity prices remained depressed for a year after 2007/08 before recovering, only to be hammered by the COVID-19 pandemic in 2020.

In its 2021 report 'The [State of Commodity Dependence](#)', the UN Conference on Trade and Development (UNCTAD) noted that 101 out of 189 countries depended on commodity exports; the number for Africa in 2018/19 was 45 out of 54 or 83.3%, up from 77% in 2008/09 (Chart 10).

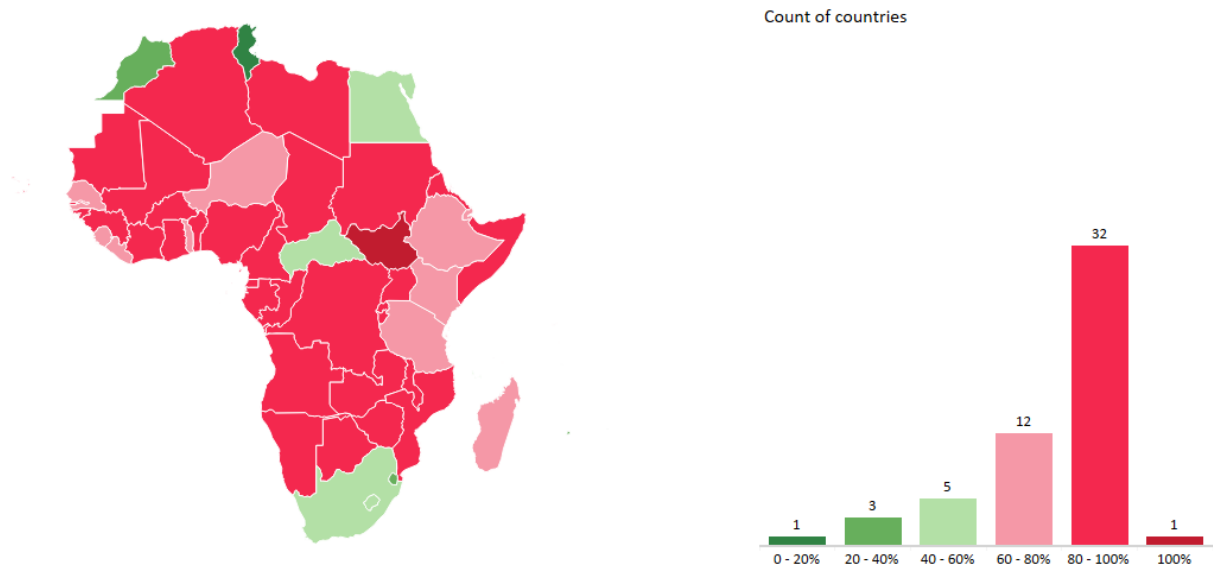
Chart 10: Africa's growing dependence on commodities, 2008–2009 and 2018–2019



Source: UNCTAD, The State of Commodity Dependence 2021

Although the number of commodity-dependent countries in Africa has increased markedly in recent years (Chart 10), it generally remained static in other global regions, 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 increased, with most being exported to Europe and increasingly to China.

Chart 11: Distribution of Africa's dependence on commodities, 2021  
% of merchandise exports by category



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, three factors likely explain Africa's modest rates of growth after the 2007/08 global financial crisis:

- Outside Africa, the size of the working-age population relative to dependants had started to decline, meaning that labour was no longer contributing positively to improvements in productivity (as discussed in the themes on [demographics](#) and

health/WaSH).

- North African countries and the Sahel region have been caught up in the turmoil that followed the Arab Spring. A decade later, Libya is still trapped in a debilitating civil war, democracy in Tunisia is faltering and the region is awash with weapons that have spread across the Sahel to West Africa.
- Oil exporters have been affected by the sharp decline in oil prices that has accompanied the shale revolution in the US, which saw demand for oil decline, although prices again increased in 2022 with the war in Ukraine.

Based on the duration of previous cycles, it can take five to seventeen years before a general improvement in [commodity prices](#) occurs again. On average, full trough-to-trough supercycles take 32 years, but no two supercycles are the same. The length and intensity of each downturn and upswing vary considerably from cycle to cycle. That said, working on a 32-year average, we should reach the trough around 2027 and a peak is expected around 2043.

In addition to favourable demographics, the next commodities supercycle will lift African growth rates, although likely to a lesser extent than before the 2007/08 global financial crisis. It may also take several years before the demand for commodities recovers from the impact of the COVID-19 pandemic and the war in Ukraine. The world will still require commodities, but the resource intensity of economic growth is declining. Recently, China's demand for base commodities has shifted from iron ore, copper and coal to consumer-related commodities such as meat, dairy and apparel, as well as the rare earth metals used for batteries and computers.

Just how rapidly China is growing (despite moderating rates in recent months) is difficult to grasp. For example, between 2014 and 2018, China added the size of the entire economy of Africa to its GDP in market exchange rates. The Chinese economy is already larger than the US economy in purchasing power parity and likely to overtake the size of the US economy in market exchange rates around 2030.

In addition, the next supercycle (i.e. from around 2030 onward) would be driven by the expected demand for commodities from rising India, which is experiencing a steady improvement in growth rates. Steady global growth will continue to generate demand for commodities. Global GDP will expand by almost 30% by 2030 (from 2019) and 62% by 2043 (all calculations in market exchange rates).

However, 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.

Larry Diamond and Jack Mosbacher summarise it as follows:

The surge of easy money [from oil or gas] fuels inflation, fans waste and massive corruption, distorts exchange rates, undermines the competitiveness of traditional export sectors such as agriculture, and preempts the growth of manufacturing. ... Rather than fostering an entrepreneurial middle class, **oil wealth**, when controlled by the government, stifles the emergence of an independent business class and swells the power of the state vis-à-vis civil society.

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. Despite relying heavily on commodities, Botswana has had the lowest percentage share of **primary commodities** in exports in Africa, in part by stimulating domestic processing industries. 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.

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, 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, and maintained robust growth rates between 1990 and 2014.

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.

In the 1970s, Cameroon sought to adopt a similar strategy as it began producing oil, increasing government savings while moderating spending and borrowing during the upcycle. Despite a decline in commodity prices in the early 1980s, Cameroon’s **growth rate** remained at about 7% per year while it maintained low inflation and borrowing rates. Its success was eventually short-lived, however.

At the same time, Kenya and Nigeria spent most of their revenues from coffee and oil price booms in the late 1970s and could not reel in expenditure in the 1980s when prices, and thus revenue, ultimately fell. **Growth rates** declined while inflation and borrowing increased.

Since then, several African countries have attempted to make better use of their resource booms by saving more 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 the 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.

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## About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the ISS. 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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