ARCADIA

Annual Report on Commodity Analytics and Dynamics in Africa

under the direction of
Philippe Chalmin
and Yves Jégourel

2019

Africa and the Global Commodity Markets

CYCLOPE

POLICY CENTER FOR THE NEW SOUTH
THINK • STIMULATE • BRIDGE

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Summary

About

Policy Center for the New South

The Policy Center for the New South, formerly the OCP Policy Center, is a Moroccan think tank whose mission is to promote the sharing of knowledge and contribute to an enriched reflection on economic issues and international relations. Through a Southern perspective on the critical issues and the major regional and global strategic challenges facing emerging countries, the Policy Center for the New South offers real added value and aims to contribute to strategic decision-making through its four research programmes: 1) Agriculture, Environment and Food Security, 2) Economics and Social Development, 3) Economics and Finance of Raw Materials, 4) Geopolitics and International Relations.

CyclOpe

CyclOpe is a research firm specializing in the analysis of global commodity markets, named after the 'CyclOpe Report' published annually since 1985.
CyclOpe is directed by Philippe CHALMIN, professor at Paris-Dauphine, consultant to international organizations (OECD, EU, UNCTAD). The CyclOpe team is made up of approximately 60 specialists worldwide.

Foreword

The Arcadia report (*Annual Report on Commodity Analytics and Dynamics in Africa*) is the fruit of a close collaboration between CyclOpe and the Policy Center for the New South. It is built on the simple observation that commodities shape—and will shape—a large part of the face of African economies and must, because of this strategic dimension, be the subject of dedicated analyses. In this respect, this report is probably unique. It favours a particular approach that reconciles, in a first part, chapters dealing with 'structural' themes—macroeconomic, geopolitical or sectoral: mining, water, agriculture—and in a second part, chapters developing a conjunctural analysis of the global commodities markets to which the African producing countries are exporting.

Having reached its third edition, including two under the label 'Arcadia', the report has attained a certain maturity and so the reader will not find any major changes from the previous edition. This in no way diminishes the strong ambitions that this collaboration pursues: that of serving, in a constructive logic, the public debate on the complex bonds linking commodities to African countries. And in consequence of this, to work, modestly but resolutely, in favour of the economic development of the continent. This desire has led us to make changes in the current report, with the permanent goal of improving the quality. The most important of these concerns the periodicity of this report, which is now biennial. Aiming at allowing publication earlier in the year—a crucial aspect of any periodic analysis in a changing economic and political context—this evolution implies that the period of analysis now covers two years and no longer one. New writers have joined us, and most of them are of African descent. Noting the importance of 'South-South' strategies while maintaining a resolutely international orientation, we have made the presence of these experts one of Arcadia's strategic axes. The reader will also see the appearance of new chapters dealing with commodities that were not present in earlier versions. Gold, uranium, vegetables and non-tropical fruits are now finding their place in Arcadia and allow us to grasp a growing share of the economic reality of African countries. Despite our desire to offer a dense, but synthetic analysis of the cyclical and structural trends in global commodity markets, it is likely that the next edition, that of 2021, will be enriched by new African products. Senegalese peanuts, cashew nuts from Côte d'Ivoire, Kenyan roses, Congolese cobalt and Malagasy, Mozambican and Tanzanian graphite are all commodities that could be the subject of dedicated chapters. Finally, in the first 'structural' section, the reader will find themes already covered in previous editions (global and African macroeconomics, financing, agricultural policies), but also new analyses. While the 2017 edition was particularly interested in the central issue of the electrification of the African continent and the reality of mining codes, the 2019 edition focuses on topics as fundamental as the policies of 'local content', the management of continental hybrid resources, and the development of strategic African minerals.

We must also draw attention to the cover of Arcadia. While the 2017 edition featured the mottled surfaces of brightly coloured cocoa beans from Côte d'Ivoire, one of the iconic commodities of Africa, that of 2019 has focused on pineapple. While the graphic scope of such an image partly guided our choice, it was not the only reason. In the fresh fruit segment, Africa has been hard hit by the competition of Sweet Pineapple from Costa Rica, relegating local varieties—Smooth Cayenne, Victoria and Sugarloaf—to a very secondary role in the world market. Driven by a desire for increased yields, this 'commoditisation' of pineapple has not however excluded African productions, which were able to rebrand themselves to niche strategies, focused on quality and air transport, to maintain a foothold for export. Though pineapple naturally counts for little with respect to its economic weight in the continent's exports, it likely has another value in the African world of commodities: that of a symbol. The resilience of African economies in a context of growing international markets is one of the important themes developed in this Arcadia report and therefore merits illustration.

Happy reading!

Philippe Chalmin — Yves Jégourel

Arcadia Contributors 2019

Philippe CHALMIN General Coordinator	Professor of Economic History University of Paris-Dauphine, Chairman of the *Observatoire mondiale de la Formation des Prix et des Marges des Produits Alimentaires*	General introduction, Fertilizers
Yves JEGOUREL General Coordinator	Associate Professor at the University of Bordeaux, Senior Fellow, Policy Center for the New South	General introduction, Iron ore, Bauxite and aluminium, Gold, Fertilizers
Abdelhak BASSOU	Senior Fellow, Policy Center for the New South	Chapter II (The African continent in international relations: What role for the African Union?)
Ludovic BERNET	Lawyer at the Paris bar Fieldfisher LLP, Africa Group	Chapter IV (Extractive sectors and local content policies: Finding the right balance)
Benoît de CARBONNIÈRES	CEO, Forrest Industry, Groupe Forrest International	Copper, Platinum metals group and diamonds, Gold
Bénédicte CHATEL	Associate director, Commodafrica	Cocoa, Coffee
Raphael CHIAPPINI	Lecturer, University of Bordeaux	Global economic growth in 2017 and 2018: Assessment and perspectives
Patrice CHRISTMANN	Independent expert, Krysmine	Chapter VIII (Africa and critical non-energy mineral commodities: what are the strategic challenges?
Sylvie CORNOT-GANDOLPHE	President, SCG Consulting	Steam coal

Fatima EZZAHRA sources, MENGOUB	Agro-economist, Policy Center for the New South	Chapter VII (Water re- conflicts of use and access to clean water: what are the realities in sub-Saharan Africa?
Jean-Christophe DEBAR	Director, Foundation for World Agriculture and Rurality (FARM)	Chapter VI (African farmers confront the challenges of structural transformation)
Marie-Louise DJIBENOU	Economist, Central Bank of West African States	Chapter I (The evolution of African commodity prices and macroeconomic realities)
Amandine HOURT	Head of economic studies, FranceAgriMer	Sisal and hard fibres, Tea
Abdelkabir KAMILI	Teacher-researcher, *Centre africain d'économie agricole appliquée et développement* (The African-CAAED) Faculty of governance, economic and social sciences of the University Mohammed VI Polytechnic. (Morocco).	Fisheries and aquaculture
Alain KARSENTY	Economist, CIRAD	Tropical wood
Elisabeth LACOSTE	Director of the International Confederation of European Beet Growers, CIBE (Brussels)	Sugar
Florent LAGER	Assistant general administrator, MPD Congo and Vice-President of the Congo Mines Federation	Chapter IV (Extractive sectors and local content policies: Finding the right balance)
Jean-Paul LEHMAN	Independent expert	Uranium
Denis LOEILLET	Head of the CIRAD-PERSYST UR 26 Market Observatory and Editor-in-Chief of the review *FruiTrop* (Montpellier)	Fruits and vegetables
François LUGUENOT	Independent expert	Grains
Patricio MENDEZ DEL VILLAR	Researcher, CIRAD, Editor for the *Observatoire Osiriz/InfoArroz*, (Montpellier)	Rice

Abdellah MOUTTAQI	General Secretary, National Office of Hydrocarbons and Mines of Morocco	Chapter III (Societal responsibility in Africa's extractive industries: assessment and stakes)
Emmanuel NEE	Directeur of the ingredients department, Touton SA	Vanilla & cloves
Clément NOUAIL		Chapter V (Multilateral financing, infrastructure spending and investment policies in the African commodities sectors)
Francis PERRIN	Senior Fellow, Policy Center for the New South	Oil, Gas
Quentin POINTEREAU	Independent expert	Cotton
Jean-Paul SIMIER	Economist, specialist in agricultural and agro-alimentary markets, banking analyst	Meat
Abdoul Fattath TAPSOBA	Doctoral researcher at FARM	Chapter VI (African farmers confront the challenges of structural transformation)

Béatrice BEYER	Page layout for the French and English publications
Dominique DALLE-MOLLE	Graphs and tables
Geoffrey FINCH	Coordination of the English version
Martine GRANGÉ	Coordination and adaptation
Claire MABILLE	Cover
Isabelle TANGUY	Secretary and publicist

English Edition

Geoffrey FINCH	English Edition Coordinator and Administrator
Susanne SHIELDS, Geoffrey FINCH	Copy Editors:

Felicity LENG	Translators
Frances MEADOWS	
Geoffrey FINCH	
John GORDON CUMMING	
Julie de ROUVILLE	
Mairead O’REILLY	
Mike WESTLAKE	
Todd WIGGINS	

Africa and the Global Commodities Markets

General introduction

"Surely the equilibrium of a moving organism is an everlasting struggle to restore the play of contrary forces and create a consonance that depends on instability and danger". This quotation from *Défense des lettres* (*The Defence of Letters*) by the French poet and novelist Georges Duhamel admirably expresses the actual nature of global commodity markets in 2017 and 2018 and their implication in international economic and political domains. Indeed, matters of balance have been much to the fore over the last two years. Stability has often been put to the test, though never irremediably endangered, in situations ranging from the astonishing revival (after all the invective) of diplomatic relations between the USA and North Korea to confirming the place of China in fostering global trade, by way of the resumption of US sanctions against Iran, and of an increasingly baffling Brexit.
Africa has been subject to contrary forces, but has displayed both economic resilience and political determination. The challenges that the African continent has to face are matched by its considerable potential, and by its economic and human riches. The main test in the world of commodities is the reduction of the macroeconomic dependence of producing and exporting countries on extremely versatile global markets.

A precarious macroeconomic equilibrium?

A summary account of the macroeconomic performance of the leading world economies necessarily all but obscures the unstable forms of equilibrium to which they have been subject. According to IMF (International Monetary Fund) data, world GDP growth came out at 3.7% in 2017, a higher level than, and since, 2011, and a significant increase on the 2016 result. The 2018 result should record an identical performance but that is probably not the important aspect of the analysis. In fact, this estimate conceals a downward revision by the IMF, which initially assessed the outcome for world growth as 3.9% in the very same year, and also forecast bleak prospects for 2019 and an estimated growth of 3.5% then. Does this mean that the economy is in a parlous state? Certainly not, but negative signs have been accumulating and there is no room for optimism about the coming years.

Examining macroeconomic conditions necessarily also means studying developed economies. Here again, however, the statistics are insufficient to enable us to grasp the full extent of the dynamics currently at work. Accordingly, the USA experienced an economic growth of 2.8% in 2018 (the highest since 2015) and a strong employment market. Though very respectable, this performance came out slightly below President Trump's ambitions as he stated them in mid-2018: "We've accomplished an economic turnaround of historic proportions", he declared, possibly with feigned triumphalism, when announcing the US economic results for the second half of the year. Apart from the doubtful historical accuracy of the claim, there is no guarantee that this performance will be repeated. Indeed, the FED (or Federal Reserve, the central American bank) has revised downwards its predictions of growth for 2019, which were already lower: 2.3% compared with an anticipated 2.5% in September 2018. When published at the end of February 2019, the US growth figures for the fourth quarter of 2018 bore out this tepid impression: an annual rate of 2.6%, as against 3.4% and 4.2% in the third and fourth quarter, respectively. Clearly a due assessment of the Chinese economy will produce a radically different result, but the same diagnosis is inescapable: the years ahead will experience a weaker growth rate. If we were to follow the official statistics (which might be thought to be vastly over-estimated), the actual GDP grew by 6.6% in 2018, a high rate admittedly, but contracting by historical comparison. A priori, this situation will not develop favourably: Chinese growth is set to come out between 6% and 6.5% in 2019, which will scarcely fail to worry other economies in the world, whether developed, emerging or developing.

These various estimates (and others that might be arrived at for almost all the world's economies) depend, however, on a certain number of (especially political) hypotheses, and, rationally speaking, economists find it difficult to decide which are most applicable. The future of world trade relies to some extent on President Trump's unpredictability, and that is probably one of the most unstable variables of the economic equation to be resolved. Nevertheless, economists certainly detect serious reasons for anxiety in the gathering strength of protectionist tendencies at an international level, and the dynamism of the global economy is largely linked to that of international trade. Consequently, the increased imposition of tariff barriers between the USA and China, together with Trump's emphatic questioning of multilateralism, must seriously affect external economic balances, directly and indirectly, with an ultimate decline in the growth rate of goods exports. According to IATA, for instance, air freight increased by 3.5% in 2018 as against 9.7% the year before. The situation was sufficiently disturbing to make Chinese leader Xi Jinping present himself as the grand defender of free trade in the early hours of 2017. From US taxes on Chinese steel and aluminium to the Chinese lash-back on US soya, 2017 and 2018 have proved especially rich in news that is far from reassuring for the future of world trade, particularly with regard to commodities.

But Trump's outbursts and the frequent lack of any economic foundation for his political decisions should not obscure either the true nature of Trump methodology (issuing inescapably terse 'tweets' before any negotiation) or his expression of profound unease about the Chinese will to commit the country on any lasting basis to world trade free from any distortion of competition. There are many of them, whether they concern subsidies, access to the Chinese market or non-respect for intellectual property; they are also much more fundamental than the question of the US trade deficit with regard to China, which Trump nevertheless raised to the level of a crusade. They should not tempt us to forget that behind the measures and counter-measures in respect of tariffs is a confrontation based on the self-assertion (or persistence) of the USA as the world's leading economic power. After the ZTE International business, the 'Huawei affair' which involved the arrest in Canada of Meng Wenzhou, the financial director of the Chinese telecommunications group, for violation of the embargo on Iran and for industrial espionage, amply proves that the rivalry between these two giants goes very far beyond the world of commodities, although that is the primary area of confrontation. Did calming effects mean that the play of contrary forces cited by Duhamel had been at work? Probably, at least in the short term. At any rate, on 1 December 2018 China and the USA decided to postpone the introduction of new taxes until 2 March 2019, and announced their respective intention to reach an agreement. At the beginning of March 2019, the two giants even appeared to be close to an actual agreement, but precisely when the eventual lifting of tariff barriers would occur remained uncertain.

Although all concern was quite logically focussed on Sino-American tensions, they did not make up the sole power relationship to which Donald Trump committed the multilateral trade system. Steel and aluminium comprised the main point of friction between the USA and China, and were also the focus of trade tensions with almost all exporting countries, including Canada, Mexico, Europe and Russia. In particular, the US authorities threatened to impose sanctions on Oleg Deripaska, the Director of Rusal, the second biggest global producer of aluminium after the Chinese Hongqiao. It was no real surprise to find Washington crossing swords with Russia as with China, but that it should engage in a contest of strength with Canada and Mexico, its historical trade partners, was certainly much more unexpected. Trump reminded the world of his dislike of multilateralism by denying the relevance of existing free-trade agreements in favour of the bilateral trade agreements that had become the alpha and omega of US trade policy. Whereas the EU was preoccupied with the World Trade Organization (WTO), in November 2018 the USA, Mexico and Canada signed a new trade agreement: the United States-Mexico-Canada Agreement (USMCA), which replaced the North American Free-trade Agreement. But this did not mean that their dispute about steel and aluminium had sunk without trace, and Luz María de la Mora, the Mexican Deputy Trade Minister, reminded everyone that USMCA could not be ratified without lifting US taxes imposed in pursuance of article 232 on the national security of the USA.

In November 2018, a new equilibrium also appeared in the sphere of US politics, although it was not destined to help Donald Trump. After the midterms, the Republicans lost their majority in the House of Representatives, and the indirect consequence after the Democrats' refusal to finance a wall on the border with Mexico was the longest shutdown in US history. Since the preliminary conclusions of 'special counsel' Robert Mueller's investigation into Russian meddling in the US election of 2016 were expected by March 2019, and given the possible impeachment of Trump for collusion, the US President's political agenda was now (like the global economic outlook) much bleaker.

Dramatic changes in economic policies

Greater equilibrium also came about as a result of what economists like to call the 'policy mix' of combined budgetary and monetary policies. While the former are intended, when expansionist, to stimulate domestic demand, the latter are designed to make sure that prices remain stable. More growth with minimal inflation was the subtle balance to be reached, and it was scarcely squared with the ambitions of the Trump administration in 2018. On 19 December, in fact, the US Federal Bank (the Fed) raised its key interest rates by a quarter point for the fourth time in 2018 and the ninth time in ten years. Although, like the great majority of central banks, the Fed is independent of the political power, Trump indicated his deep discontent at this move, opining that the increase was unnecessary and could overburden US growth. The same day rumours surfaced of the possible dismissal of Jerome Powell, the Fed's current chairman, who firmly stated in an interview with the CNBC broadcasting chain on 19 December 2018 that discussions or decisions regarding monetary policy were never influenced by political considerations. Nevertheless, key interest rises are likely to ease off in 2019 and 2020, not because of Trump's supposed plan to replace Powell (he does not have the power to do this), but because of downward revisions of the inflation rate, and the probable negative impact that an adjustment of financial markets would have on US economic growth in 2019 or 2020.

China also had to attempt a multi-faceted balancing act by supporting economic growth (through public investment and infrastructure expenditure), yet limiting any upswing in debt; by establishing the contribution of its domestic demand to GDP without endangering its external liability; by favouring credit to the economy (through a reduction of the compulsory reserve rate and measures specific to small and medium-size companies), without increasing non-performing loans; or, in a very different sphere, by preserving its heavy industry, while multiplying measures designed to limit pollution in major urban areas. China has been walking this tightrope for several years, and has always managed to make the act look most convincing, but the situation could change. China's public debt is one of the most disturbing aspects of the situation. It must probably amount to USD 5,200 billion, to which we must add private agents' debt, as well as something much more difficult to assess: local governments' debt lodged in dedicated financing instruments, and therefore omitted from their balance-sheets. In October 2018, S&P, the rating agency, estimated that the last-mentioned item could total CNY 40,000 billion, or about USD 5,780 billion. Consequently, estimates of China's debt/GDP ratio would range between 250% and 315%, a figure that has risen considerably in recent years. As an indication of these growing macroeconomic constraints, at the beginning of March 2019 Prime Minister Li Keqiang announced a target growth for 2019 between 6% and 6.5% (the lowest level for thirty years), and said that Beijing would introduce new fiscal-stimulus measures to support activity.

Internal conflicts in Europe

Like almost all nations involved in world trade, Europe has had to navigate the stormy seas of many power relations emanating from President Trump. Nevertheless, supported by the still accommodating policy of the European Central Bank (ECB), the economic growth of the euro zone recovered in 2017, whereas the UK paid the price of the uncertainty that companies and, even more, financial players dislike so intensely. Anchored to the Brexit decided by the June 2016 referendum, but without any due assessment of the measure's extraordinary complexity and, probably, scant economic advisability, London found the country's economic activity faltering in 2017, to reach 1.7% (compared with 1.8% in 2016) and 1.4% in 2018. This unfavourable tendency looks set to continue, and the IMF anticipates growth rates of around 1.5% in future years. From the compromise on the conditions for leaving the EU obtained on 13 November 2018 after months of negotiations, all the way to the massive rejection of this agreement by the UK Parliament in January 2019, by March 2019 no one still had any notion of the UK's possible European future. The idea of a hard Brexit was reinforced, and going for a second referendum seemed equally credible, since the Labour Party now appeared to support the concept of another popular vote. But Brexit was only one of the more visible manifestations of the internal conflicts which the EU had to confront in the period 2017-2018. Weakened by the rise of populisms, the original spirit behind the foundation of the EU would seem to have been tried and tested to the point where, in February 2019, France (in a way totally unknown since the end of World War II) recalled its ambassador from Rome after what were thought to be inappropriate statements by Luigi Di Maio, the Italian Deputy Prime Minister.

Africa in charge of its own future

Whereas world economic growth has depended largely on the efforts of emerging Asian countries, Africa has displayed a certain degree of macroeconomic resilience in this disturbed international context. In fact, according to the African Development Bank (ADB), the continent's economic growth should rise by 3.5% in 2018 (compared with 3.6% in 2017), and this thrust is set to carry on in 2019 and 2020 with anticipated growth rates of about 4%. Hence, Africa is entitled to claim that it hosts the world's most dynamic economies. In 2017, according to the World Bank's statistics, six of them benefited from an actual GDP growth of over 7%: Côte d'Ivoire, Ethiopia, Ghana, Guinea, Senegal and Tanzania. Therefore, given these performances (and except for Libya and the Northern Mariana Islands), four African countries were among the ten countries in the world to have experienced the highest economic growth.

Although these statistics are still acceptable and the prospects are encouraging, 'satisfactory all round' would be inappropriate. There are three main reasons for this. First, the continent of Africa is an increasingly heterogeneous area in economic terms, and the significance of economic statistics is quite relative on this scale. Accordingly, whereas Eastern Africa could claim 5.9% economic growth in 2018, Southern Africa lagged behind, weighed down as it was by the mediocre performances of (the Republic of) South Africa. The continent's 'locomotives' have done better, but they are still recuperating: in 2017, Nigeria's GDP increased by a very meagre 0.8%, while South Africa achieved a growth of 1.3%. Second, as the ADB reminds us, these performances are not sufficient to allow the continent to face up fully to the major challenges before it, including in particular fighting poverty and unemployment in a context of strong demographic growth and social demand that can only become more pressing as a result. Third, the dependence of African economies on outside markets (and especially on commodity markets) is very much of the moment, and the economic performances of certain African countries have also improved because global prices have recovered.

Consequently, after the disastrous 2014 and 2015, the prices of basic products began to rise in 2016 and 2017. The monthly indices of the World Bank[1] show that energy prices rose by 84% between January 2016 and January 2019, and by almost 7% between January 2017 and January 2019. The same dynamic applies to basic and to precious metals, although with lower proportions: +32% for the former and +16% for the latter between 2016 and 2019. Agricultural products developed in piecemeal fashion. Whereas the representative index for 'beverages' (cocoa, coffee, tea) dropped back by over 12% in the period in question, that for grains rose by 6.8%. 2018, however, proved to be much less favourable: almost all the World Bank's commodity indices declined, except for grains and, even more, fertilizers. Evidently, this dependence of African economies on global commodity markets is not a new phenomenon, and for several years various policies have been applied to try to break this link. In particular, the increase in the local processing of substances produced in Africa has been shown to be one of the political priorities of exporting countries in this sphere. This strategy is understandable and even legitimate from a political viewpoint, but questionable from an economic angle. Commodity value chains are very often long, from the extraction of ore to metallurgy, or from that of crude oil to refining. Pursuing them from upstream to downstream not only demands major investments (which raises the question of their economic profitability), but modifies the comparative advantages available to exporting countries. For instance, producing aluminium in Africa on the basis of bauxite then of alumina available locally means coming up against China, the world leader in primary production, on its own ground. This is far from asserting that these local processing strategies should be proscribed, but they cannot be presented as models of industrialization for African countries exporting commodities.

On the way to a new financial crisis in 2020?

Noting the uncertainty about world economic growth, the main stock markets experienced a considerable downturn in their reference indices in the last part of 2018. The S&P 500, for example, fell from 2930 points on 21 September 2018 to 2416 on 21 December 2018, just after the rise in Fed rates. The British Footsie 100 also exhibited an emphatically downward tendency in 2018, and reached a record 7860 points on 21 May 2018, be-

[1] See: http://www.worldbank.org/en/research/commodity-markets

fore declining seriously to reach 6586 points on 27 December 2018, or about the same level attained at the end of 2016. This downward trend did not spare the Shanghai stock exchange. Although financial markets recovered in the first two months of 2019, some of the most pessimistic economists have not hesitated to predict the arrival of a new financial crisis in 2020. This situation would be all the more disastrous since, according to David Lipton, the first Deputy Managing Director of the International Monetary Fund IMF), there are insufficient resources to counter it. Kenneth Rogoff, former head economist of the FMI and Professor of public policy and economics at Harvard University, remarked that nations would find very much less room for manoeuvre available to cope with a new crisis than in 2008. In fact, notwithstanding several reforms undertaken to ensure the safety of international banking and financial systems, the mechanisms would still be incomplete. 'Repair the roof while the weather is still fine,' he advised.

2017 and 2018: years of highly-pressing political issues in Africa

By definition, any consideration of world commodity markets calls for more than 'mere' economic analyses. From this viewpoint, it is important to remember that in 2017 and 2018 the African continent was marked by a certain number of political events. First and foremost, they included presidential elections in several countries: Somalia, Rwanda, Kenya, Angola, Liberia, Sierra Leone, Egypt, Mali, Zimbabwe, Cameroon, Ethiopia and Madagascar, as well as the Democratic Republic of the Congo (DRC). Beginning, against all expectations, with the Gambian Adama Barrow taking office after twenty-two years spent under the presidency of Yahya Jammeh, 2017 ended with the departure of President Robert Mugabe of Zimbabwe, who was forced to resign when the army intervened. 2017 was also marked, among so many other events, by the second election of Uhuru Kenyatta as the leader of Kenya after an annulment by the High Court; by the election of Paul Kagamé in Rwanda; and, in the same month, by that of João Lourenço in Angola; but also by the democratic transition that enabled George Weah to come into office in Liberia. The RDC remained in its status quo after the postponement, for one year initially, of the presidential elections. In reality the country ought to have waited until 30 December 2018 for the 'election' of Félix Tshisekedi as the head of state. At the beginning of the same year, and after several months of contestation, Jacob Zuma, disowned by his party for involvement in corruption, resigned as President of the Republic of South Africa in favour of Vice-President Cyril Ramaphosa, his main opponent within the African National Congress. The 24 February 2019 elections enabled Macky Sall to come back as President of the Republic of Senegal from the first round of voting, while in March a wave of popular contestation flowed through the streets of Algiers, in view of the prospect of the presidential elections of 2019. Characterized both by political continuity and by sometimes unexpected disruptions, these elections, however fundamental they may have been, could not obscure the importance of political interactions on a continental scale. The signal events in this area included the return of the Kingdom of Morocco to the African Union in 2017 and the signing, in July and September 2018, of peace treaties between Ethiopia and Eritrea, thus bringing almost fifty-seven years of conflict in the area to an end.

In a more economic context, but one just as symbolic of the continent's future, we have forty-four African countries' adoption, on 21 March 2018, of the principle of a continental free-trade area. A free-trade area is less restrictive than a customs union. It is based on the elimination of customs tariffs between countries that are signatories to the agreement, while retaining the principle of national sovereignty with regard to customs duties applicable to non-member countries. This is an immensely important issue for Africa's economic future, especially for the commodities sector. In fact, promoting a vast continental market, where products previously traded on highly-volatile world markets would be sold, could help to stimulate the creation of national productive sectors and, ideally, to stabilize export revenues, guaranteeing greater macroeconomic efficiency. Nevertheless, the interest of a continental free-trade area should not be assessed in terms of some arbitrary formulaic value as long as there are so many conditions governing its economic success. Hence, in the agricultural sphere where Africa still very often plays the role of importer, the capacity of producing countries to satisfy the increased number of demands to which they are subject would very much depend on their propensity to improve the price-competitiveness of their products. Higher productivity, easier access to finance, improved energy and transport infrastructures, and reinforcement of human capital are the well-known means of achieving that outcome. The anticipated advantages of a free-trade area also depend on the affirmation that increased competition between the signatory countries is beneficial on an economic level. But it can also be a factor leading to wage inequalities (whether within or between sectors), gender inequalities, and spatial inequalities, which Africa should fundamentally resist in every instance.

Ultimately, the four basic forms of equilibrium that Africa has to achieve in the next decade are promoting the continent's domestic demand and being capable of satisfying it while joining international value chains; financing economic development while avoiding excessive debt; making the most of different commodity sectors while limiting the macroeconomic vulnerability which they too often lead to; and, even more essentially, fitting into a growth strategy without any accompanying explosion of social inequalities. Of course, Africa's economic trajectory and the welfare of its populations are also at stake, but so are those of other countries in the world. In fact, its many forms of wealth, especially in terms of demographic resources, and its level of development, make Africa a reservoir of growth second to none in the world.