Africa’s Pulse

An analysis of issues shaping Africa's economic future

- GDP growth in Sub-Saharan Africa is back on track
- Rising commodity prices
- Exports rebound but remain highly concentrated in one or two commodities

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Emerging capacity constraints and a tightening of macroeconomic policies are expected to slow developing country growth to 6 percent in 2011 from 7 percent in 2010.

After rebounding sharply in 2010, GDP growth in Sub-Saharan Africa is expected to further strengthen in 2011 and 2012.

GLOBAL OUTLOOK

Led by strong domestic demand in developing countries, real global GDP is estimated to have expanded by 3.9 percent in 2010. Supported by countercyclical measures, resurgence in international trade, increased financial flows, and higher commodity prices, developing countries grew by 7 percent in 2010, outperforming high income countries—which grew at 2.8 percent.

The recovery in the United States and the Euro Area has strengthened, but economies remain characterized by high unemployment and spare capacity, especially in the construction sectors. Ongoing fiscal and household consolidation will continue to serve as a drag on growth in many high-income economies.

For developing countries, growth is projected to slow due to emerging capacity constraints and a tightening of macro policy. Hence, global GDP is expected to slow down to 3.3 percent in 2011 before picking up to 3.6 percent in 2012 as the drag on activity from restructuring in high-income countries eases somewhat, and productive capacity is added in developing countries. Indeed, GDP growth in low-
and middle-income countries is projected to fall from 7 percent in 2010 to 6 percent in 2011, before picking up to 6.1 percent in 2012.

Global prospects, however, continue to be exposed to a number of important risks, a confluence of which could dent the economic recovery. First, the dramatic political changes that have swept parts of the Middle East and North Africa will likely have limited direct effects on global growth, given the small size of the economies affected thus far. But if the crisis-related increase in oil prices is sustained, it could shave between 0.2 to 0.4 percent from global growth. Contagion to a major oil producer could be much more serious. Second, the March earthquake and tsunami in Japan have impeded the country’s economic growth in the very short term, and supply-chain disruptions could have an impact on partner countries. But the global impacts are likely to be transitory, and the country’s GDP growth is expected to pick up as reconstruction efforts move forward. Third, the sovereign debt issue in Europe remains unresolved, and concerns persist over whether countries with high debt ratios will be able to undertake fiscal tightening and needed structural reforms. And finally, debt concerns and uptick in inflation (fueled by food and fuel prices) are pushing up interest rates in high-income countries, which will be a negative for growth in both high-income and developing countries.

OUTLOOK FOR SUB-SAHARAN AFRICA

Growth in Sub-Saharan Africa rebounded sharply in 2010, supported by both the global recovery and developments on the domestic front: output is estimated to have expanded by 4.7 percent in 2010—up from the 1.7 percent in 2009—just shy of its 5 percent pre-crisis (2000-2008) average growth. Slower growth in the region’s largest economy, South Africa (2.8 percent), dragged down overall regional growth in 2010. Excluding South Africa, GDP growth in Sub-Saharan Africa for 2010 is estimated at 5.8 percent, up from 3.8 percent in 2009, and above its pre-crisis average growth of 5.6 percent.

Continuation of the global recovery and strengthening domestic demand—particularly in South Africa—are expected to boost Sub-Saharan Africa’s economic performance in 2011 and 2012 with GDP growth projected at 5.3 percent and 5.5 percent, respectively. Excluding South Africa, growth is expected to reach 6.4 percent in 2011 before settling at a 6.2 percent in 2012, placing Sub-Saharan Africa (excluding South Africa) among the fastest growing developing regions.

The economic recovery in Africa is broad-based, albeit with variation in growth performance. Over a quarter (28 percent) of countries in the region achieved growth rates above 6 percent, with several countries rivaling growth rates in fast growing developing countries such as China, India and Brazil. Overall, 60 percent of countries in the region achieved growth rates of above 4 percent in 2010, and in only about 5 percent of economies were growth rates below 2 percent.

Oil exporters grew by 5.9 percent, thanks to the sharp rebound in oil prices in 2010. Metal and mineral exporters also experienced strong growth rates (6.5 percent), propelled by a rise in prices of these commodities. Even among predominantly agricultural exporters, excluding fragile countries, growth rates were well above 5 percent. However, in countries where conflicts flared up, economic activity was dampened, keeping growth rates much lower than the regional average.

![Africa's growth rate to rebound to pre-crisis average in 2011](source: Development Prospects Group, World Bank)
On a sub-regional basis, the strongest growth was recorded in West Africa (6.5 percent), led by Nigeria’s robust growth performance. This was followed closely by East Africa (6.4 percent), with solid growth performances in Ethiopia, Rwanda and Tanzania posting solid growth performance—the latter two economies benefitted from increased regional integration efforts among members of the East African Community. Though the Republic of Congo was the fastest growing economy in Sub-Saharan Africa in 2010, thanks to new oil that came on stream in 2010, its performance was in contrast to that of other countries in the Central African region. Overall, growth in Central Africa was estimated at 4.9 percent. Slower growth in Angola and relatively low growth in South Africa pulled the sub-regional growth in Southern Africa to under 3 percent.

**FACTORS DRIVING THE REGION’S PERFORMANCE**

Economic performance in Africa was spurred by a recovery in exports and strong domestic demand. The rebound in the global economy revived exports, providing an impetus to growth in 2010. Export values, which had fallen to some 51 percent of their pre-crisis August 2008 levels by January 2009, had almost fully recovered by November 2010, reaching 93 percent of that level and still rising. Much of this increase was due to a rise in commodity prices. With respect to terms of trade changes, the biggest gainers were metal, mineral and oil exporters (the Republic of Congo, Mauritania, Gabon, Angola, and Zambia). Some exporters of industrial agricultural raw materials such as cotton (e.g., Benin and Mali) were also big winners. Compared to a year earlier, the terms of trade changes in both January and February 2011 continued to favor exporters of oil, metals and minerals, and industrial agricultural products such as cotton. Notwithstanding the increase in export revenues, net exports were negative in 2010.

The recovery in the global economy also revived foreign direct investment to Sub-Saharan Africa. Foreign direct investment flows to the region increased by 6 percent to $32 billion in 2010, just shy of the pre-crisis peak of $34 billion in 2008. This favorable trend is expected to continue: The World Bank forecasts foreign direct investment flows to the region to reach a record $40.8 billion in 2011. Though much of the value of foreign direct investment flows to the region goes to the extractive industry sector, the non-extractive industry sector is attracting the most number of projects.
Much of the 2010 growth increase in Sub-Saharan Africa came from improved domestic demand conditions, which contributed 5.4 percentage points to GDP growth. The strength of domestic demand is observed in a number of sectors. For instance, the demand for telecommunications services, which has been strong over the past few years, continued the trend increase in 2010. In Ghana, mobile penetration increased from 63.6 percent to 68.4 percent between January and August of last year. Similarly in Nigeria, GSM mobile operators added 8.5 million new lines over the same period. The dynamism in the sector is also promoting investment spending. In June 2010, Bharti Airtel, an Indian company, completed the acquisition of Zain’s mobile operations in Africa for $10.7 billion, one of the largest global acquisitions of the year. Several countries, including the Republic of Congo, Ghana, Liberia, Malawi, and Mozambique, provided licenses in 2010 to new entrants to the telecommunications sector, increasing domestic competition in this sector.

Government spending, particularly on sorely needed infrastructure, is also driving growth in a number of African countries. Some of countries are raising funds both internally and externally. For example, Kenya auctioned an infrastructure bond worth 31.6 billion shillings in August 2010 and the country is likely to increase borrowing in 2011. In January 2011, Nigeria successfully raised $500 million through the issuance of its first-ever bond on international capital markets. Other African countries such as Tanzania, Uganda, and Zambia have expressed interest in raising funds in global capital markets as well.

The agriculture sector, the largest employer in many African economies, and the sector with the greatest potential for poverty reduction, also provided support to growth in several countries in 2010. Favorable weather conditions for Eastern and Southern Africa, coupled with government farm support programs in some countries (e.g. Malawi), contributed to good harvest and overall economic output in 2010. Indeed, even amidst the global food price surge in 2010, good harvests moderated food price increases in the region for much of the year. However, in recent months spikes in food prices have begun showing through higher headline inflation figures.
RISKS TO ECONOMIC PROSPECTS

Rising food and fuel prices present a risk to macroeconomic stability. Global food prices, which have risen some 39 percent (World Bank’s food price index) year-on-year in March 2011, are beginning to impact domestic food prices in Africa. Global prices (year on year in March 2011) were up by 83 percent for maize, 66 percent for wheat, 72 percent for Sorghum and 42 percent for palm oil. But for most African countries the food price increases were moderate for much of 2010, and in a few countries prices actually declined, thanks to favorable harvests, the local nature of food markets in many countries in the region, and the availability of alternate staples (e.g. cassava) that can substitute for higher-priced internationally-traded food.

Nonetheless, since November 2010 there has been an up tick in the headline consumer price inflation levels with increases in prices of the food basket helping to drive this increase. Higher oil prices—as of March 2011, crude oil prices had risen by 37 percent compared to a year ago—are adding to inflationary pressure as well. The median inflation rate for African countries rose to 4.5 percent in December 2010 from a 10-year low of 3.1 percent in August 2010, though it remains below the ten year (2000-2010) median of 5.4 percent. The distribution differs across the region. For example, the increase in food and fuel prices pushed the inflation rate in Kenya to nearly 10 percent in March 2011, double the end-2010 level. In Ghana, price pressures resumed in early 2011, pushing inflation to 9.2 percent in February (from 8.6 percent year-on-year in December 2010), as petroleum prices were increased by 30 percent to reflect global price increases and imported food prices also rose. In Cape Verde, average yearly inflation is expected to double to around 4.4 percent in 2011.

Using the latest available information, some 24 percent of countries in the region have inflation rates ranging between 5 and 10 percent and another 25 percent are experiencing inflation levels above 10 percent, including Ethiopia, Nigeria, Sierra Leone, Guinea, and Mozambique. Only about thirteen countries are projected to have inflation rates below 5 percent in 2011, down from twenty four in 2010.1

The persistence of food price increases could have deleterious consequences, including a deterioration of the current and fiscal account balances of net food importing countries in the region, as well as higher levels of poverty and malnutrition, with the possibility of unrest in some countries—all of which will have implications for growth prospects in the region. If current forecasts of drought conditions in parts of Southern and Eastern Africa are realized, this will serve to cut back on agriculture output and accentuate the rise in food prices. In some countries the impact of the drought could go beyond their effect on food prices and potentially affect hydroelectric generation, exacerbating power supply constraints.

Sharply higher oil prices present another risk to macroeconomic stability. If elevated prices are to persist through 2011, net oil exporters would see extra revenues generated in their external and fiscal accounts. For example, oil-dependent economies such as Angola and the Republic Congo, where the oil sector accounts for over 90 percent of exports and over 60 percent of GDP, would see an improvement in their current account balance of some 7 percent of their GDP. On the other hand, large resource revenue inflows could discourage diversification of these economies—i.e., “Dutch Disease”—and these revenues need to be appropriately managed.

The downside risks to oil importers in the region are much greater. With countries facing an increased oil import bill, and given that oil imports are about 18 percent of the total merchandise imports of Sub-Saharan Africa oil importers, there could be a deterioration of the current account to GDP ratio by about 0.5 percent (excluding South Africa), if the February level of prices are sustained. The fiscal balances could also deteriorate if governments provide petroleum subsidies. Depending on the exchange rate regime, depreciation of the nominal exchange rate could result, thereby bringing a further bout of inflationary pressures. Further, higher prices which are an important input to production, could trigger higher inflation levels through cost-push effects. Higher inflation levels are also likely to prompt monetary tightening, which could

1 Country Reports, Economic Intelligence Unit
can experience a modest decline, as remittances from Côte d’Ivoire represent 7 percent of the total. However, the direct implications through other channels such as trade and remittances. For example, remittance inflows to Togo The interruption of economic activity in Côte d’Ivoire also has an additional pressure on governments, particularly in Liberia and Guinea, as both countries are still recovering from crisis.

Political disruptions can spillover to neighboring countries as well. A case in point is Côte d’Ivoire, where the UN estimates that around 150,000 Ivorian refugees have sought safe havens in border communities of Ghana, Liberia and Guinea, increasing demand for food, access to clean water and basic health services. The provision of food, shelter and public services to these groups is an additional pressure on governments, particularly in Liberia and Guinea, as both countries are still recovering from crisis.

The interruption of economic activity in Côte d’Ivoire also has direct implications through other channels such as trade and remittances. For example, remittance inflows to Togo could experience a modest decline, as remittances from Côte d’Ivoire represent 7 percent of the total. However, the suspension of economic activity in Côte d’Ivoire has led to an increase in port activity in Ghana and Togo, whose ports are now used by Ivorian traders.

2 World Bank staff estimates.
II. Rising commodity prices

- High and volatile global food prices are here to stay
- Global food prices are beginning to impact African countries, although the pass through to domestic markets varies by region and staple
- The surge in commodity prices is lifting Africa’s exports, but presents policy challenges

FOOD PRICES

Global food prices have steadily risen since the second half of 2010. According to the World Bank’s Food Price Index, food prices rose by 39 percent from mid-2010 to March 2011. As in 2008, major grains have seen a sharp run-up in prices, albeit by different amounts. Wheat has posted the largest increase—66 percent for the year ending March 2011. Maize prices have risen by 83 percent. An exception is rice, which has decreased slightly by 2 percent, over the same period. Recently, rice prices have moved, but at a much slower pace than for other grains.

Unlike 2008, the current increase in food prices is more broad-based. Thus, sugar and edible oils have also risen sharply, by 41 percent and 39 percent, respectively. The World Bank’s Agriculture Price Index was 11 percent above the 2008 peak. The increase in food prices is smaller when measured in major currencies other than the US dollar: commodity prices are denominated in US dollars, and the depreciation of the dollar against other currencies has meant higher prices denominated in dollars.

Many factors are behind the upward trend in food prices. Some are transitory, but several are structural. Among temporary factors are weather-related supply shocks that affected wheat markets last year. Beginning in the middle-part of last year, global wheat production has been impacted by weather conditions (in Russia, EU, Canada, and Australia), which prompted export restrictions in Russia and Ukraine. Another potential short-term factor is the higher levels of financial investment in agricultural commodities—i.e., the financialization of commodity markets. Easy monetary policy in high-income countries is keeping interest rates extremely low and fueling yield-seeking flows to asset markets. These flows are impacting commodity markets as well. Rising fuel prices are also adding to the price of food, through higher fertilizer and transportation costs.

3 This section draws on various sources: USDA monthly reports on Grain: World Markets and Trade; Development Committee Paper on “Responding to global food price volatility and its impact on food security” April 2010 and FAO: Food Price Monitor
Among more permanent factors is a structural shift in demand. One is the demand from emerging market countries for higher-protein foods, which has increased demand for animal feed and alternative use of scarce land (e.g., grazing of animals). Two is higher demand for biofuels, as an alternative to non-renewable sources of energy. This has diverted production of land for crops supporting biofuels as well as greater amount of some crops—such as corn—for production of biofuels instead of food. Three, supply has relied more on increase in acreage under production than on increases in productivity. Agriculture productivity has slowed down and in some cases even stagnated or fallen. Production acreage has increased to meet demand, but in some cases land used is less productive. This has translated into higher prices.

These structural trends are likely to endure in the near and medium term, keeping food prices high.

**FOOD PRICES HAVE BECOME MORE VOLATILE**

Empirical evidence suggests that food prices have become more volatile in recent years. Grain price variability around its mean increased between 2006-2010 relative to that in 1991-2005: variability of maize, sorghum and wheat prices was nearly twice as high in 2006-2010 compared to 2001-2005 and that of rice was higher as well. However, a recent study finds that analyzing short-term trends may not yield the same results as analyzing longer term trends. The authors conclude that price volatility does not appear to have an upward or downward trend over the long term. In addition, periods of increased price volatility are followed by periods of declining volatility.

Several supply-side factors are contributing to the recent increase in food price volatility. Notable amongst these is the shift in source or supply countries. Changing geographical distribution of production from traditional (United States, United Kingdom) to emerging (Brazil, Argentina) has impacted supply.

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**BOX 2**

**Recent rise in food prices: Is this time different?**

**Differences with 2008**

- More agricultural commodities are seeing price increases than in 2008. For example, in 2008 major grains such as maize, rice, and wheat were driving price increases. Now, edible oils, sugar, and raw materials are also rising
- Weather-related impacts are more of a contributing factor now
- Unlike 2008, policy responses are not exacerbating shortages. In 2008 many countries attempted to protect local grain markets from international price pass through by adopting ad hoc trade policies and interventions— reducing import tariffs, imposing exports bans, establishing quotas. There is far less of it this time around.

**Similarities with 2008**

- Higher oil prices are impacting agricultural commodity prices
- Depreciation of the US dollar in 2008 contributed to higher prices of commodities as it is now
- Financial investment in agricultural commodity markets

Source: Development Committee Paper. “Responding to global food price volatility and its impact on food security.” April 2011.

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**FIGURE 10, TABLE 1**

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Rice</th>
<th>Maize</th>
<th>Sorghum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-90</td>
<td>14.2%</td>
<td>17.6%</td>
<td>20.7%</td>
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<tr>
<td>1991-95</td>
<td>15.5%</td>
<td>15.6%</td>
<td>11.4%</td>
</tr>
<tr>
<td>1996-00</td>
<td>29.3%</td>
<td>19.3%</td>
<td>28.8%</td>
</tr>
<tr>
<td>2001-05</td>
<td>15.7%</td>
<td>18.4%</td>
<td>11.7%</td>
</tr>
<tr>
<td>2006-10</td>
<td>30.0%</td>
<td>32.8%</td>
<td>24.4%</td>
</tr>
</tbody>
</table>

Source: Development Data Group, World Bank

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5 Development Committee paper “Responding to global food price volatility and its impact on food security” April 2011.
EU-27, Brazil & Argentina) exporters to newer export regions, such as the Black Sea region (Kazakhstan, Russia and Ukraine), is injecting some variability in supply. Newer exporter regions have less stable supply, as these regions do not have natural conditions, technologies and management practices comparable to the traditional exporters. African countries have seen a shift in supply sources for wheat: reliance on traditional wheat exporters has dropped to under 70 percent from nearly 90 percent during 2003-2009.

Another important factor is weather variability. The number of adverse weather events—droughts, floods and extreme temperature—is on the increase worldwide and in Sub-Saharan Africa. Variability of weather, possibly associated with climate change, is impacting both the global and local supply of grain. Weather-induced uncertainty on the supply side is increasingly a concern. These supply-side factors will likely keep agricultural commodity prices volatile in the near term, suggesting that food price volatility is here to stay. It is also important to note that volatility of local prices in many countries is greater than volatility in global markets.

An upward trend in consumption has reduced the ability of existing food systems to cope with large short-term shocks. At the same time there are alternative demands for available land and water resources.

Food price volatility has particularly adverse affects in low-income countries, impacting food security, farmer’s incomes and investment decisions.

PASS THROUGH OF WORLD PRICE CHANGES TO LOCAL MARKETS IN AFRICA

Even when international food prices are rising, local food prices may not mirror this. The recent world food price surges of 2008 and 2010 have reopened inquiry into the extent these pass through to domestic African food staple markets. Numerous factors can limit the speed and extent of measured pass through: high transport costs, successful national stabilization interventions, measurement issues where world price indicators are unrepresentative of the domestically traded commodity, sticky downward adjustments if a few traders dominate national imports of a commodity, and possible threshold effects with import levels determining policy regime adjustments.

Empirical assessments, available mostly for east and southern African countries, uncover substantial heterogeneity on the extent of pass through across the main food import commodities and across countries. In one study that assessed 62 domestic price series for maize, rice and wheat in nine African countries, only 13 of the price series (4-8 years) showed a long-run relationship between domestic and world price for the same commodity.6 By commodity, price pass through is lowest for wheat; domestic rice price series across African countries more consistently reveal a statistical long-term relationship with world rice prices than is

the case for maize. Focusing on maize trade over 2000-2008 in Kenya, Uganda and Tanzania, a World Bank study concludes that only some consumption centers in these countries appear to be integrated with international maize markets and then only weakly and slowly.7

Trading patterns help explain these findings. Most African countries are nearly self-sufficient in maize (with small and sporadic import need), while a significant portion of rice needs is usually imported. At the same time, maize price formation in these countries is significantly impacted by changes in prices in other countries of East Africa. In particular the markets in Kenya and Uganda are strongly integrated, while Tanzania is less integrated due to the use of export bans and the larger distances between major producing areas (Southern Highlands) and consumer markets (Dar es Salaam, Arusha and Nairobi), which raise transport costs.

Illustrative of country differences, the study by Minot shows that Mozambique, Malawi and Ethiopia have a higher proportion (though still under 40%) of grain staple domestic prices that are linked to world prices, while Zambia, Uganda and Kenya had no statistically related domestic and world prices.

On threshold effects, intuition may be that price transmission would strengthen at higher levels of trade flows. An exploration of maize imports to Zambia reveals just the opposite: price transmission was weakest when imports were at their highest.8 This is because high imports correspond to more acute domestic shortages when governments have stepped in to ensure imports and are selling domestically at subsidized prices, squeezing out private import activity; during periods of relatively low, unrestricted trade, Zambia (Lusaka) maize prices adjusted quite quickly to world (South Africa) prices.

Thus, the evidence suggests that world rice prices pass through most strongly to domestic African markets, wheat the least, with maize in between, and intermediated at the country level by policy stances and differences in land transport costs for imports. For maize, in particular white maize commonly consumed in Eastern and Southern Africa, regional developments often matter more than changes in world market prices. Examining the past decade we find, only in the rare case is the statistical relationship one of more than fifty percent pass through, even when allowing several months for adjustment.

As noted earlier, most African countries saw only a modest increase in food prices in 2010, in part due to favorable harvest. More recently, Eastern Africa is seeing an increase in main staple coarse grains driven by both local conditions—weak secondary harvests—and exposure of the region to high world price for maize. Cereal prices in West Africa are generally low and stable as are those in Southern Africa.

Dependency on food imports increases vulnerability to higher and more volatile global food prices. With limited fiscal space, macroeconomic vulnerabilities are exacerbated. West Africa, which has a higher share of cereal imports in food consumption, is likely to be more impacted by higher and more volatile global food prices.

The share of food in household spending is nearly 50 percent in low-income countries, but with considerable variation across countries and income groups. The comparable share for middle-income countries is under 40 percent. A recent paper estimates the short-run poverty impact of the recent food price increase on developing countries. It finds that the spike in food prices between June and December 2010 increased the average poverty rate by 1.1 percentage points in low-income countries and 0.7 percentage points in middle-income countries. Overall, an additional 44 million people fell into extreme poverty (below $1.25 per day) in developing countries. For the seven African countries in the sample, the study finds that the largest impact was in Uganda and Malawi. In Uganda, higher prices of sugar, edible oils and

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vegetables have pushed nearly 2 percent of the population—net buyers—into poverty and pulled nearly 0.8 percent of the population out of poverty—as net sellers of maize benefited. In Malawi, higher prices of wheat, sugar and oils pushed over 1 percent of the population into poverty.

Appropriate measures to protect the most vulnerable from food price shocks are needed. Social protection systems vary by country priorities and need. Findings from recent review of several social safety net programs show that the scope and coverage of these programs is too limited and that most interventions are fairly small in scale and designed as temporary programs. Average spending for safety nets is less than 1 percent of GDP and most of the financing comes from external and ad hoc resources. The most common programs are food-based programs—subsidized food sales, targeted food distributions, nutrition programs, and school feeding—and universal subsidies. However, lately a wave of large and small cash transfer programs have swept the continent.

COMMODITY PRICE SURGE AND EXPORTS

African countries mostly export commodities and raw material such as crude oil, food commodities, industrial agricultural commodities, metals and minerals. Manufactured goods account for only one-third of the region’s total exports, and this share has barely changed over the last decade and a half. The recent surge in commodities—petroleum (37 percent year on year), metals (25 percent), coffee (77 percent) and cotton (150 percent)—is boosting export earnings. While the region benefits from such price booms, it also makes it’s economies quite vulnerable to global economic conditions and resulting price shocks. This vulnerability was observed in the aftermath of the global economic crisis.
The last commodity boom and bust (2003-2008) affected oil exporting and other African countries in similar ways. Each group’s exports of goods and services tripled (in nominal US dollars) between 2003 and 2008. In the wake of the global crisis, oil exporters experienced a significantly larger shock to their exports than non-oil exporters—the former group’s exports dropped by 38 percent in 2009 compared to a 19 percent decline for all other African countries. The commodity price boom and bust also had large impact on government revenues in African countries, particularly oil exporters. Oil exporters’ vulnerability to price shocks and resulting boom-bust cycle is a significant risk which requires setting up adequate mitigation policies.

African economies rely heavily on one or two commodities. In 2009, 16 of 47 African economies earned over 50 percent of their export earnings from a single primary export. Oil exporters are particularly dependent on a single product. Over half (55 percent) of African economies are heavily dependent on two commodities for their export earnings. Some African oil exporters: Nigeria, Angola, and Sudan, benefited from the oil price boom until mid-2008, but also suffered from the later price decline—particularly Angola and Sudan, which did not build adequate stabilization buffers during the boom period. Thus, in the aftermath of the global crisis, growth in this group decelerated significantly. Similarly, countries relying on one or two non-oil primary commodities experienced large fluctuations in their economic activity. For example, Burkina Faso and Mali, both cotton exporters, experienced a large export decline because of a
softening of cotton prices and domestic production shortfalls. Consequently, economic growth in these countries was impacted.

Nonetheless, some countries have made progress toward diversification of exports. This is particularly true of non-resource rich coastal African economies such as Kenya, Tanzania and South Africa. This group has, on average, 17 export products that account for 75 percent of total exports, a sharp contrast to the group of oil exporters.

Although product diversification has been limited, African countries have made significant progress in diversifying markets for their exports. In the early 1990s, about three quarters of African exports were shipped to developed countries such as the Euro area, United States and Japan. With the share of China, India and other developing economies in Africa’s exports rising rapidly, developed countries share had fallen to about 50 percent in 2009. Africa’s exports to China have increased nearly 30-fold—from $1.4 billion in 1999 to $41 billion in 2008. Raw materials as a share of exports to China were 42 percent in the early 1990s; a decade and a half later the share had more than doubled to 87 percent. Although Africa’s exports to all markets were hit hard by the economic crisis, the increased share of China and other developing countries in total exports facilitated a quick rebound in exports in 2010.

The recent surge in commodity prices has again positioned African economies to increase export earnings. Increased trade ties with developing countries, combined with large capital flows from these emerging markets into Africa (particularly from China), provide the region with an opportunity to sustain the strong rebound in economic growth.

These new opportunities for development come with new challenges. As the large commodity price fluctuations of recent years proved, Africa’s vulnerability to shocks has increased, which will require specific efforts to increase resilience and build safety buffers. A number of African resource-rich countries have established stabilization mechanisms (such as specific saving funds or fiscal rules) to mitigate export and revenue volatility emanating from price fluctuations. However, further work is needed to strengthen these mechanisms. It is also important that windfall revenues should be spent on new and productive investments that can increase and sustain high growth over the medium term.

FIGURE 22
Non-resource rich coastal African economies have on average 17 export products that account for 75 percent of total exports.

FIGURE 23
Emerging market countries are increasingly becoming important trading partners for Africa.

Contributions were received from Allen Dennis (DECPG), Stephen D. Mink (AFTSN), Carlo Del Nino (AFTSP), Setareh Razmara (AFTSP) and Sergiy Zorya (ARD).

10 Xiao Ye, “A Path to Mutual Prosperity? The trade and investment between China and Africa.”