

Will African Growth Survive Beyond the Commodity Boom?

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Economic Growth and Development in Africa: Lessons from the Last Forty Years.*

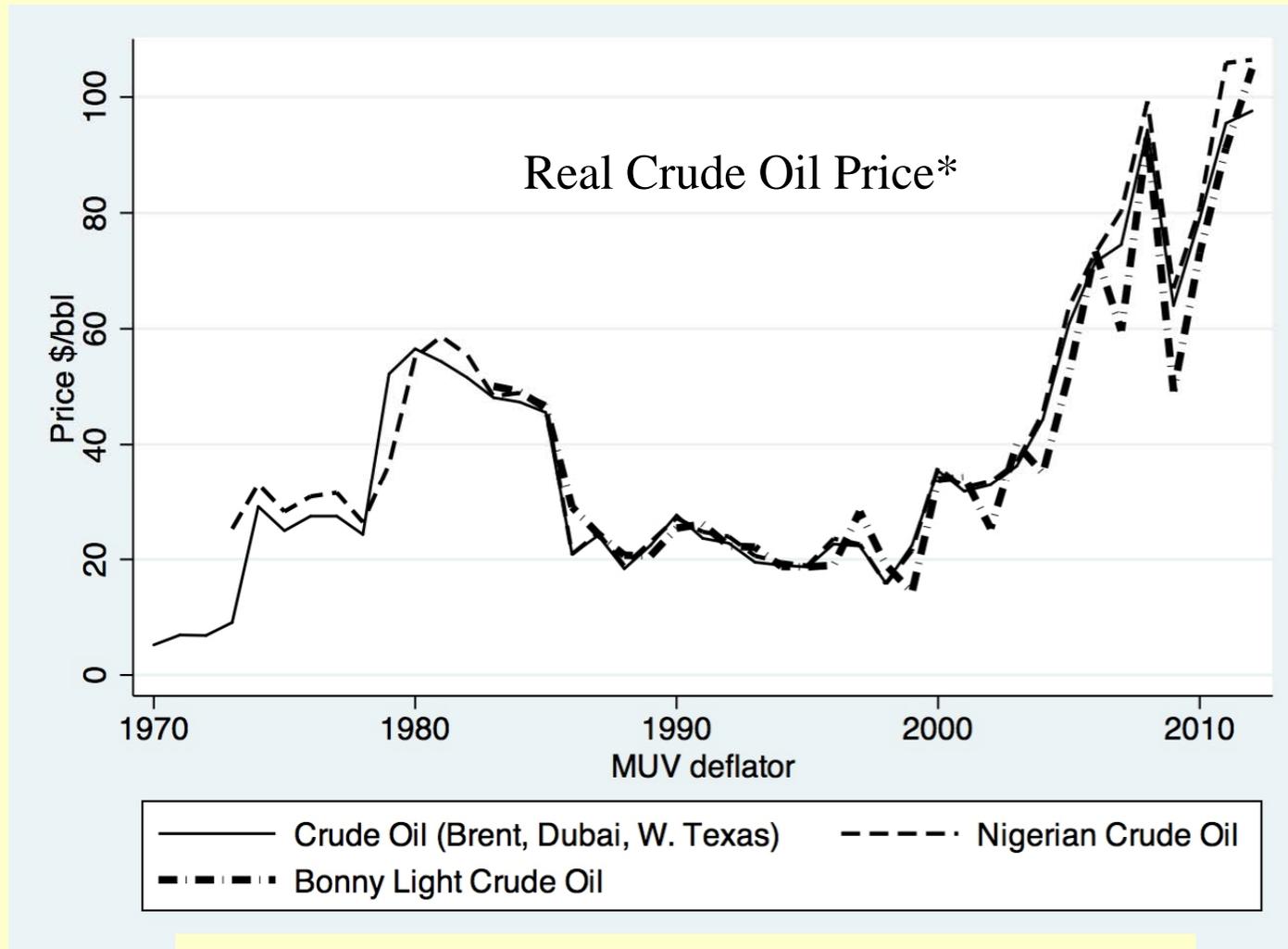
Commodity Booms and the North-South Divergence

- Among others, economic historian Jeffrey Williamson blames the creation of the North-South divide on the massive commodity boom of the 19th century.
- The fall of the mercantilist trade regime combined with technological progress in seafaring to improve everybody's terms of trade by narrowing the gaps between producer prices and consumer prices.
- This sharpened the pressure of comparative advantage, leading to increased specialization between an industrialized North and a commodity exporting South.
- The USA and other New World countries countered this pressure by resorting to heavy protectionism, starting with the US civil war.

The Return of Commodity Booms in the 20th Century

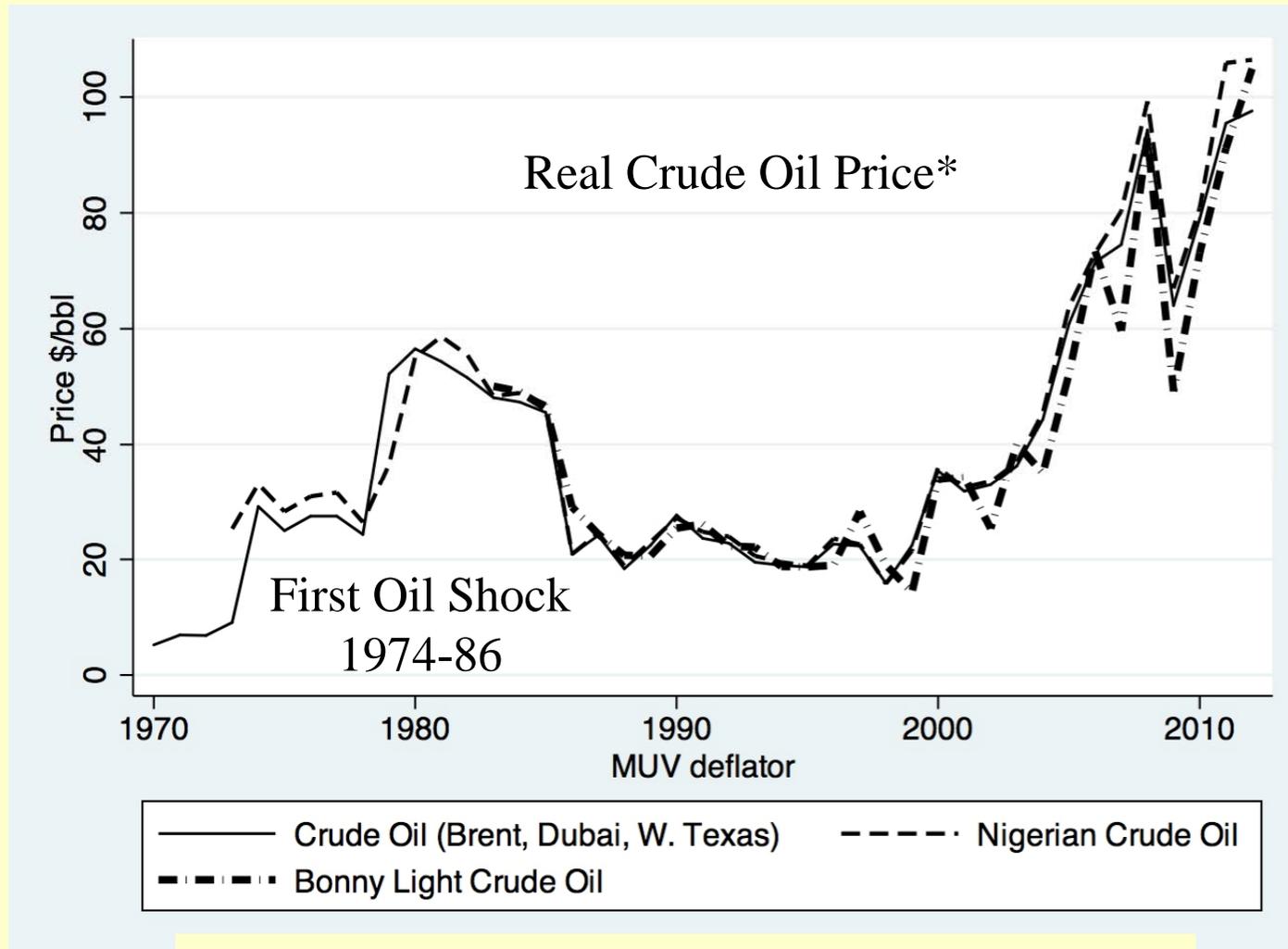
- Commodity markets were relatively stable in the 20th century until 1972, beside the two world wars.
- The USA were in fact controlling the oil market via the Interstate Oil Compact since 1934, keeping the nominal price low and declining in real terms.
- These controls blew up in front of the proliferation of national oil companies and new exporting countries in the 1970s.
- Moreover, monetary stability collapsed as the “gold-exchange standard” was given up by the USA in 1971, making primary commodities attractive as inflation-proof assets.
- These changes opened up an age of turmoil on commodity markets with decade-long booms and busts.

The Age of Turmoil



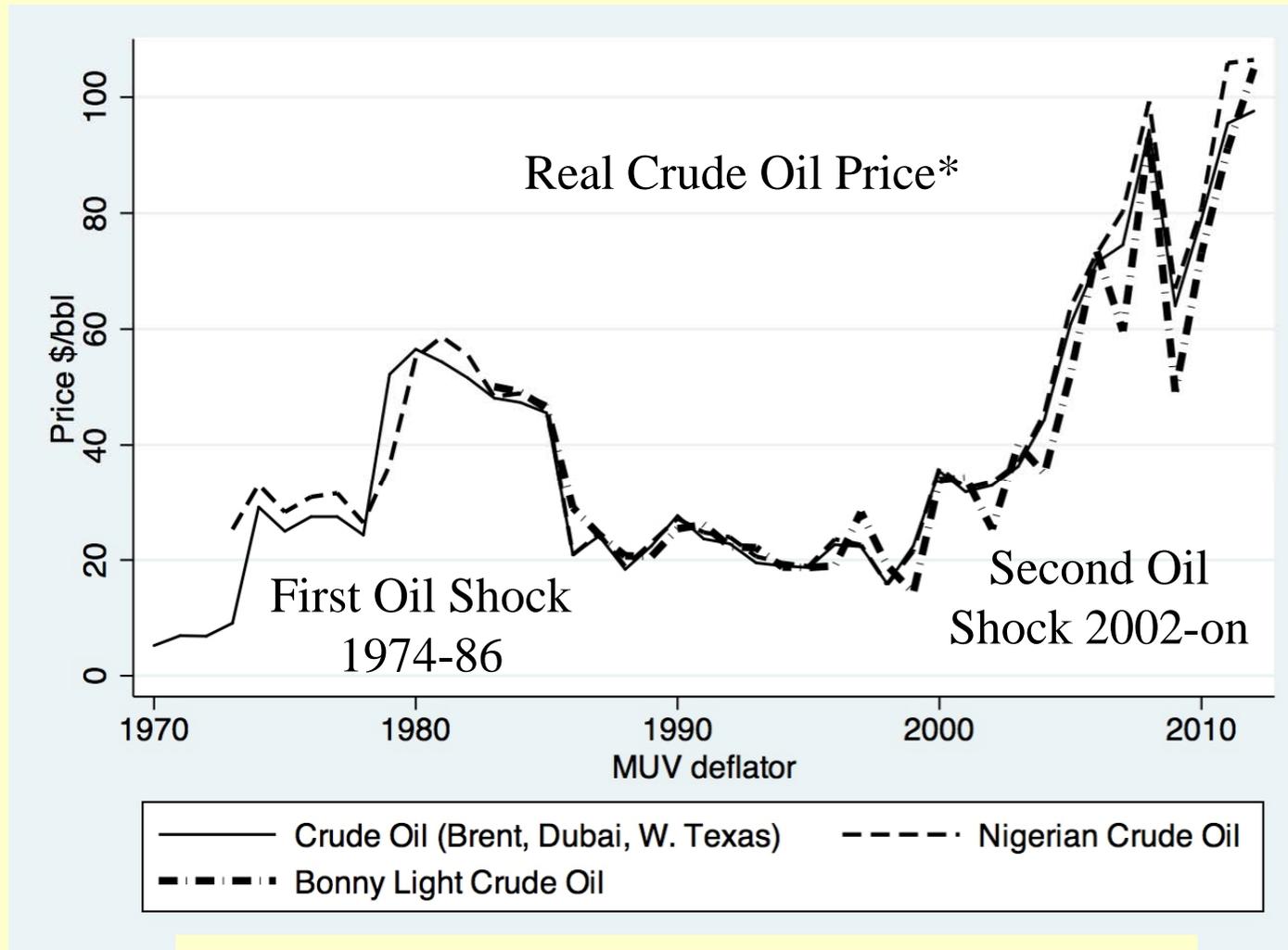
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The Age of Turmoil



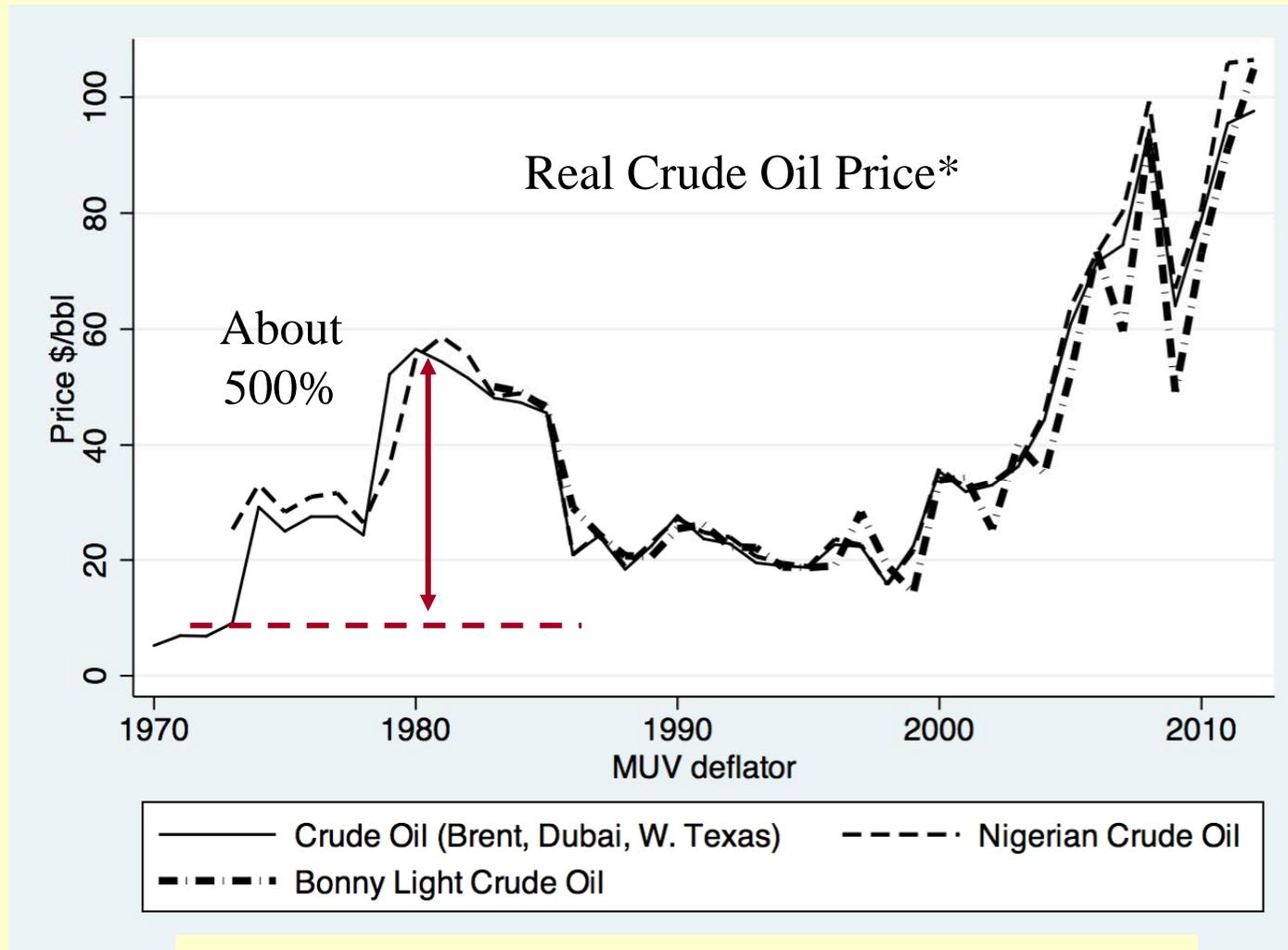
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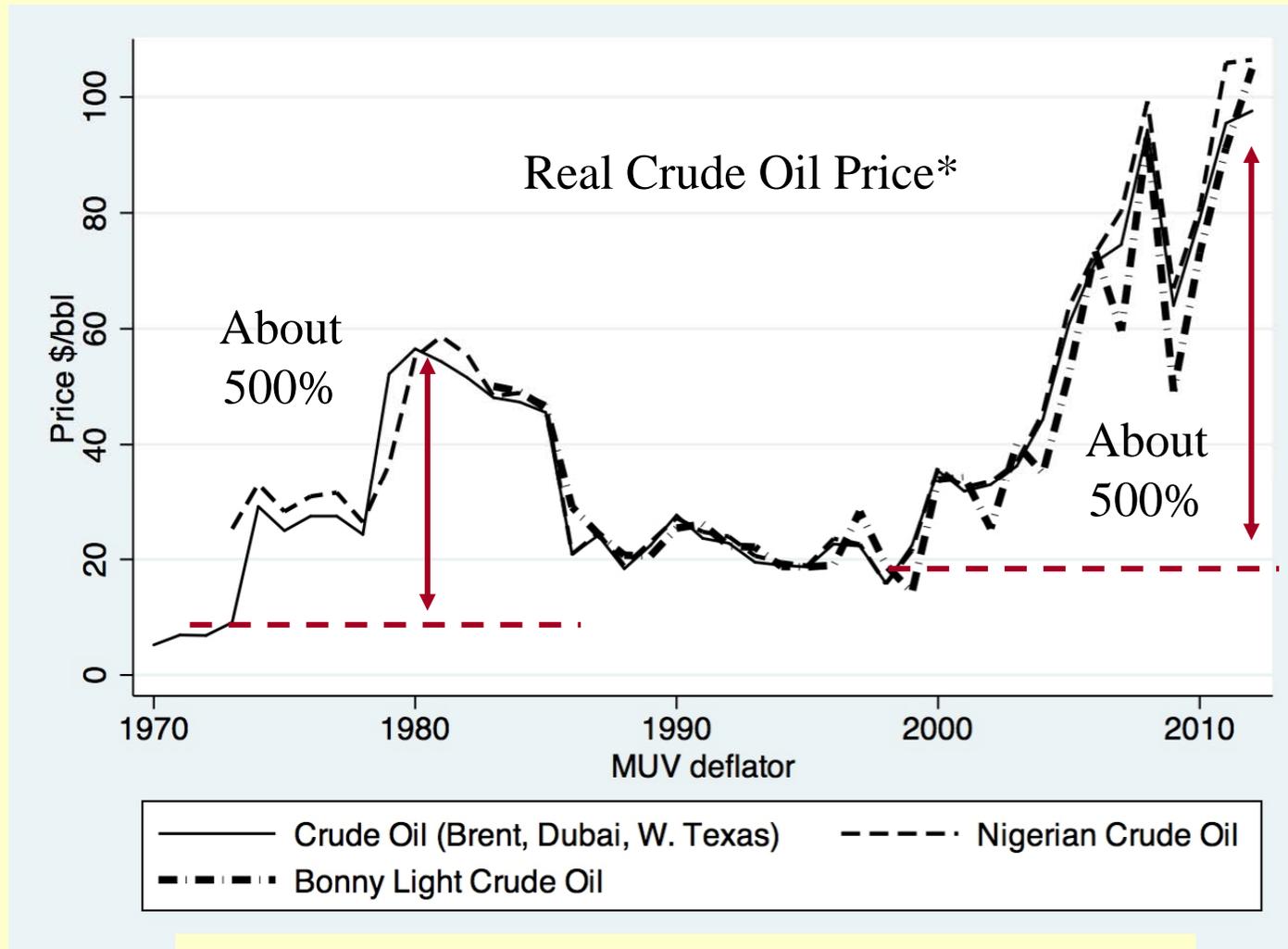
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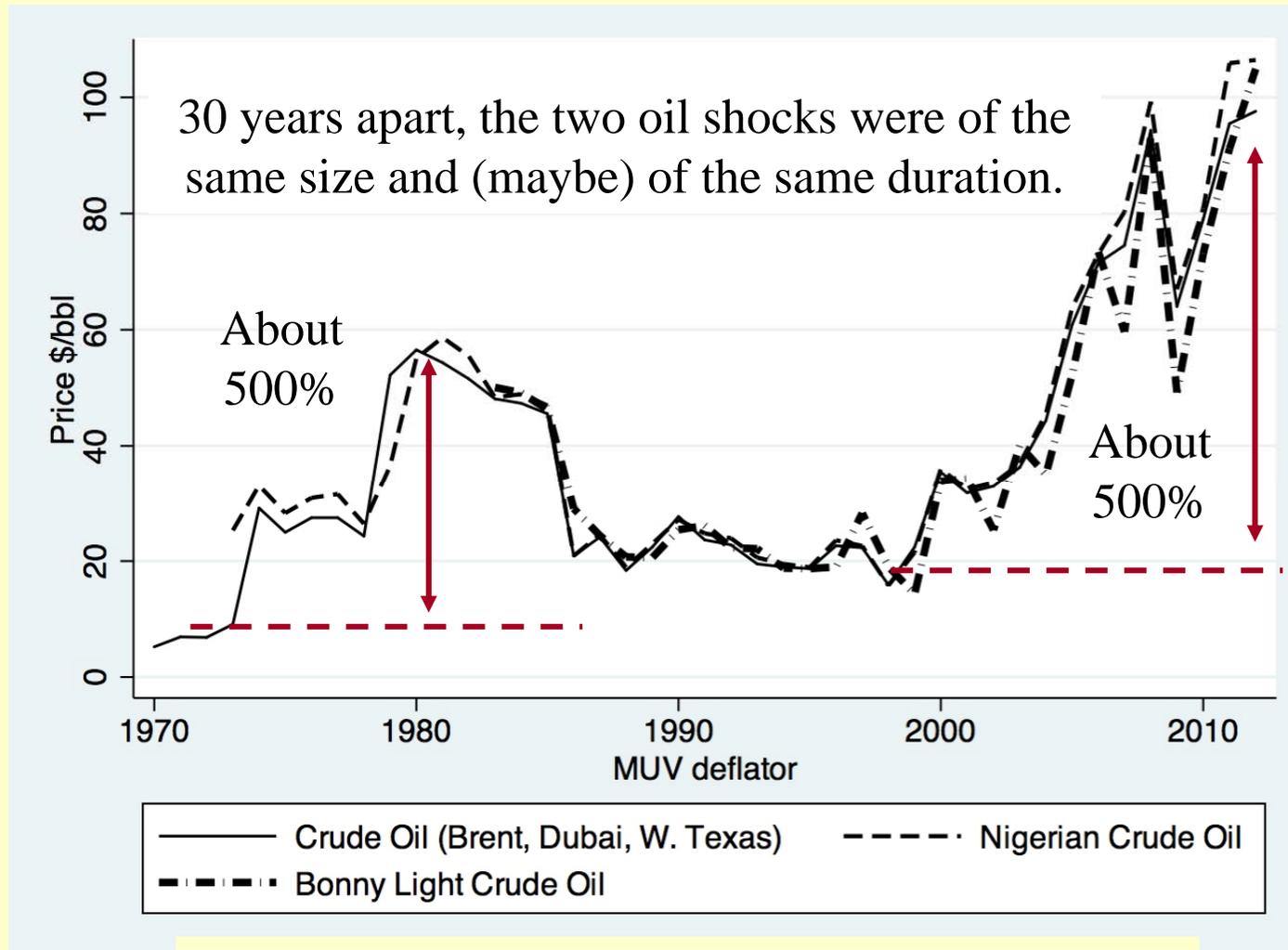
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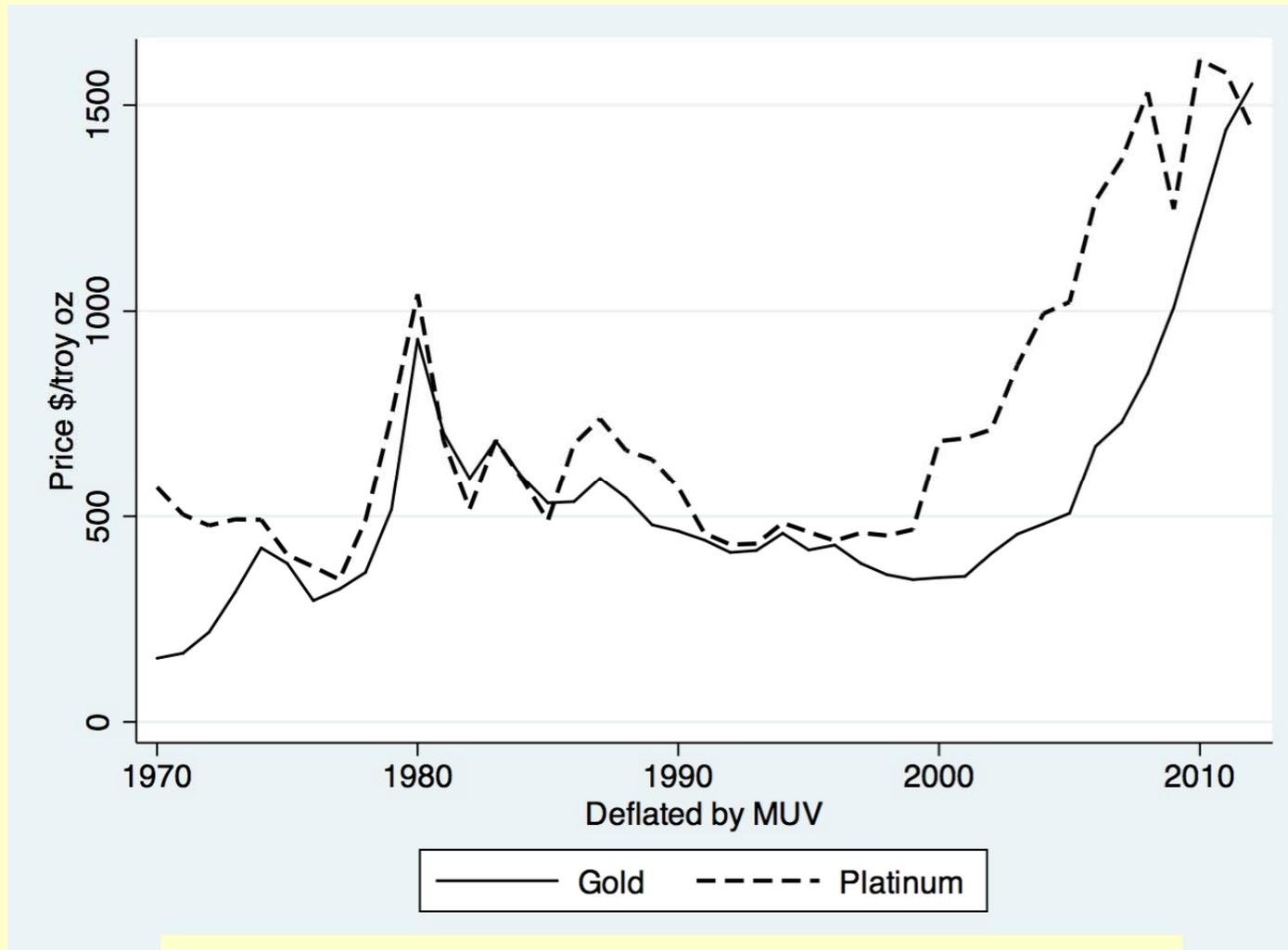
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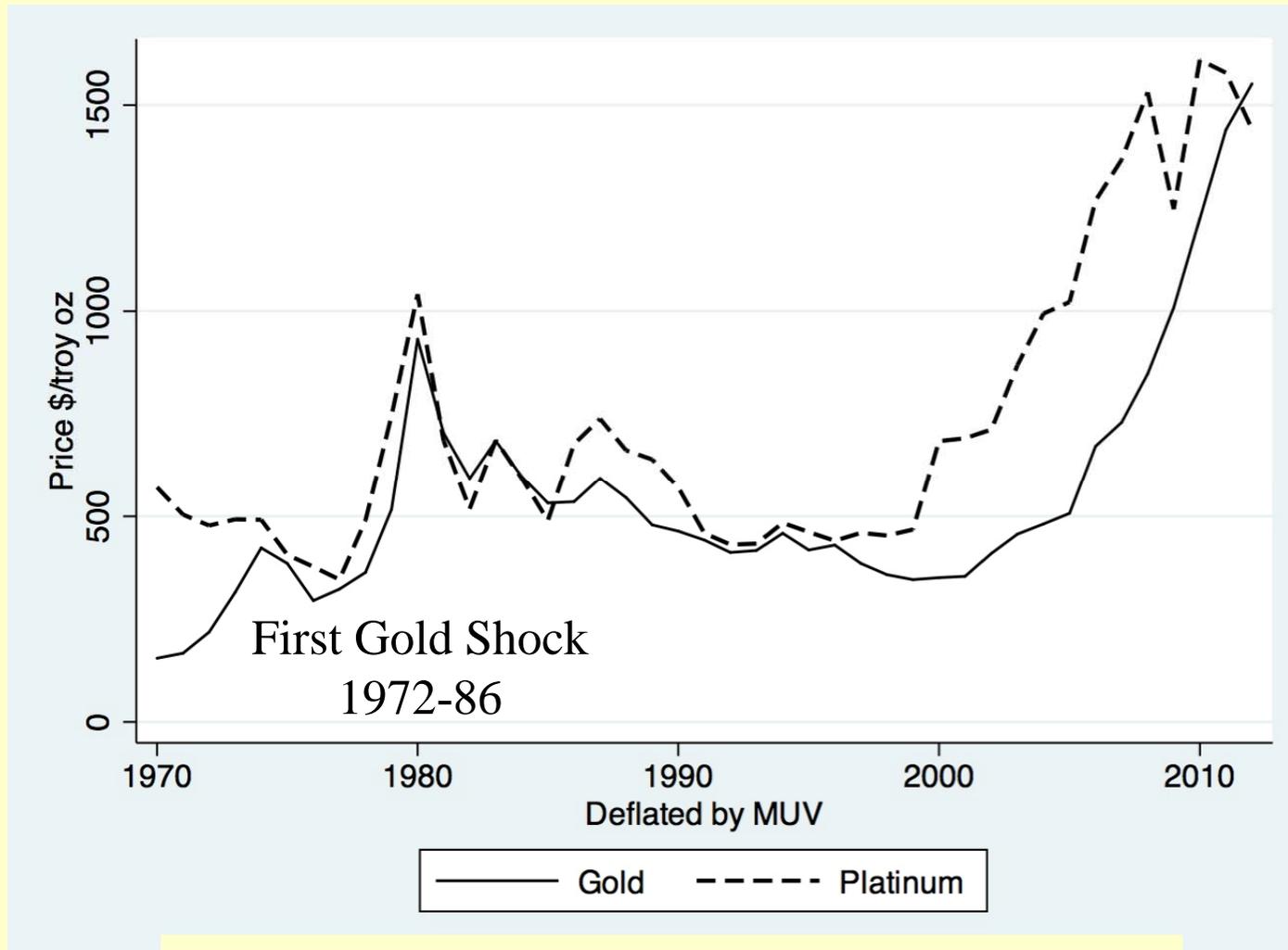
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The Age of Turmetal (Oops!)



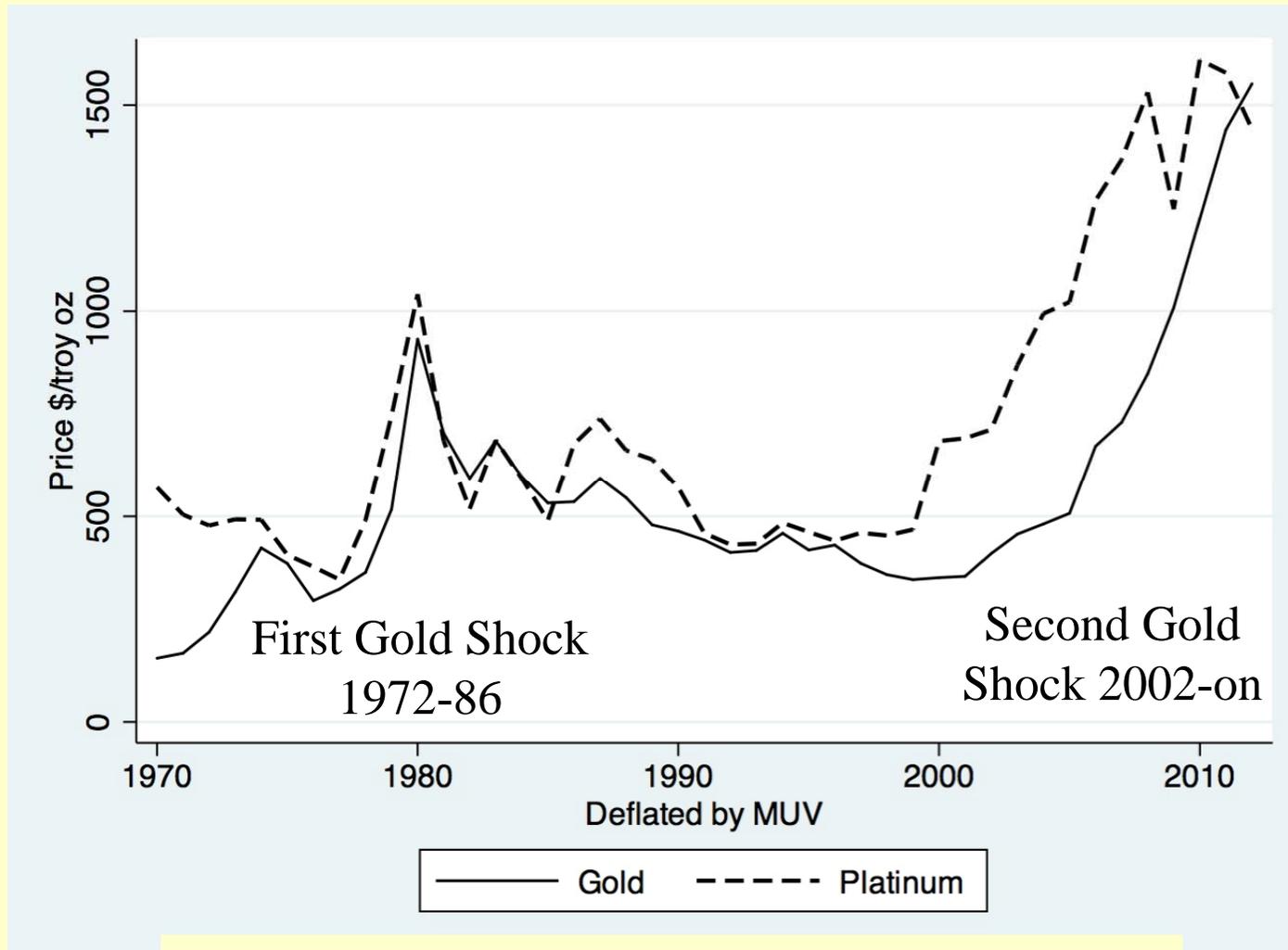
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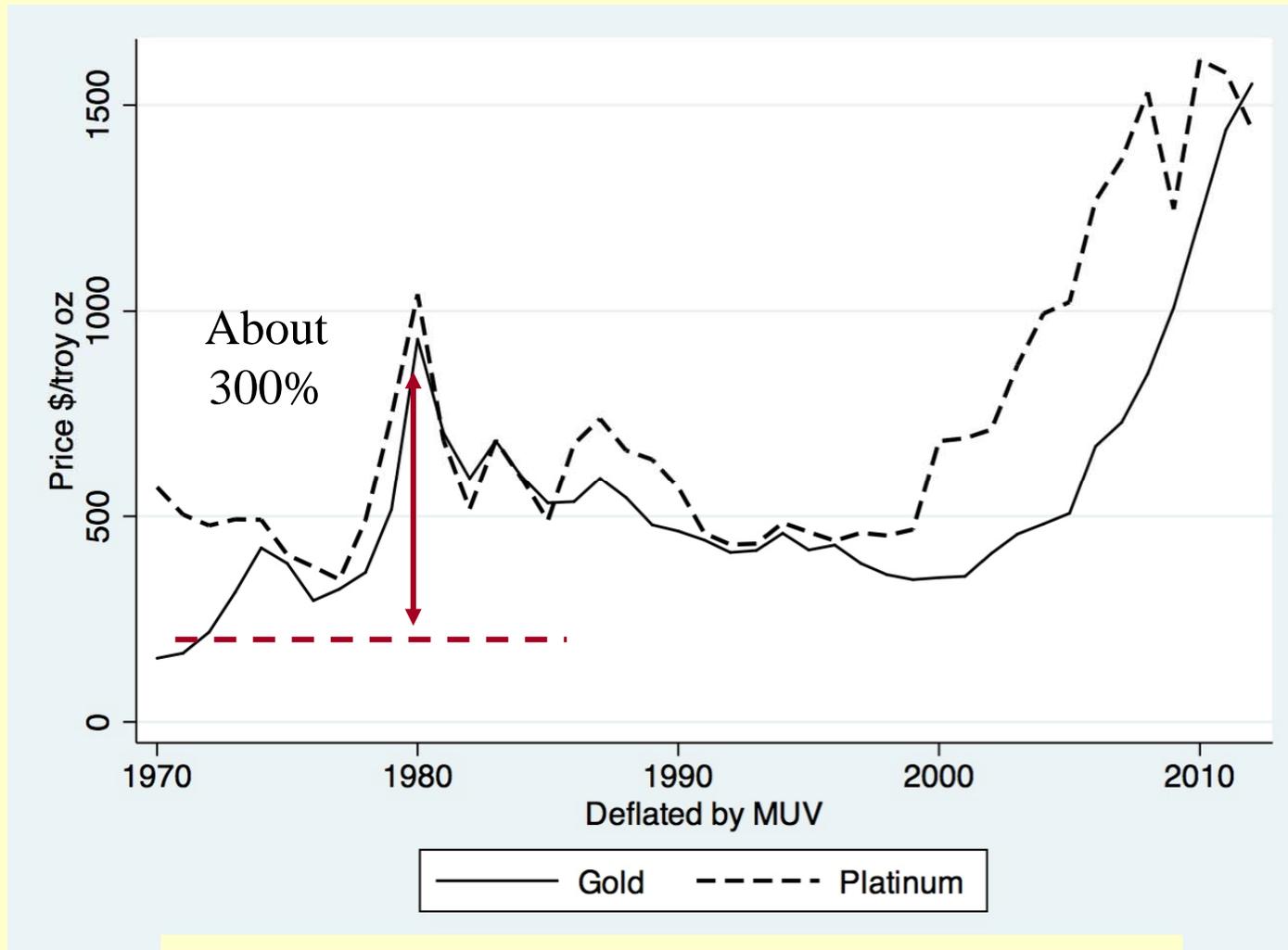
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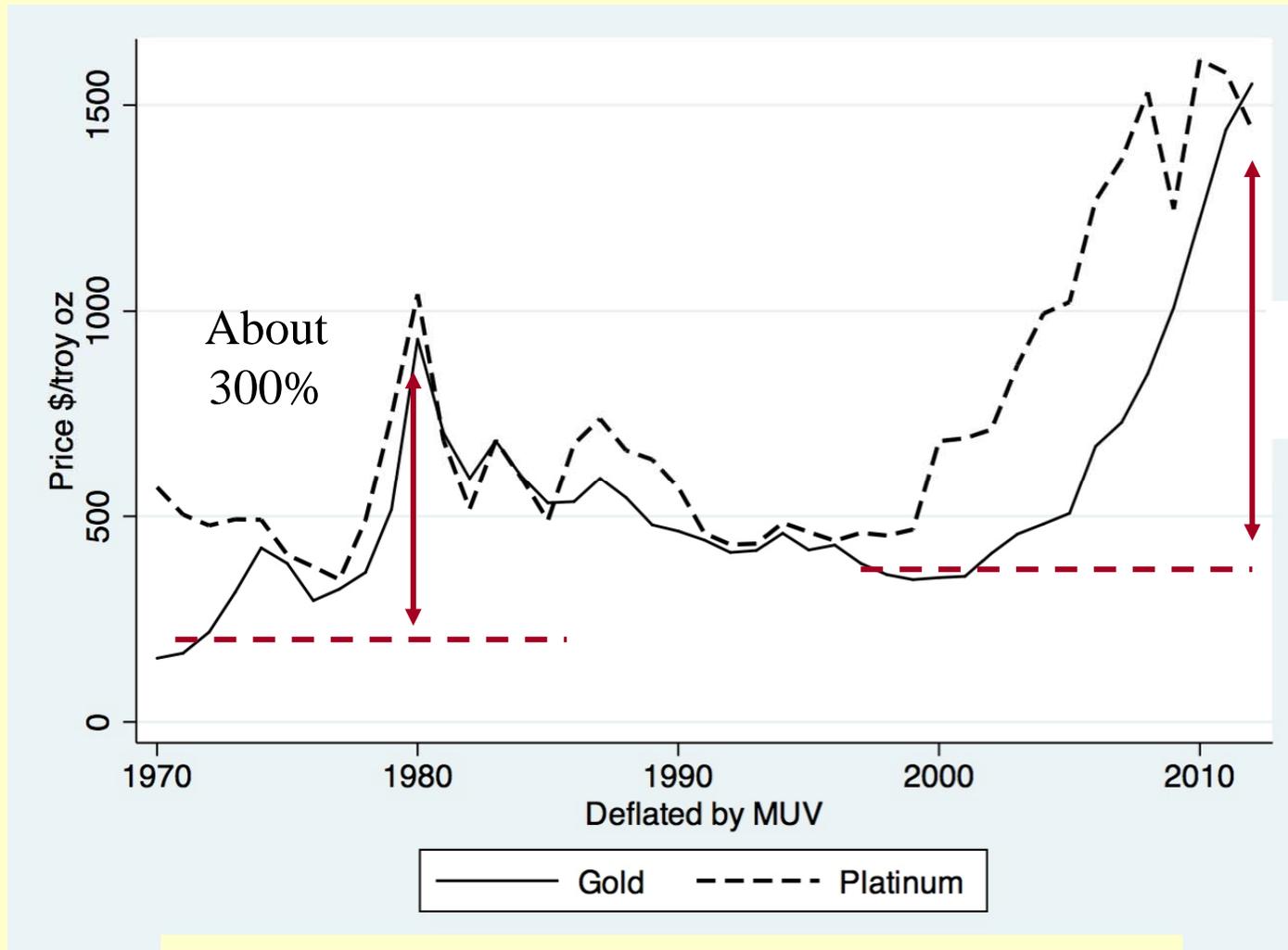
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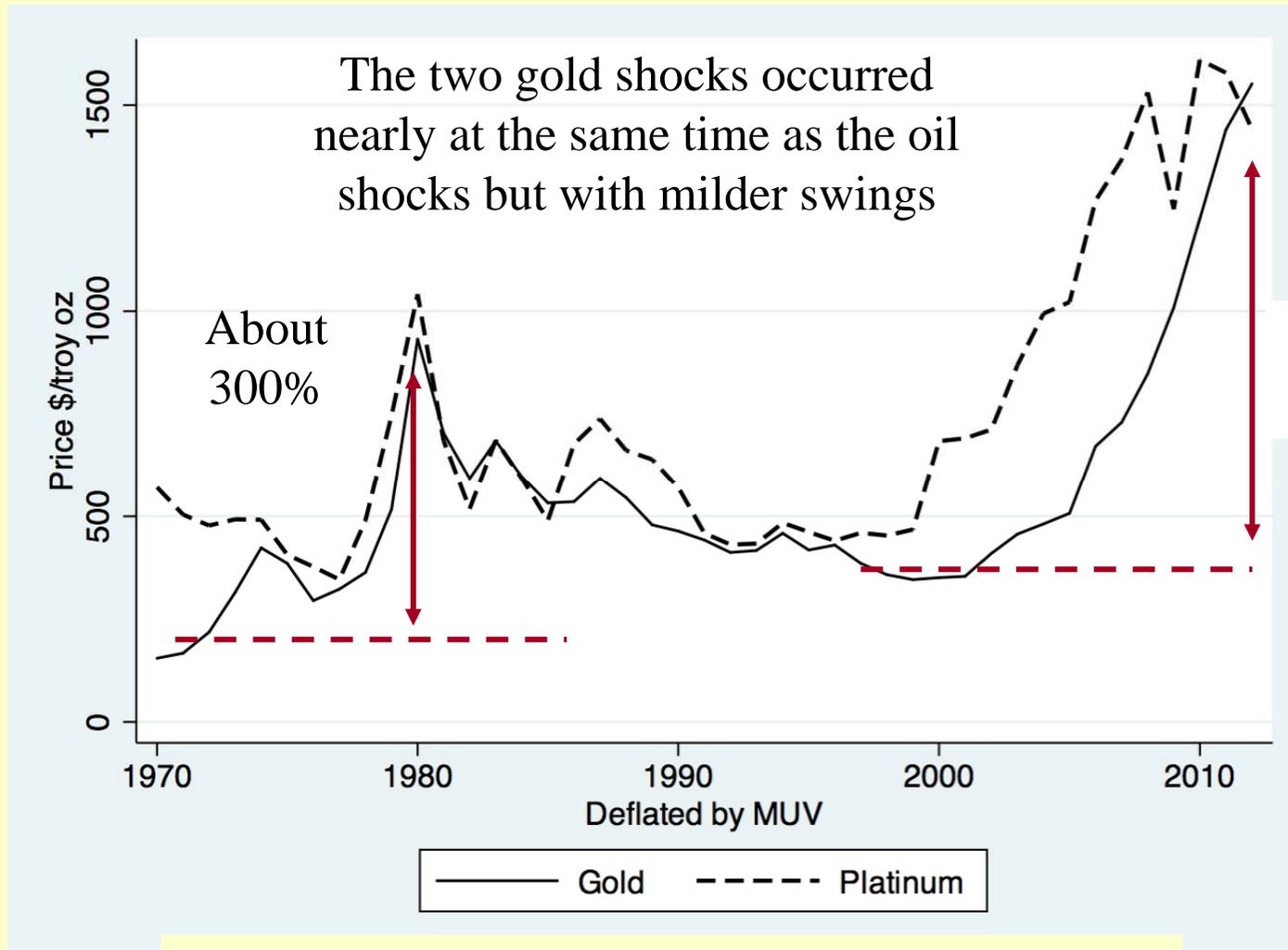
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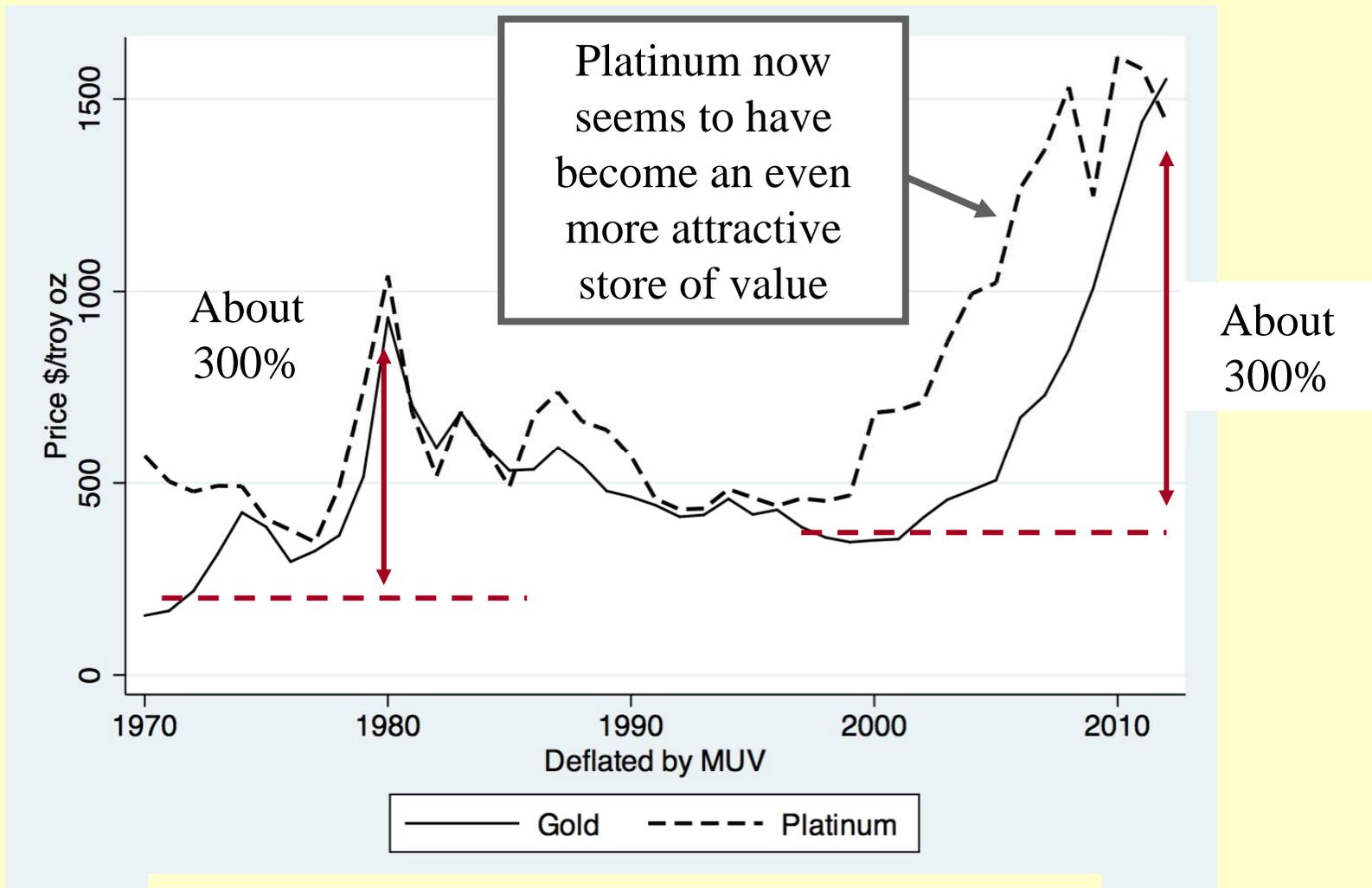
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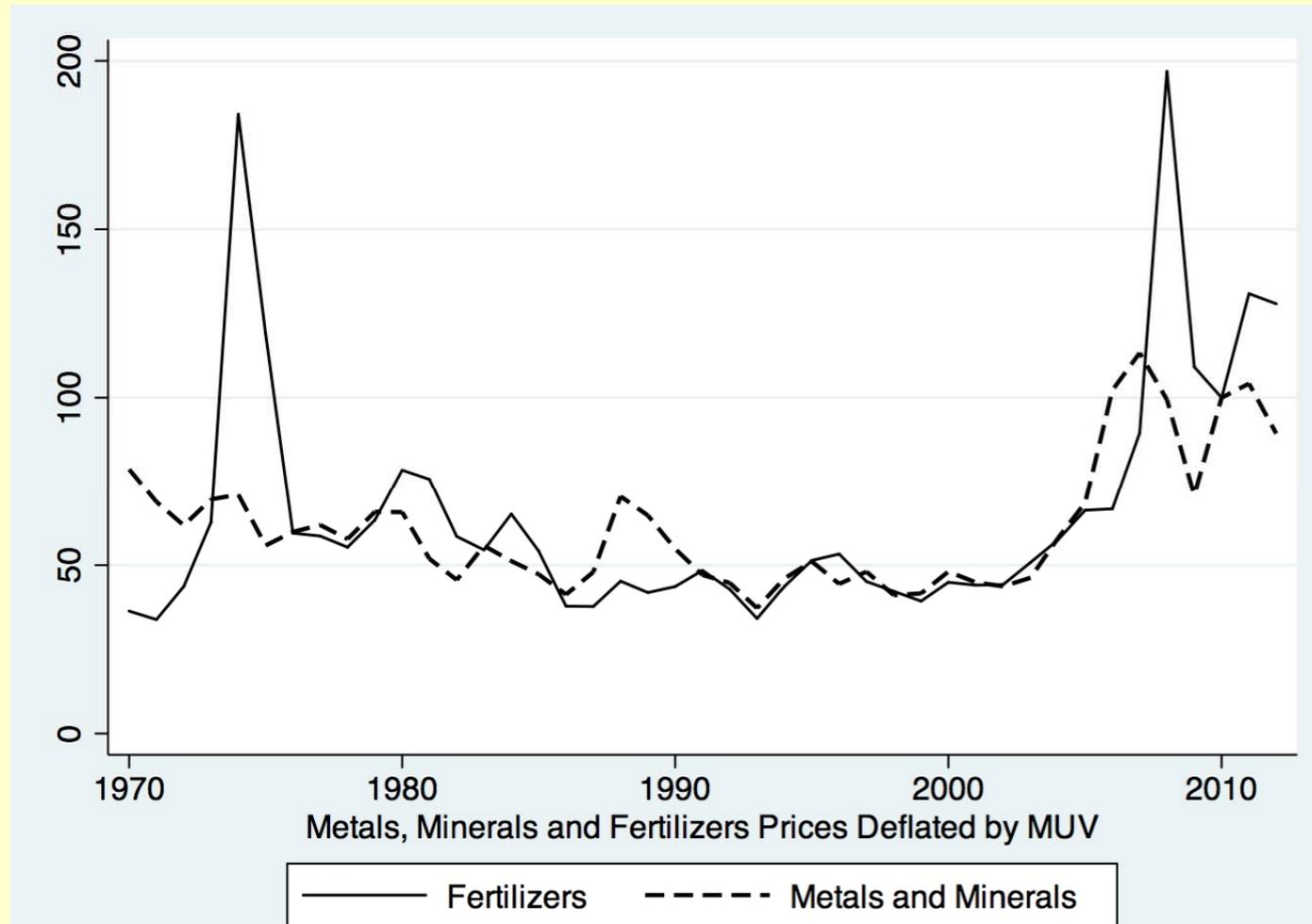
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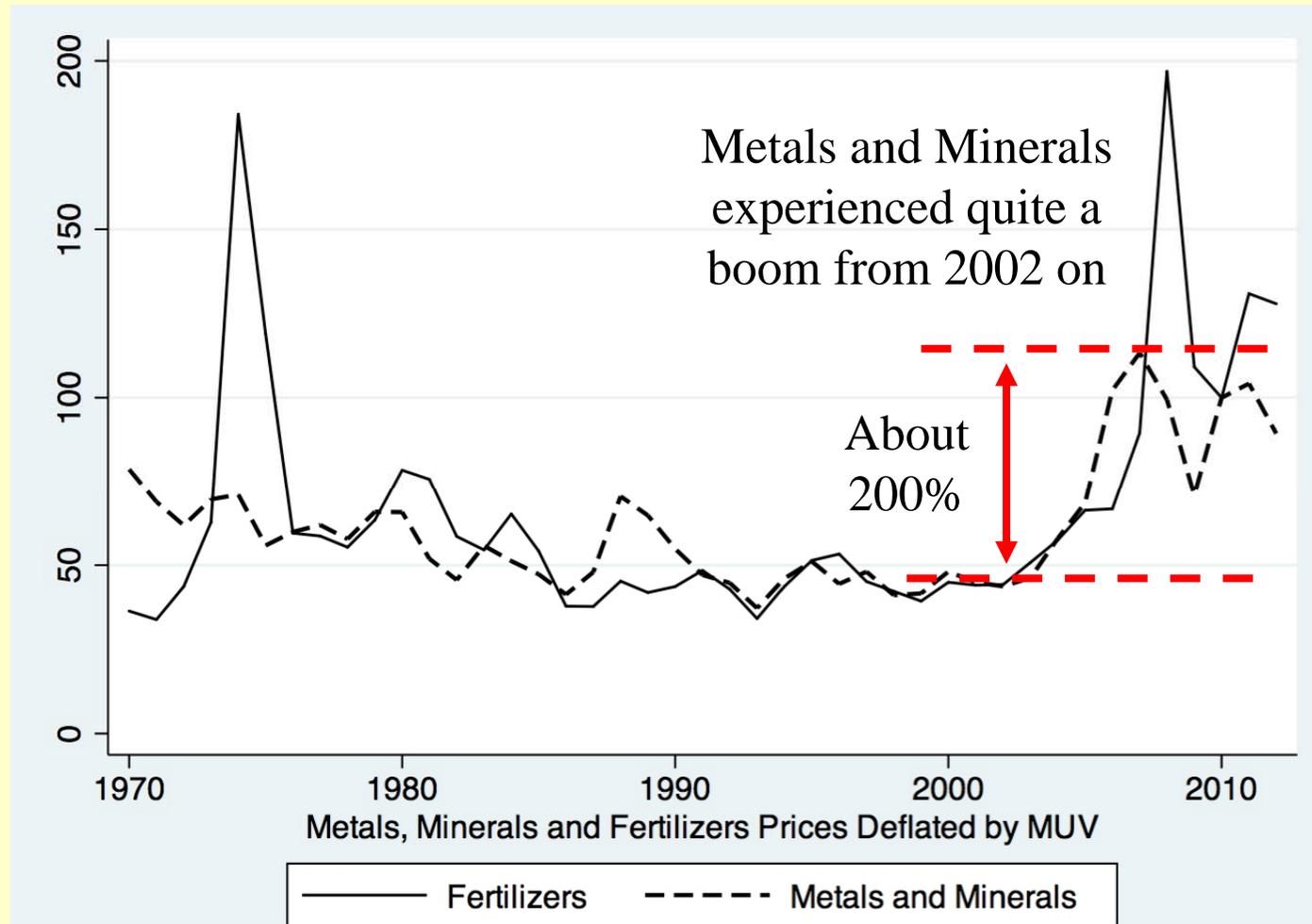
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The Age of Turmineral (Oooops!)



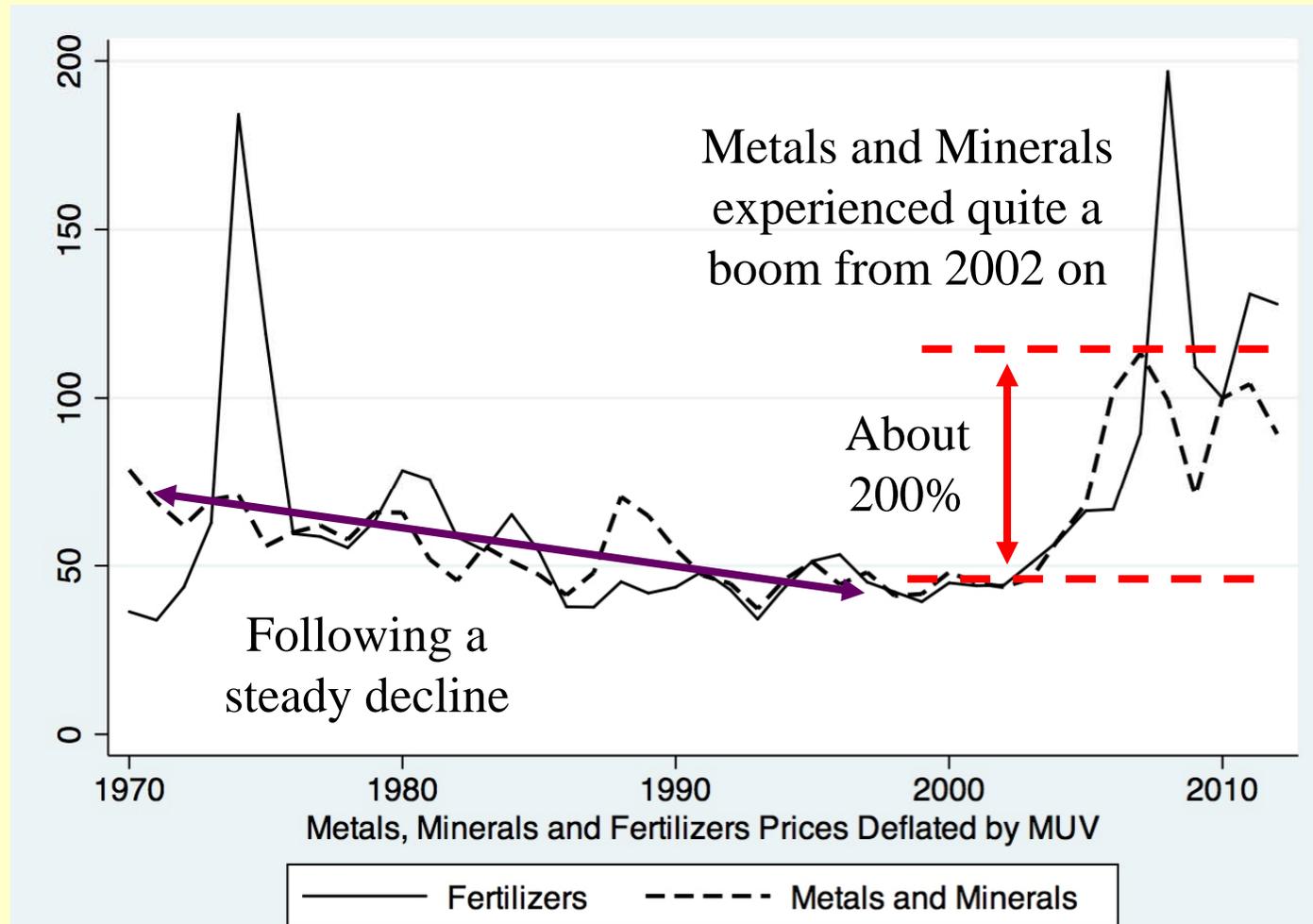
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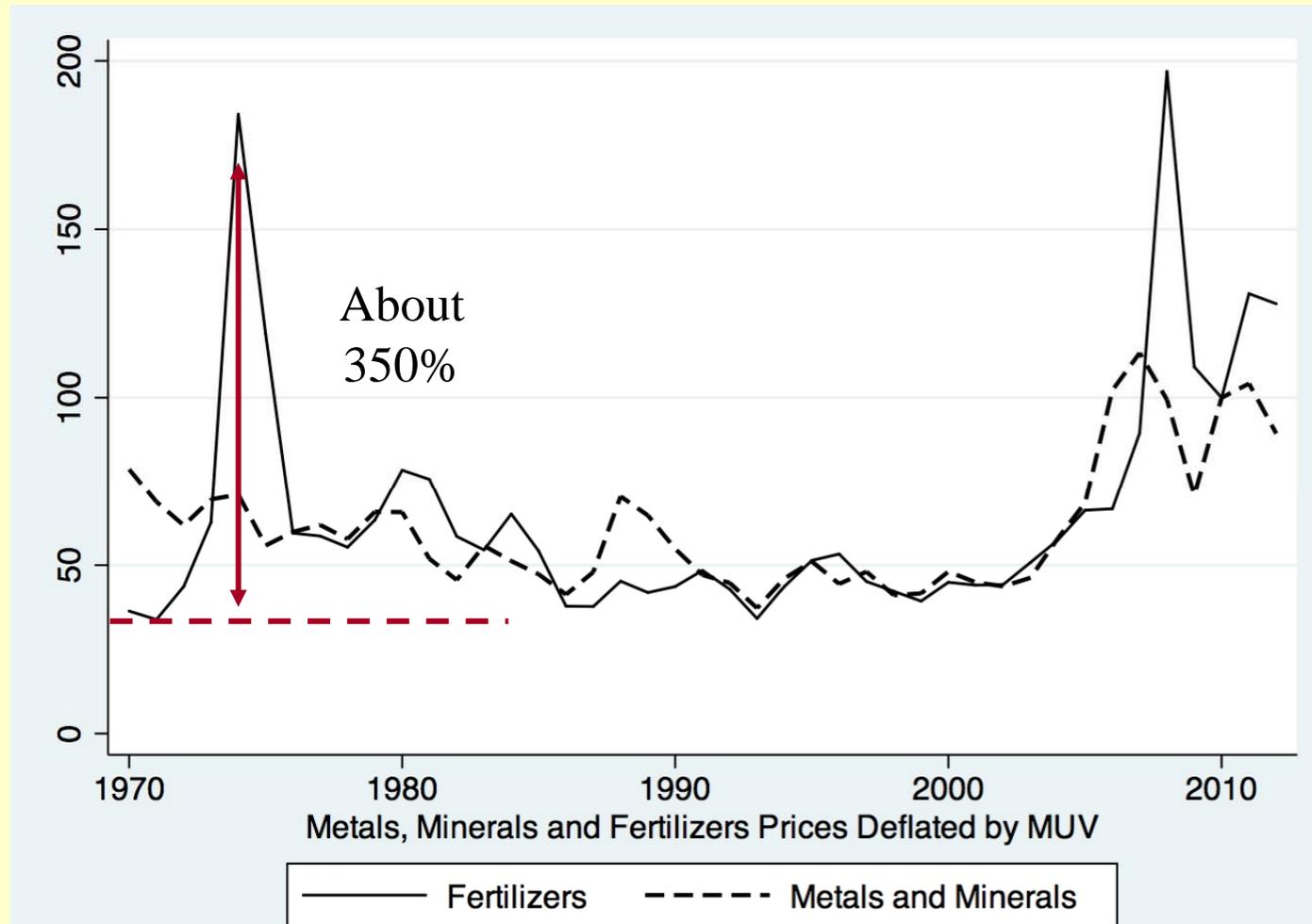
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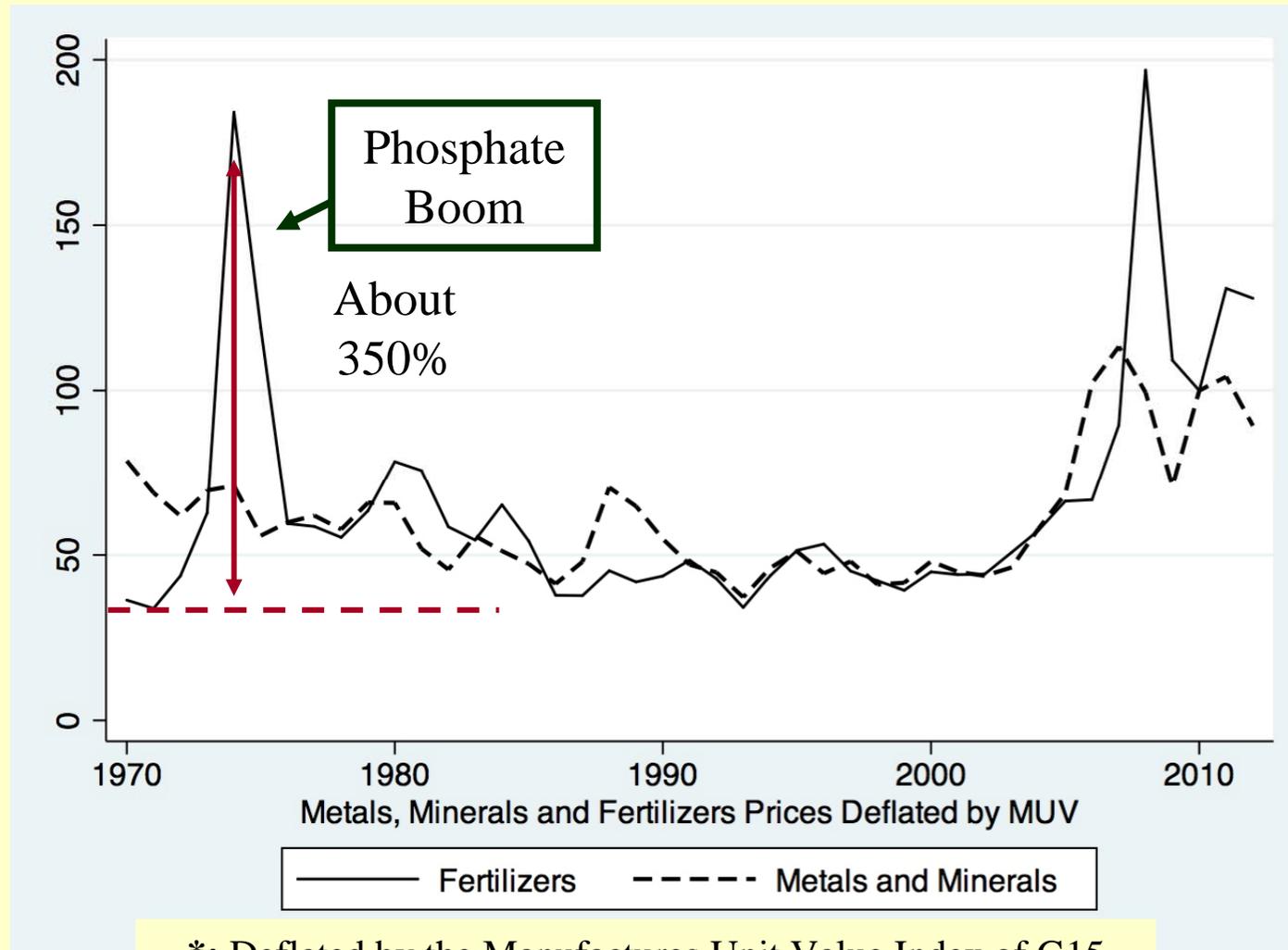
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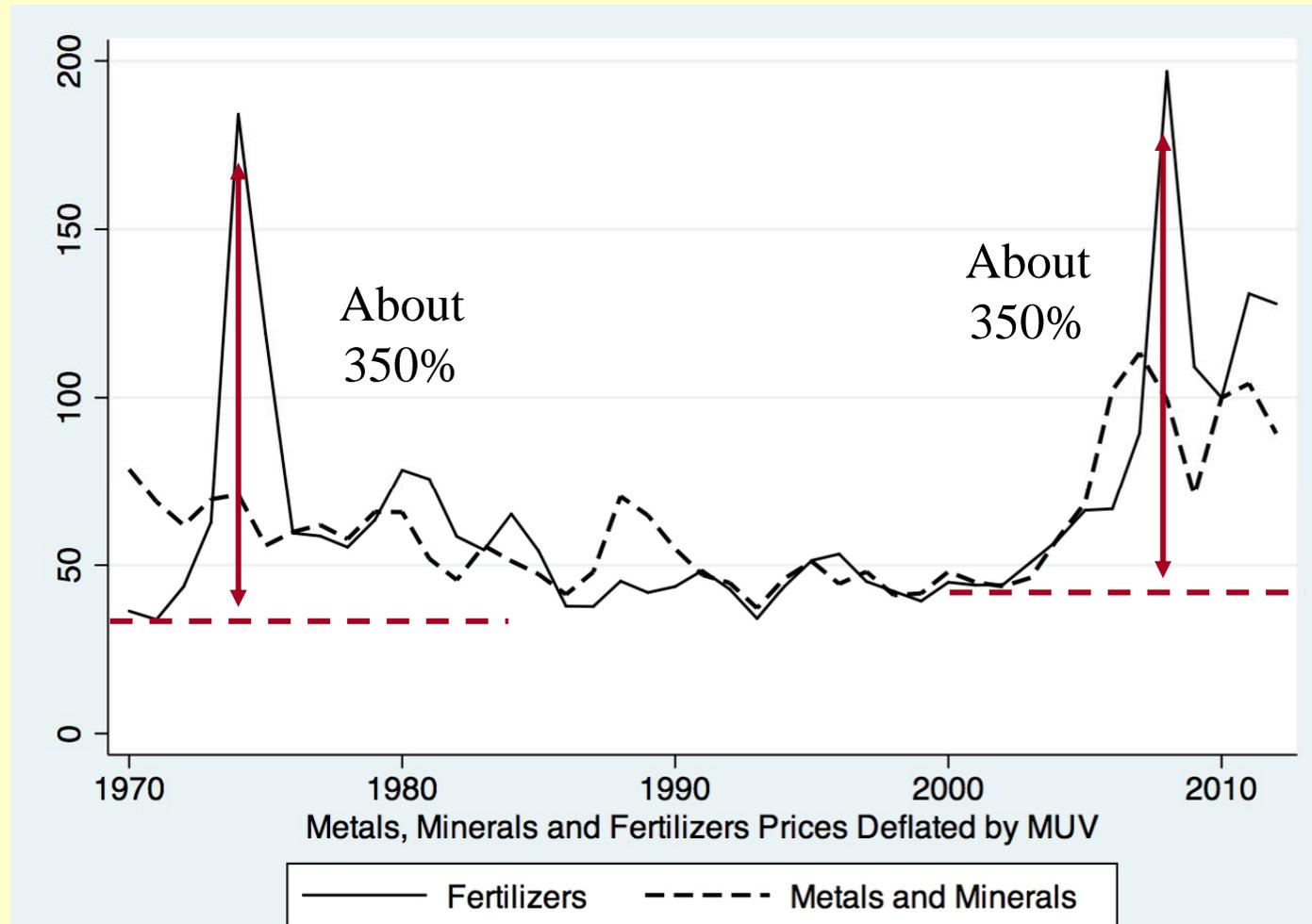
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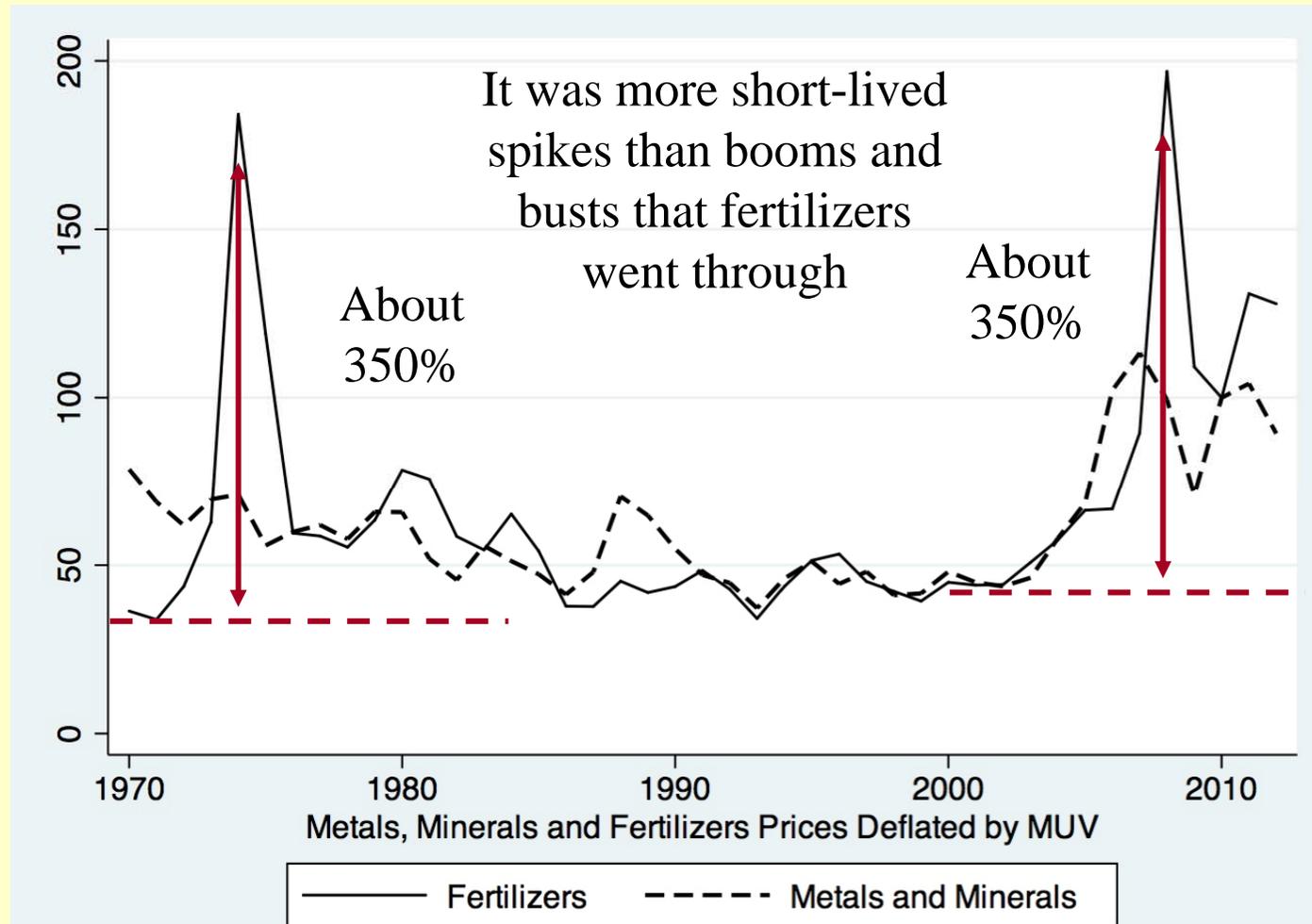
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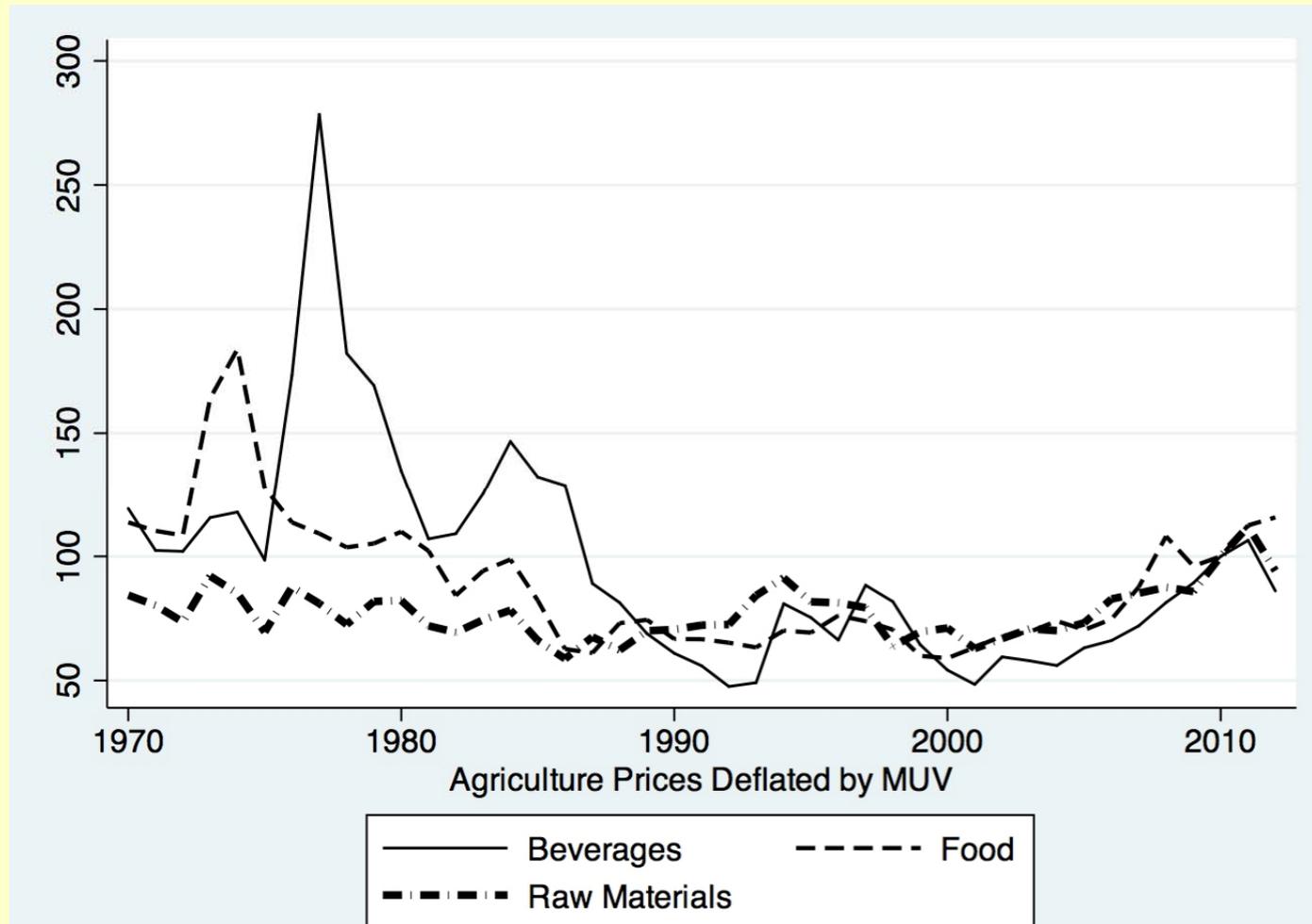
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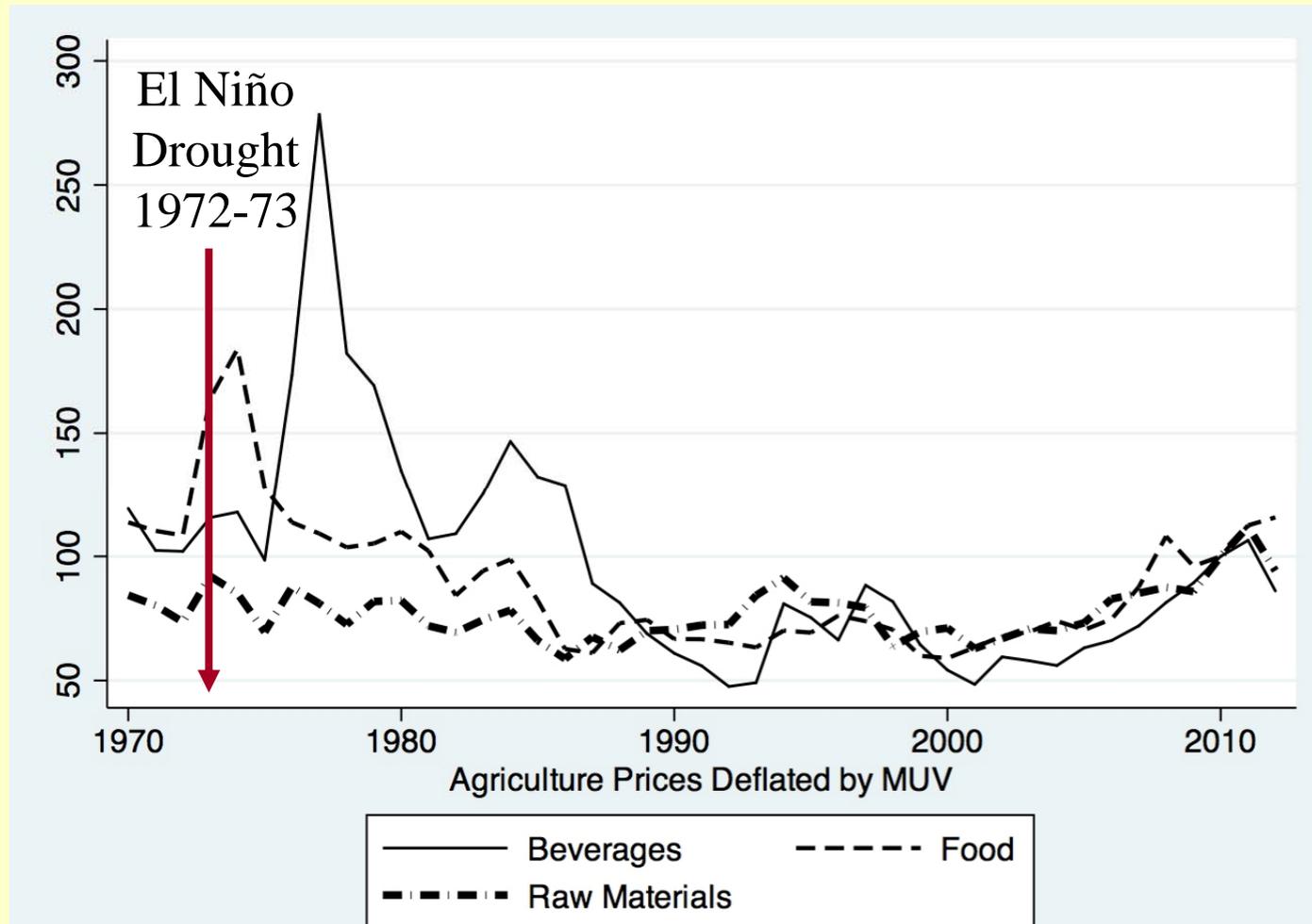
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Smoother Tropical Beverages



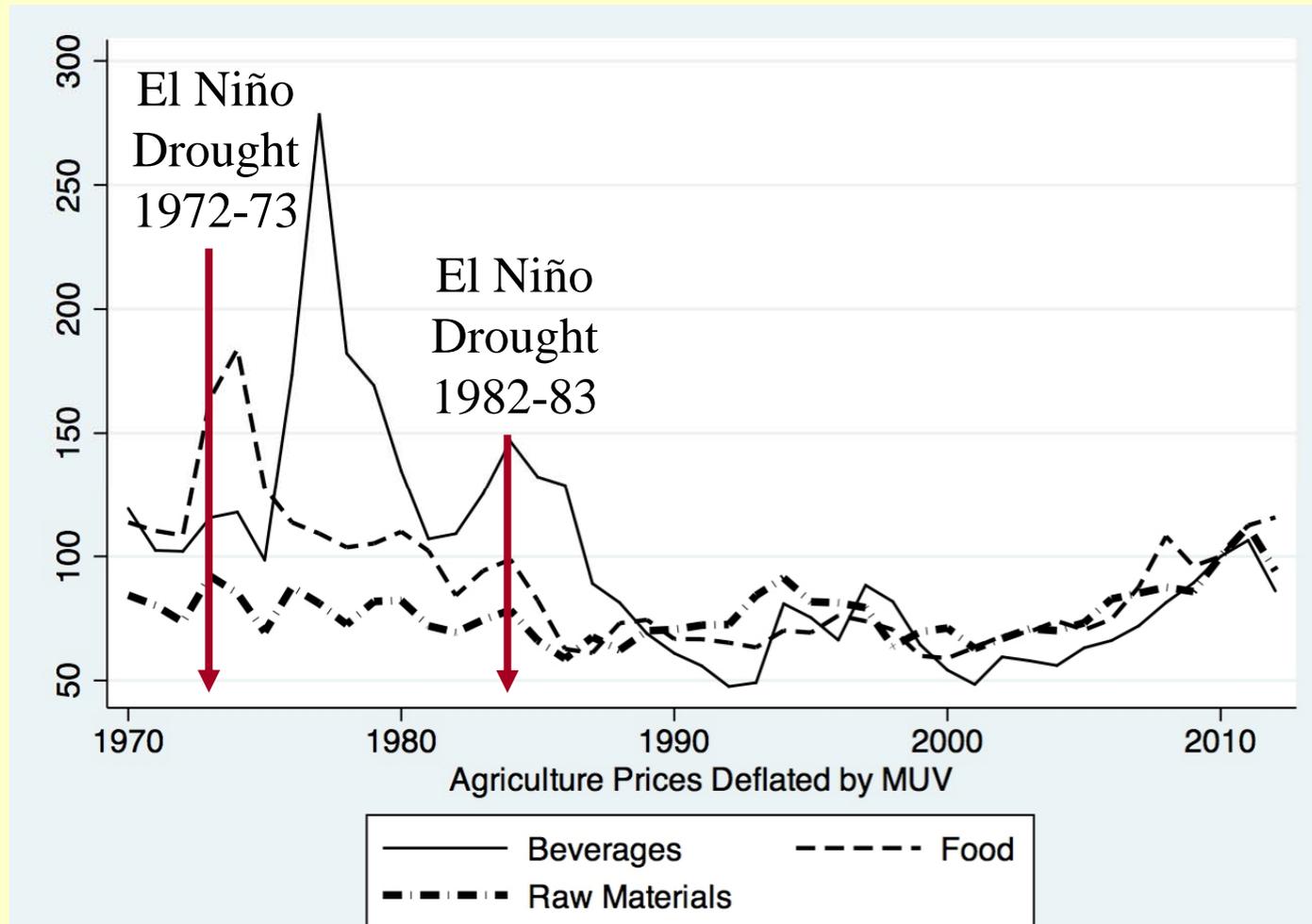
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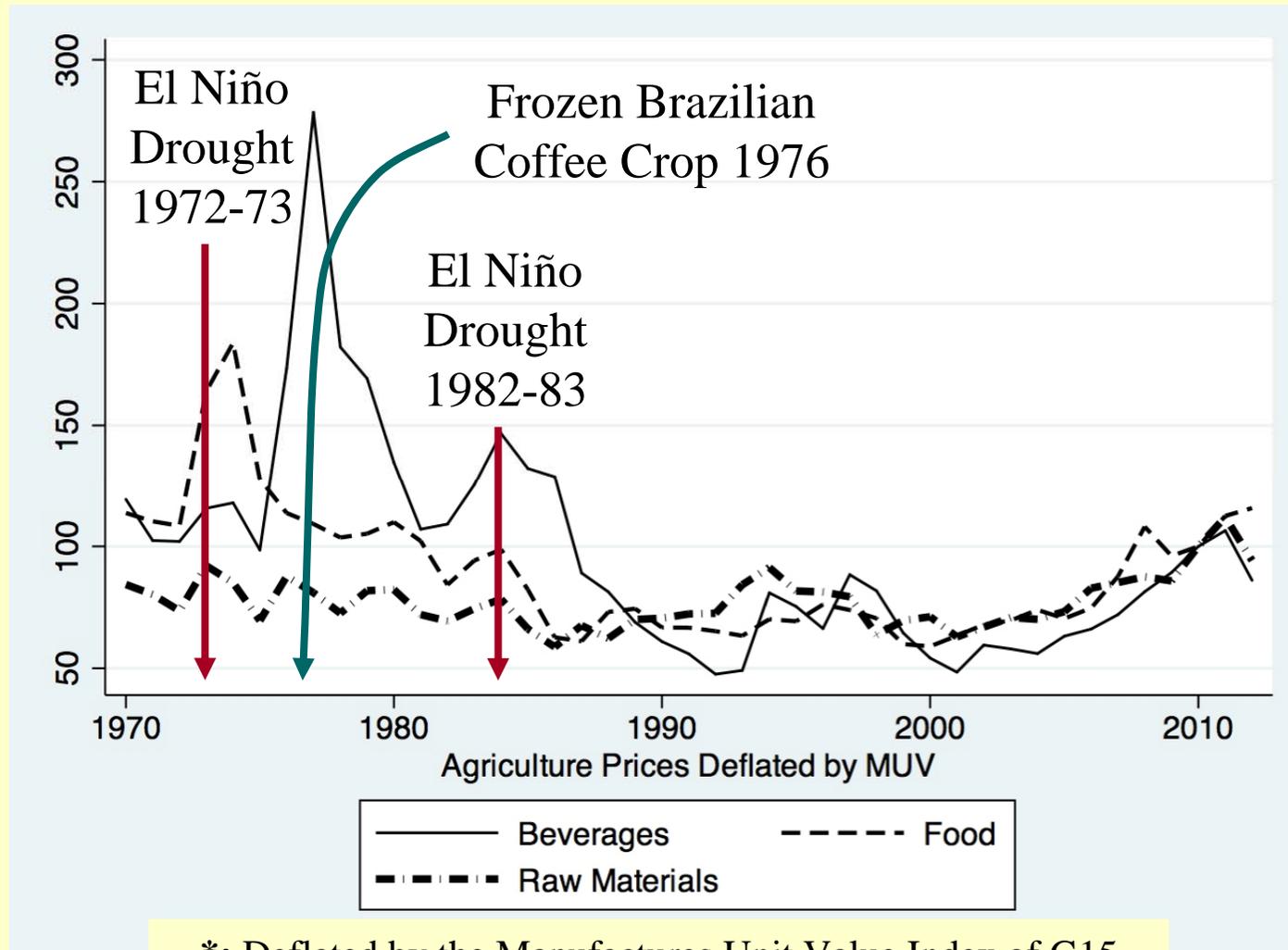
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El Niño, la Niña...

- Brian Fagan (2009): *Floods, Famines, and Emperors. El Niño and the Fate of Civilizations*, Basic Books: New York, discusses and illustrates the El Niño events of 1972 and 1982-83.
- They affected simultaneously West and Southern Africa, bits in Eastern Africa and the Great Lakes, as well as Brazil, Colombia, and other places in Latin America and South East Asia.
- La Niña is the cold counterpart of El Niño, and explains the 1976 frost of the coffee crop in Brazil.
- These shocks obviously affected agricultural prices, and in particular those of tropical beverages.

El Niño 1972

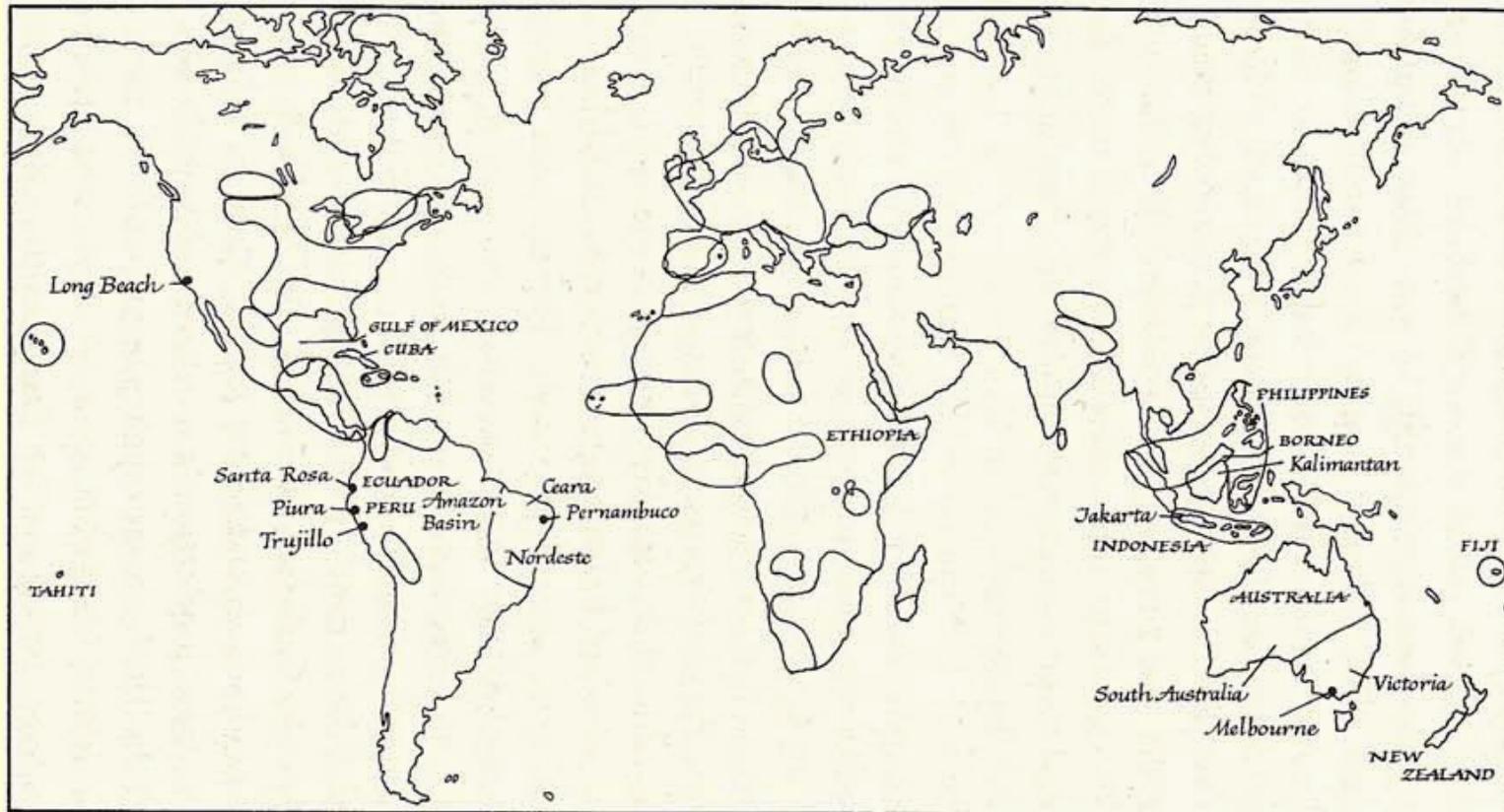


FIGURE 12.1 The climatic anomalies of the 1972 El Niño event, which caused widespread economic and social disruption. Redrawn from G. McKay and T. W. Allsopp, "Global Interpretations of the Climate of 1972," paper presented at the Proceedings of the *Mexican Geophysical Union Symposium on Living with Climate Change*, Mexico City, May 1976, 79–86; reproduced with permission.

Source: Brian Fagan (2009): *Floods, Famines, and Emperors. El Niño and the Fate of Civilizations*, p. 273, Basic Books: New York.

El Niño 1983

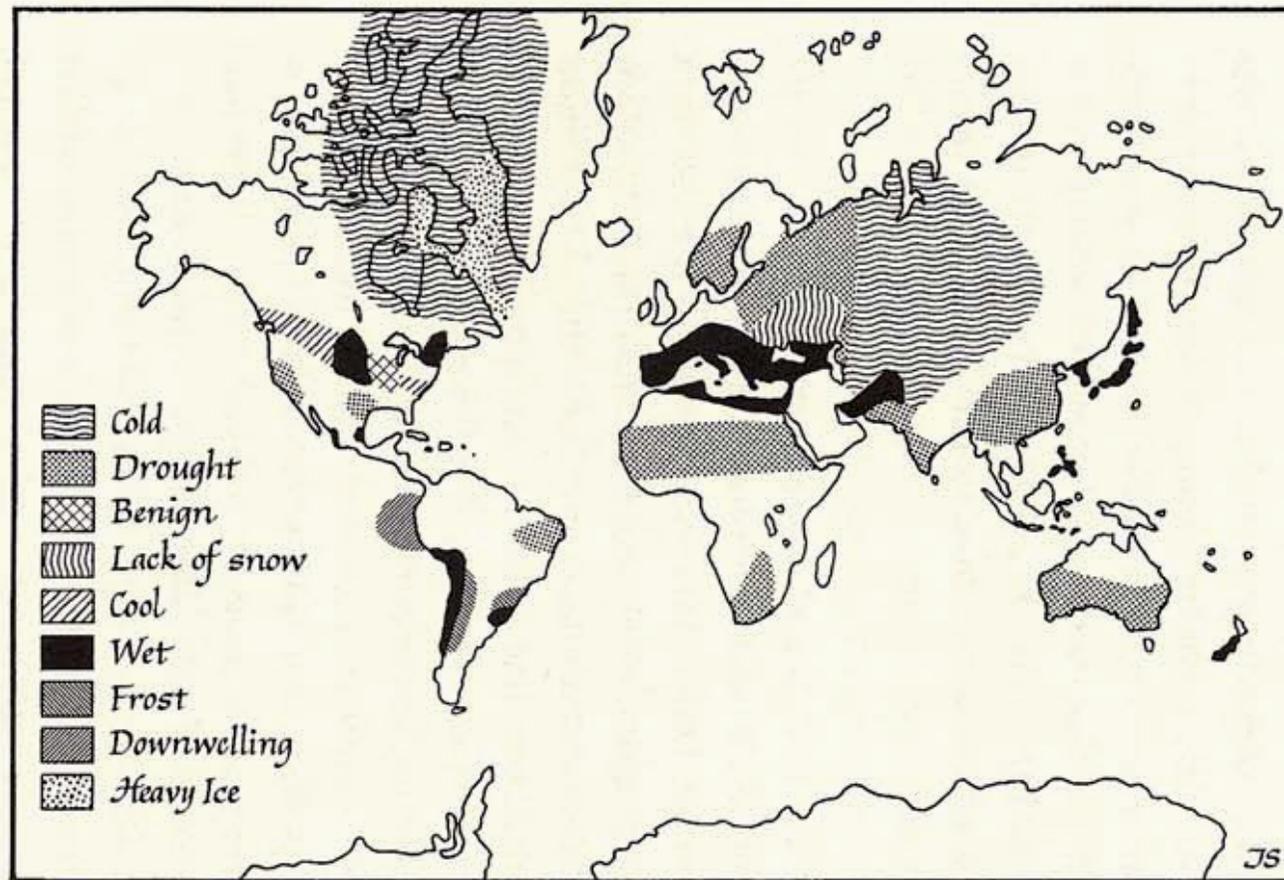
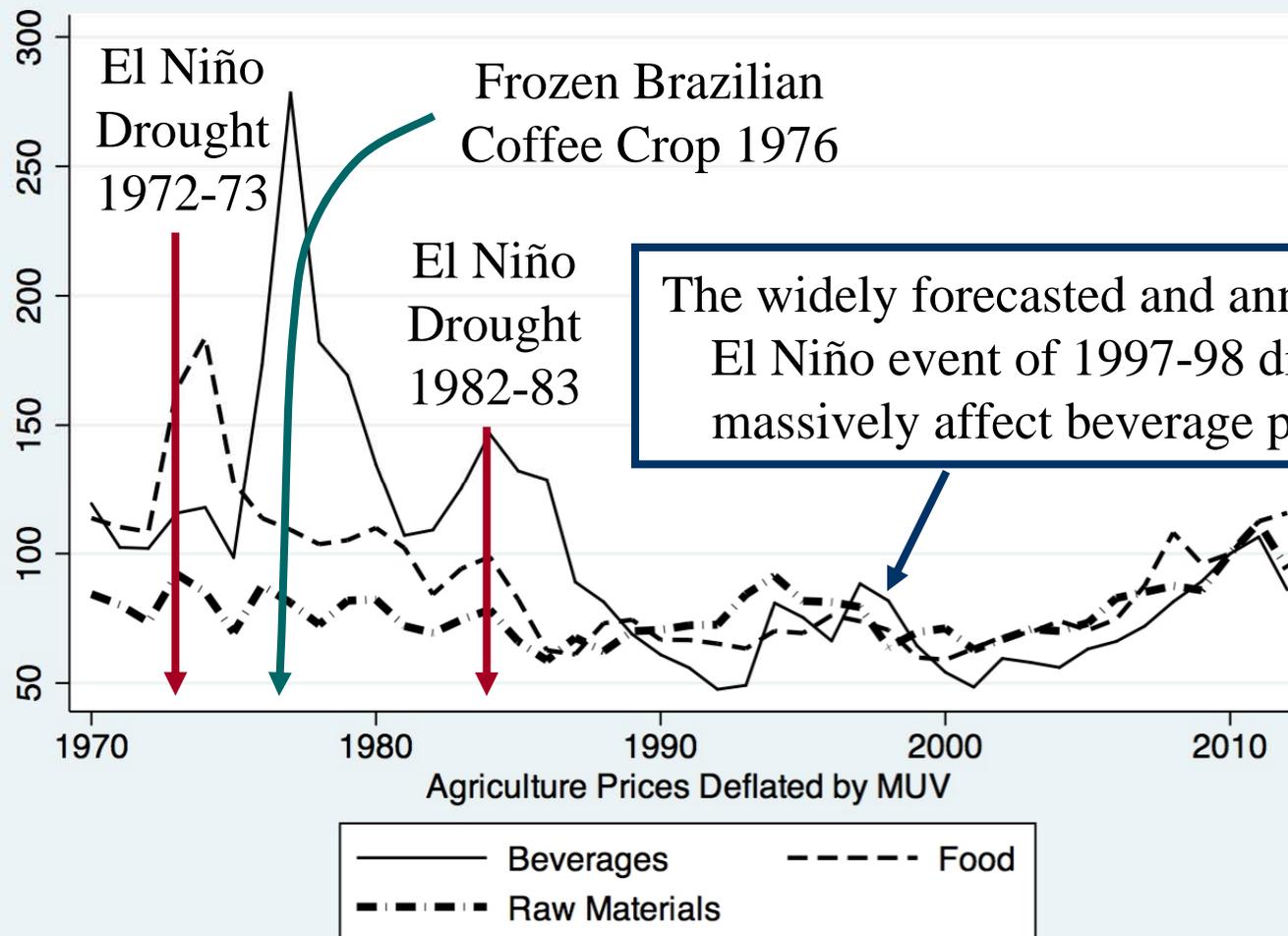


FIGURE 12.2 The impact of droughts worldwide during the 1982–1983 ENSO. Drawn from Michael Glantz, *Currents of Change* (Cambridge: Cambridge University Press, 1996), reprinted with the permission of the Syndics of Cambridge University Press.

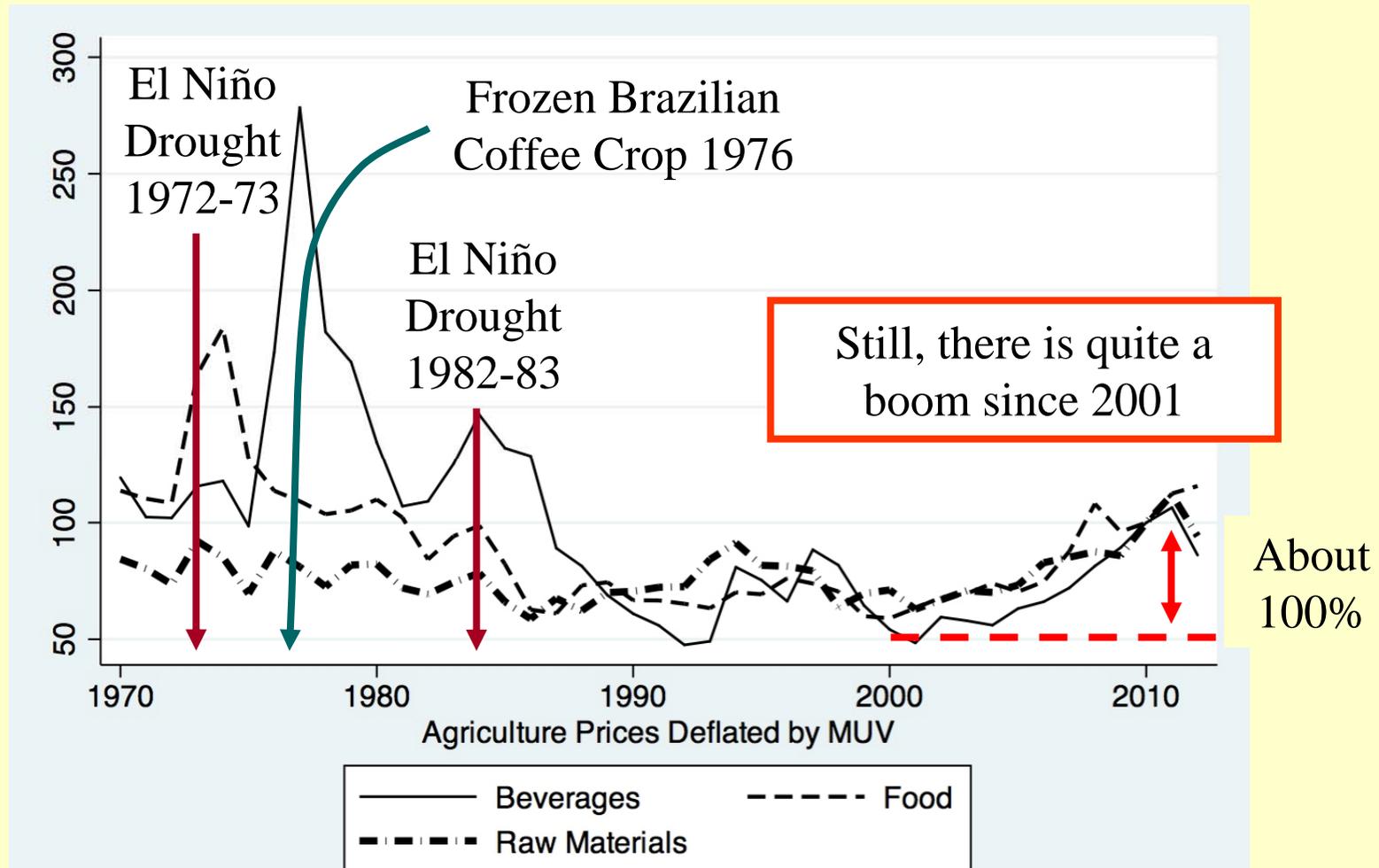
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However...



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A Little Boom with the Others



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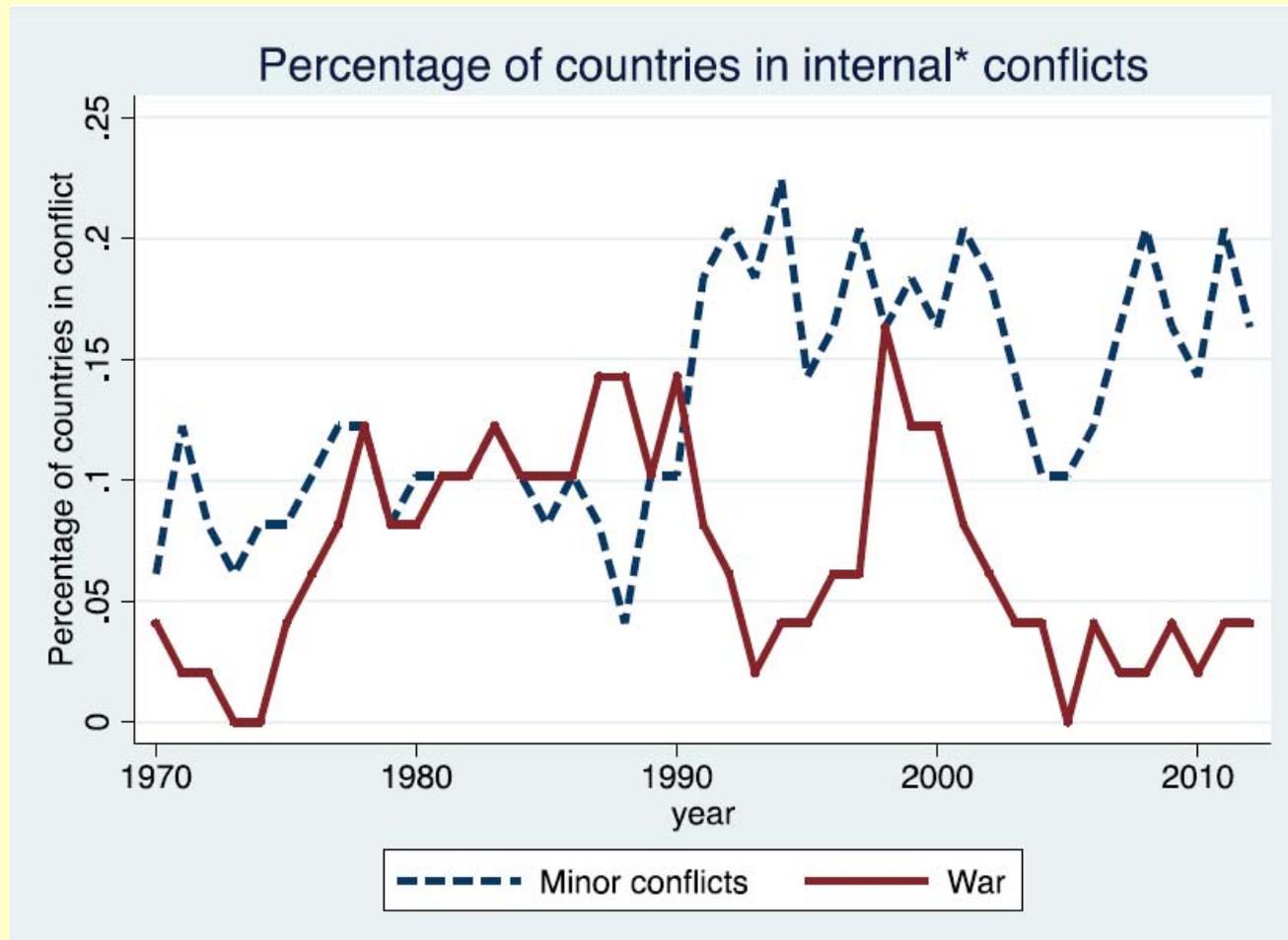
Inference Problem

- The foregoing slides suggest that there are many similarities between the two big commodity booms of the last forty years.
- Then it is tempting to look at what occurred in the wake of the first oil shock to predict what is looming over the post second oil shock period in Africa.
- The aftermath of the first oil shock was fairly dismal in Africa, with civil wars, coups d'état, and economic decline affecting many countries in the continent.
- Paul Collier and Jan Willem Gunning (Eds.) (1999): *Trade Shocks in Developing Countries* (OUP), report on a huge research program analyzing the links between the booms and the subsequent developments.

Is This Time Different?

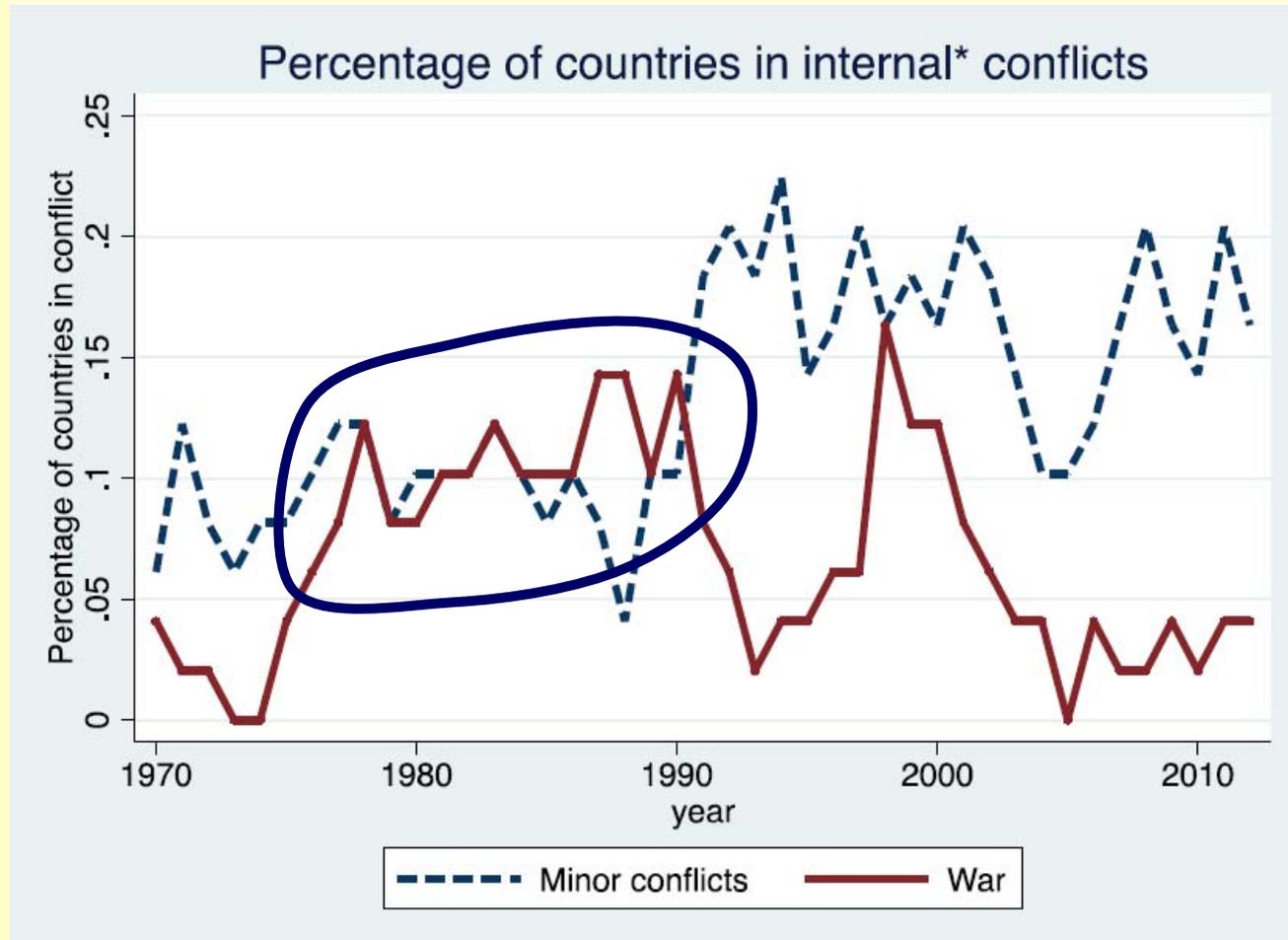
- Let us now bring out three differences that can raise some hopes of a brighter future this time.
- There were no massive El Niño events disrupting agricultural production worldwide since the turn of the century,
- The incidence of civil wars has been massively reduced in Africa, and
- Foreign aid to Africa has increased massively since 9/11.
- The latter two phenomena are strongly linked.

Post-Boom Hangover



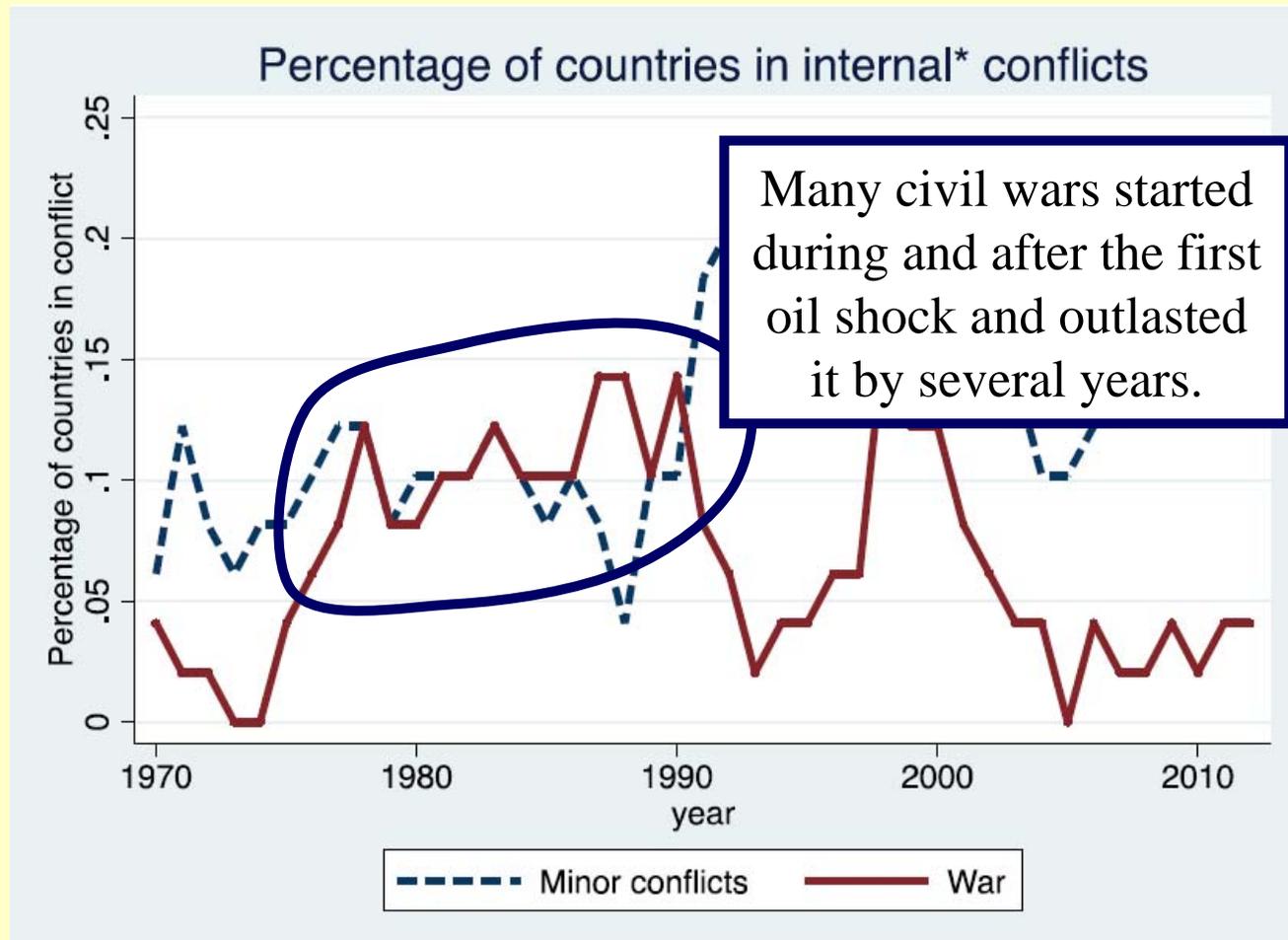
Data Source: PRIO. Include both internal and internationalized conflicts.

Post-Boom Hangover



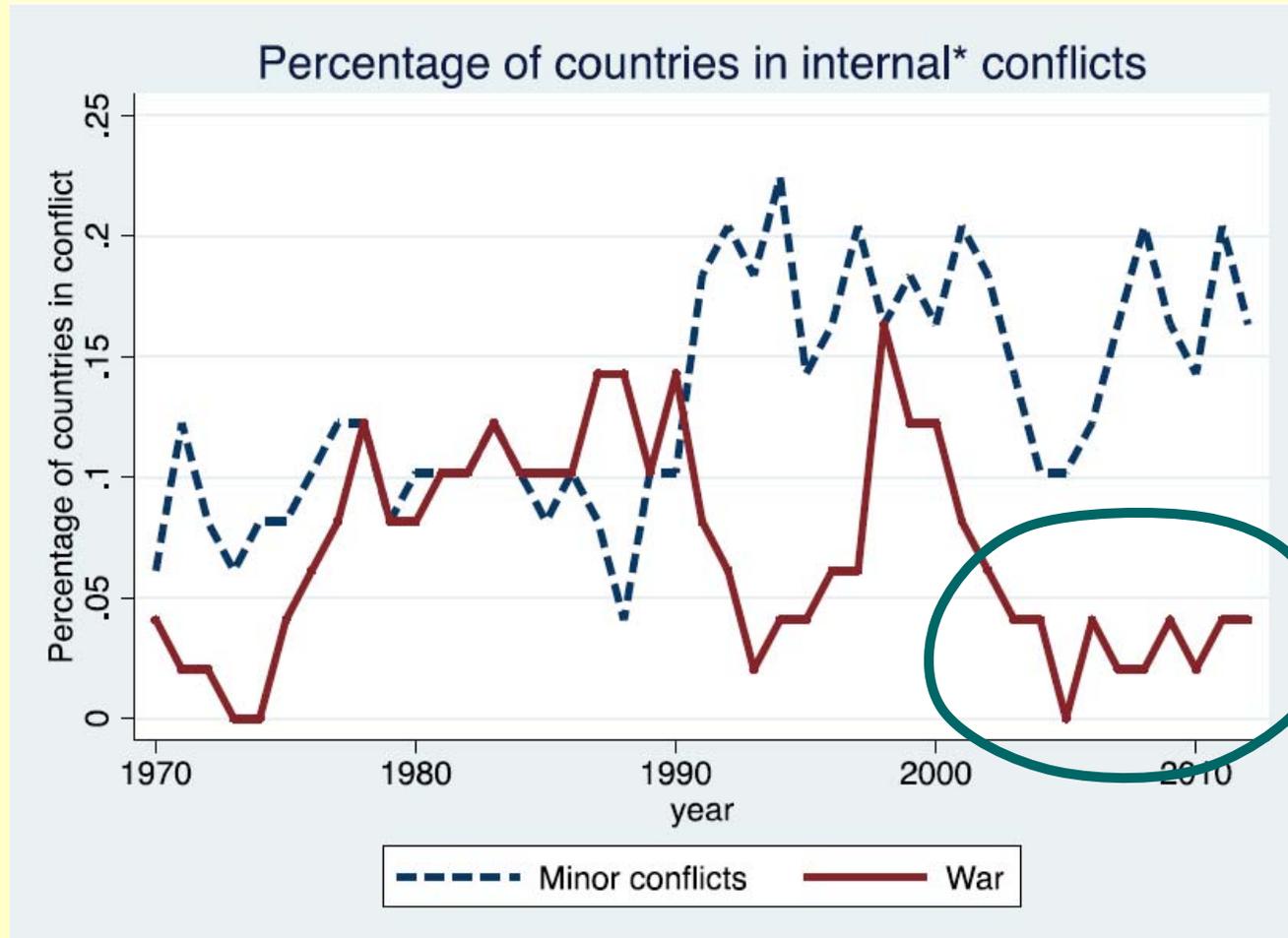
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Post-Boom Hangover



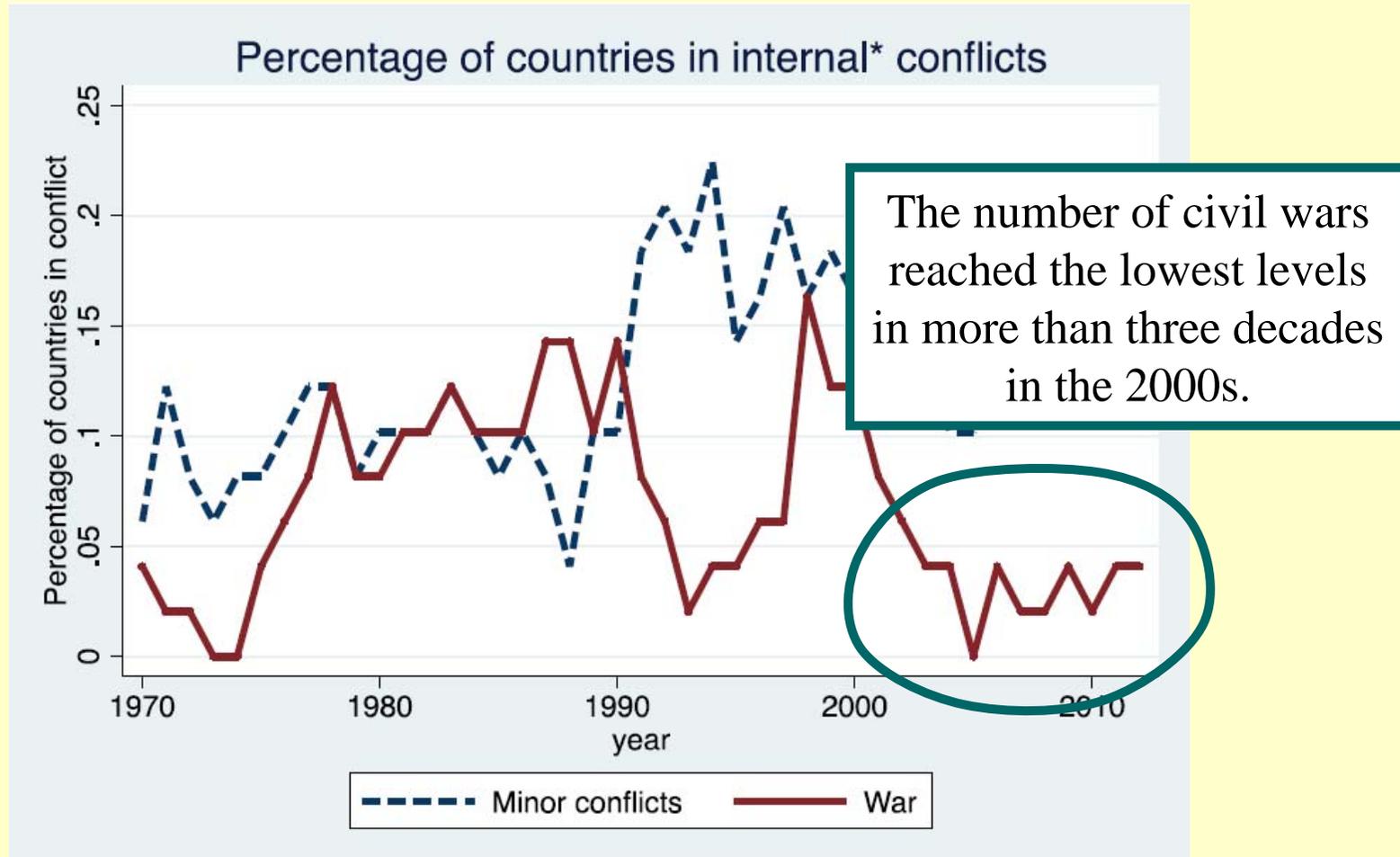
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Contrast in the New Millennium



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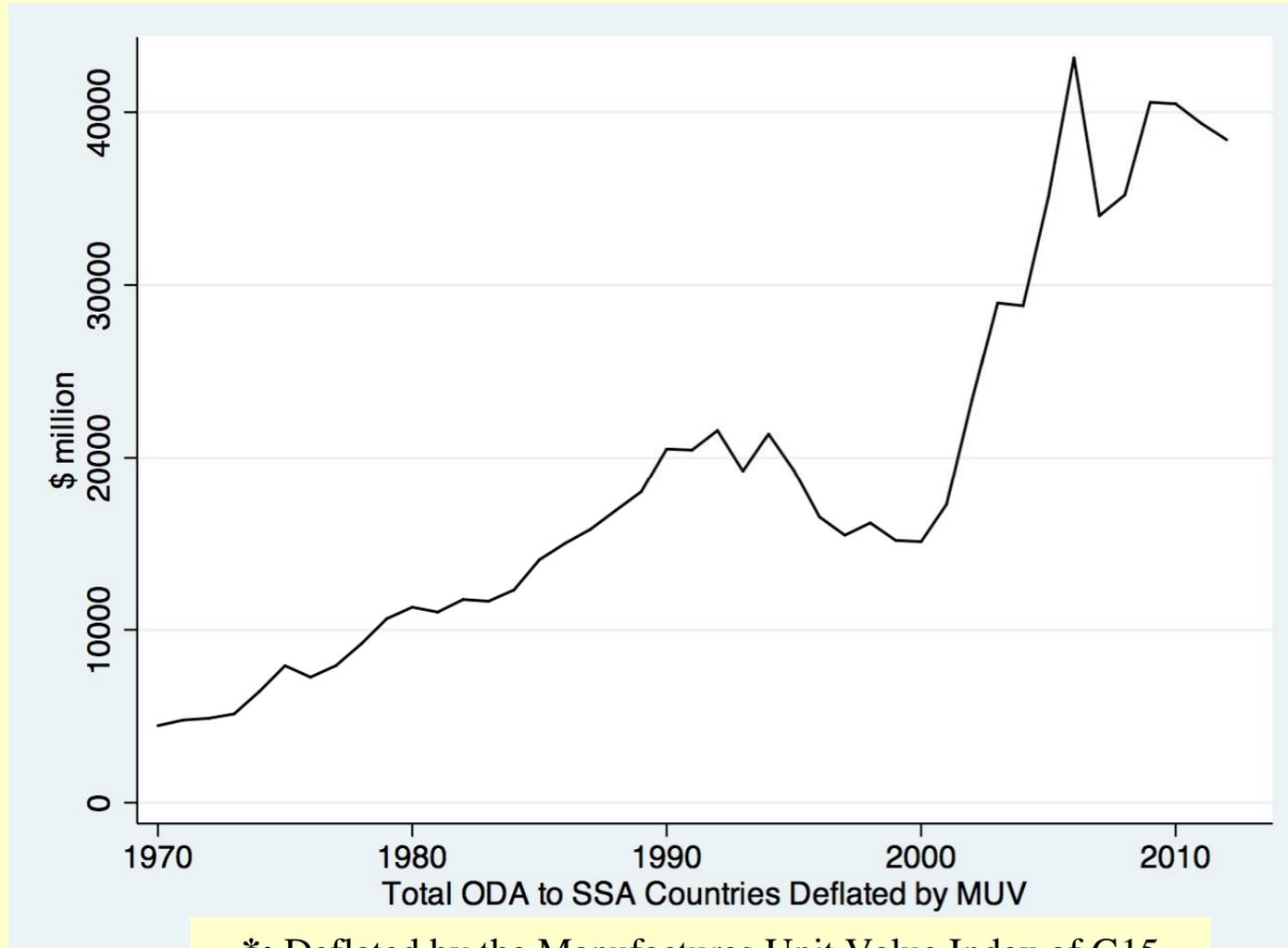


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Similar Shocks, Different Outcomes

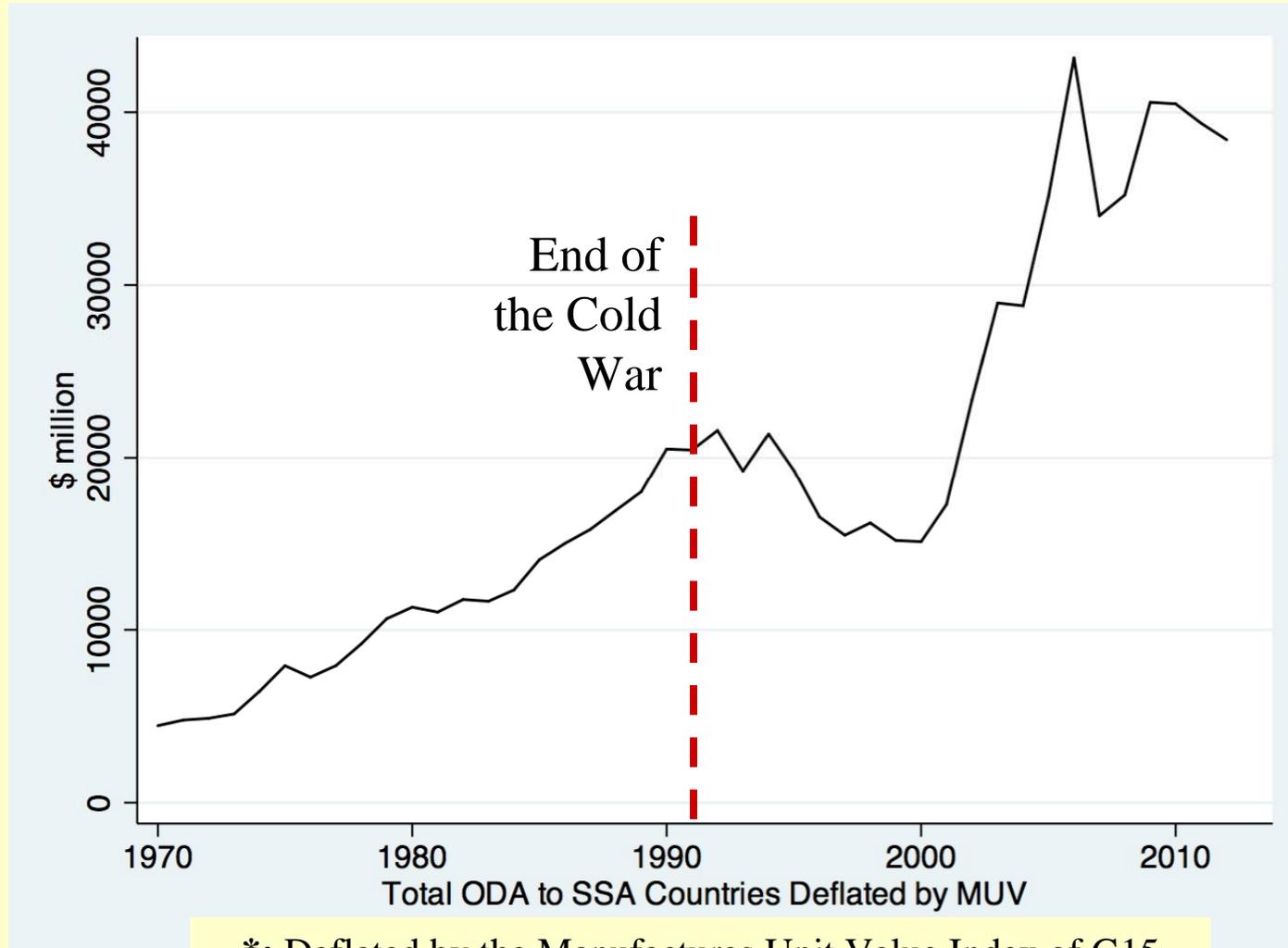
- Except for agricultural commodities, and for metals and minerals to some extent, the two commodity shocks of the 1970s and the 2000s were very similar.
- Yet, their outcomes in terms of peace and development in Africa seem strikingly different.
- Does it mean that something else than the commodity shock explains the lost decades of the 1980s and 1990s?
- Was it simply the El Niño-related climatic shocks of the 1970s and 1980s?
- In fact, the main difference seems to come from the North.

Is it an Aid Boom?



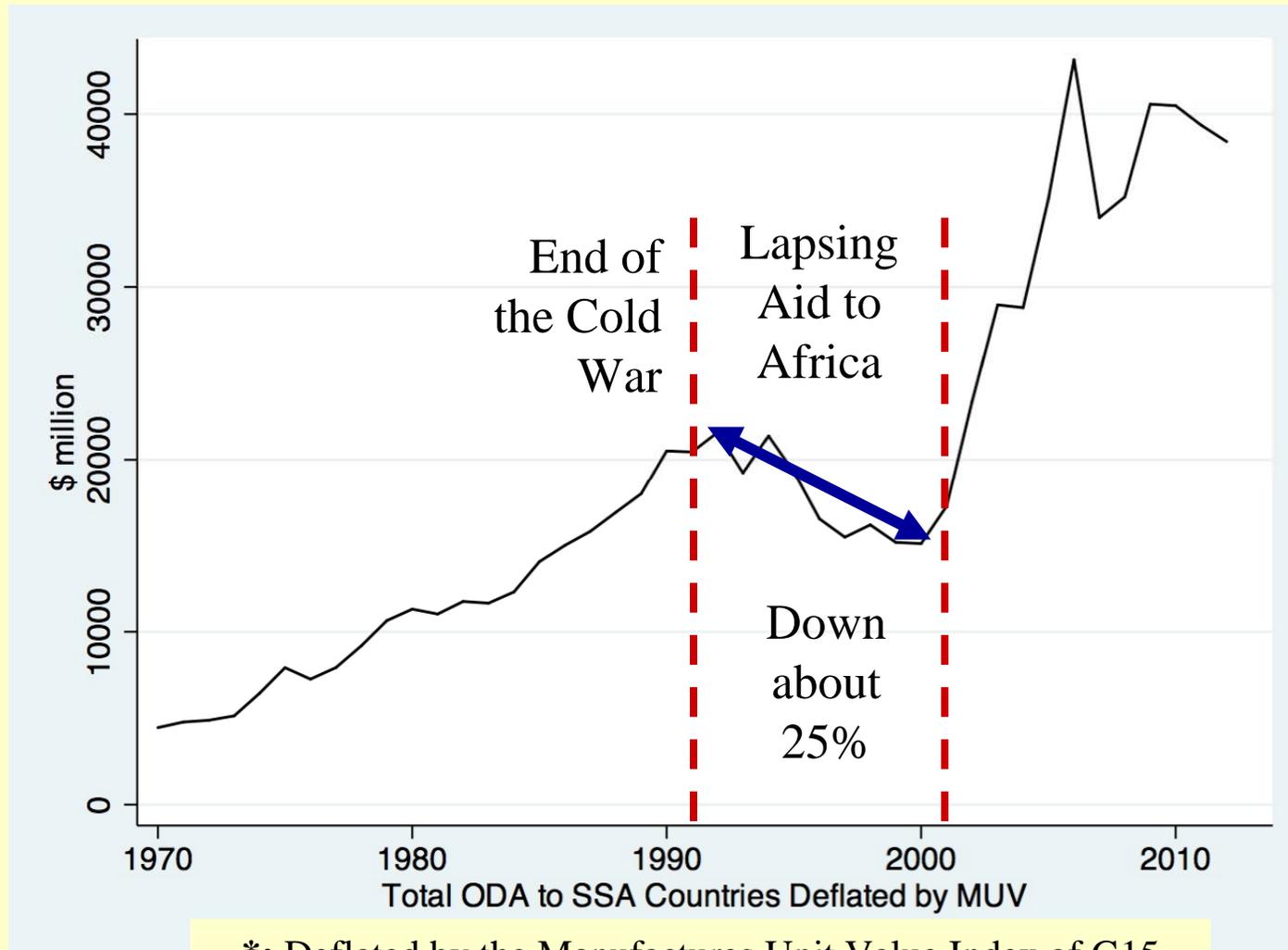
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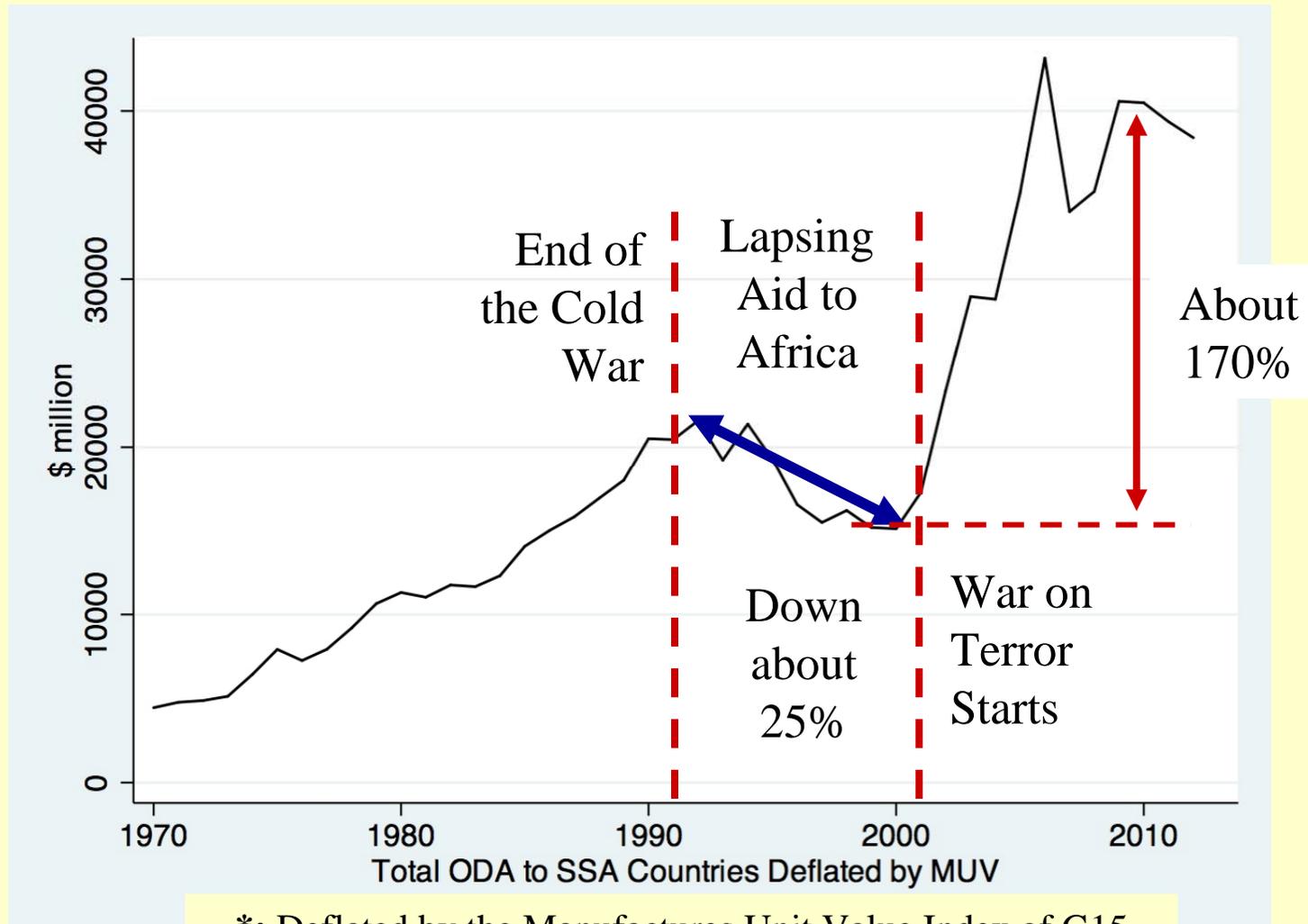
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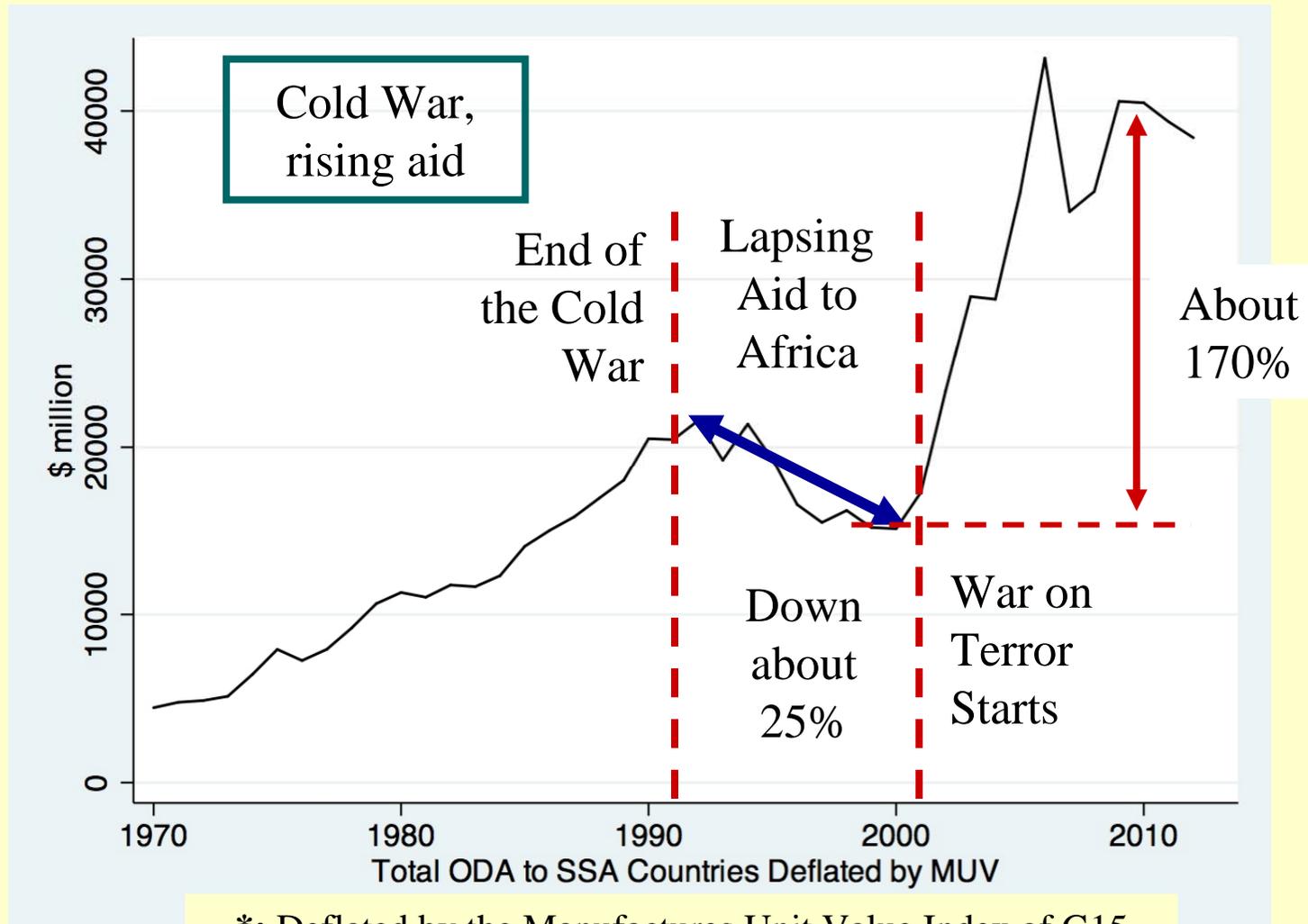
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Panel Logit	Internal and Internationalized Conflicts		
	Civil Wars	Civil Wars & Minors	Cumulative Civil wars
	(1)	(2)	(3)
GDP p.c.	-0.004***	-0.002***	-0.003***
	(0.00)	(0.00)	(0.00)
Log(pop)	-9.179***	-3.765**	-5.587**
	(2.77)	(1.56)	(2.28)
ODA p.c.	-0.057***	-0.011**	-0.017**
	(0.01)	(0.01)	(0.01)
Country Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
No. of Observations	554	1278	724
No. of Group	14	32	18
LR-Statistic	114.818***	95.122***	110.833***
LL	-130.184	-356.474	-192.296

ODA p.c. has a significant negative impact on the incidence of civil war in the recipient country after controlling for GDP p.c. and population.

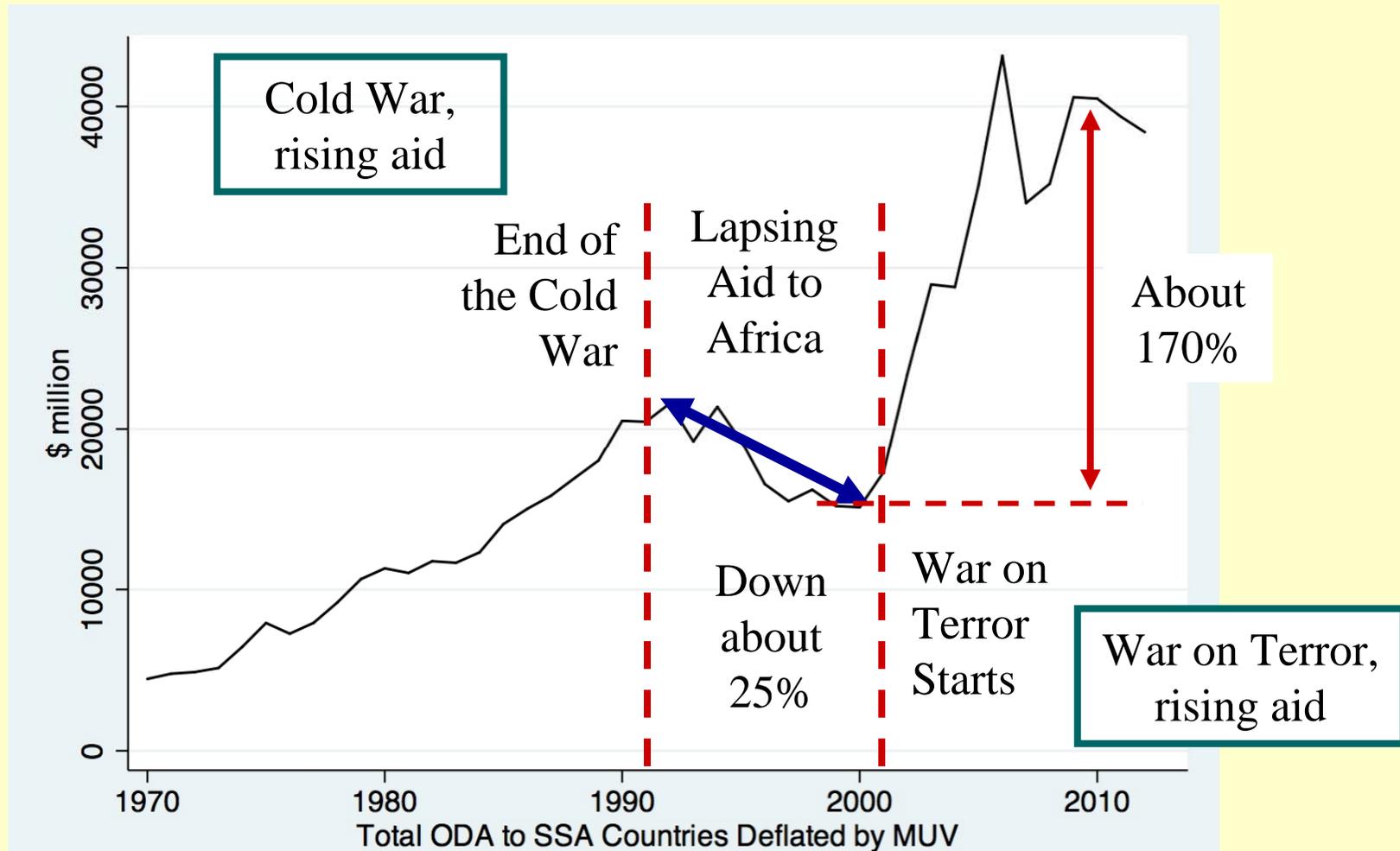
Country- and time dummies control for time-invariant and continent-wide effects.

Is Foreign Aid Averse to Peace?



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Much Ado about Nothing?

- The casual comparison of the two commodity shocks of the last forty years suggests that attention should be redirected at deeper problems than commodity prices.
- It is difficult to disentangle the impacts of the commodity booms of the 1970s and the climatic shocks that occurred almost at the same time.
- The current commodity shock does not seem to threaten Africa to be faced again with dismal times like the 1980s and 1990s for (at least) three reasons:
 - There was no climatic shock involved this time
 - Foreign aid was given much more generously as well.
 - (Hence) Civil wars are receding in Sub-Saharan Africa since the turn of the century.

Will Foreign Aid Outlive Bin Laden?

- 9/11 and the War on Terror triggered a massive revival of foreign aid to Africa.
- The latter helped to reduce political instability and civil war, opening an avenue for growth in Africa.
- Bin Laden was killed on May 2, 2011.
- Abdel Bari Atwan (2012): *After Bin Laden. Al Qaeda, the Next Generation* (The New Press) suggests that the new generation of Jihadists is not about to disappear.
- This will keep the West on its tiptoe and probably keep foreign aid flowing to Africa.