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Diversification and Value Addition

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The views expressed are those of the author and do not necessarily reflect
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Diversification and Value Addition

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Structure of the Presentation

- Importance of Diversification
- A Look at Commodity Price Volatility
- Classifying Export Commodity-Dependent Countries
- Policies for Diversification and Value Addition



The Importance of Diversification



Concentration Affects Development through

- Limited product and export space
- Sectoral volatility leads to low & volatile growth
- *Dutch Disease*
- Institutional Quality
- Low productivity
- There may be self-reinforcing mechanisms



Concentration & Investment

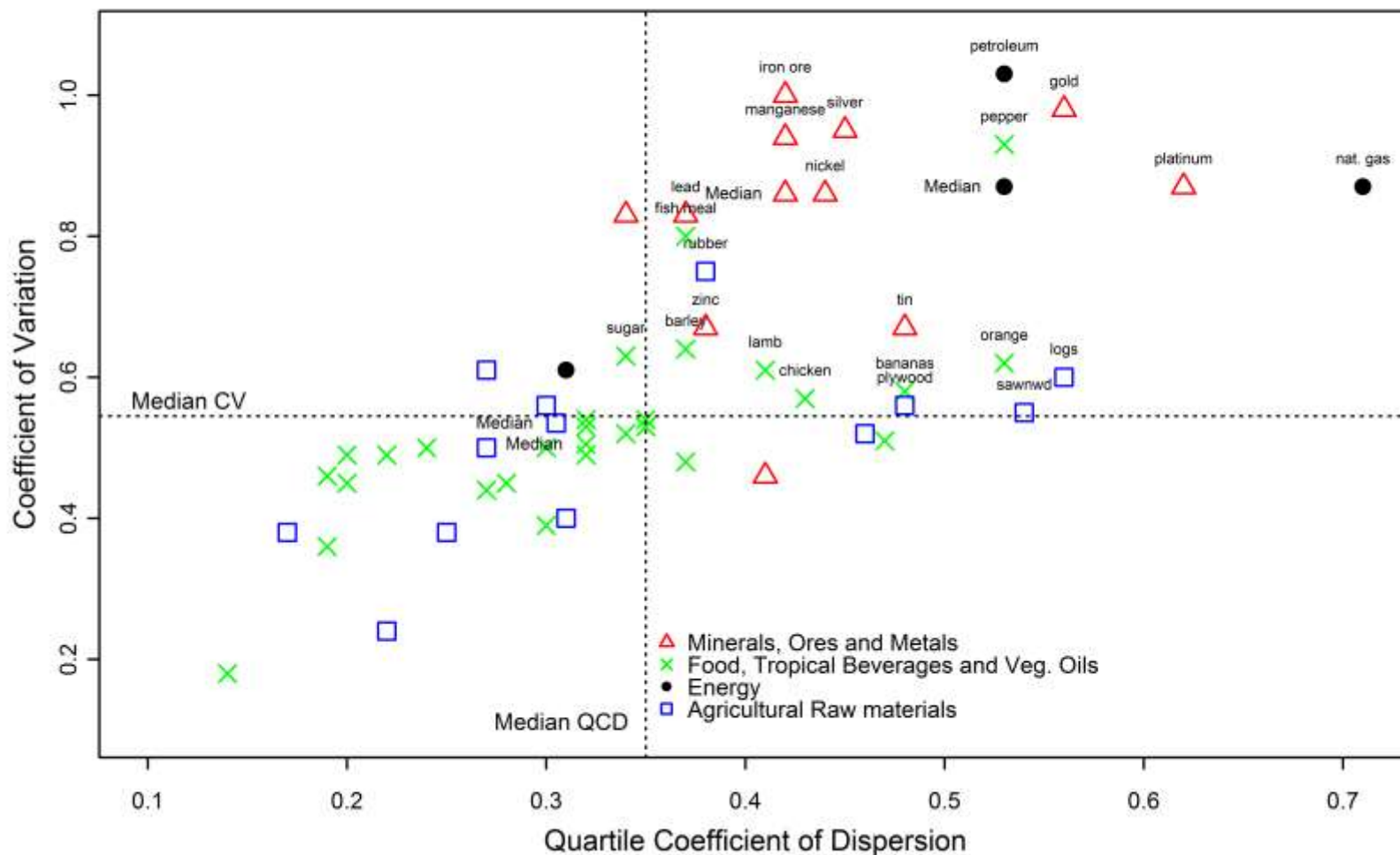
- Volatile income
 - affects public and private savings, and investment,
 - particularly in credit-rationed countries, making investment pro-cyclical
- High perception of risk
 - dampens investment
 - especially in non-traditional sectors and...
 - higher-value sectors that require longer investment recovery periods



A Look at Commodity Price Volatility



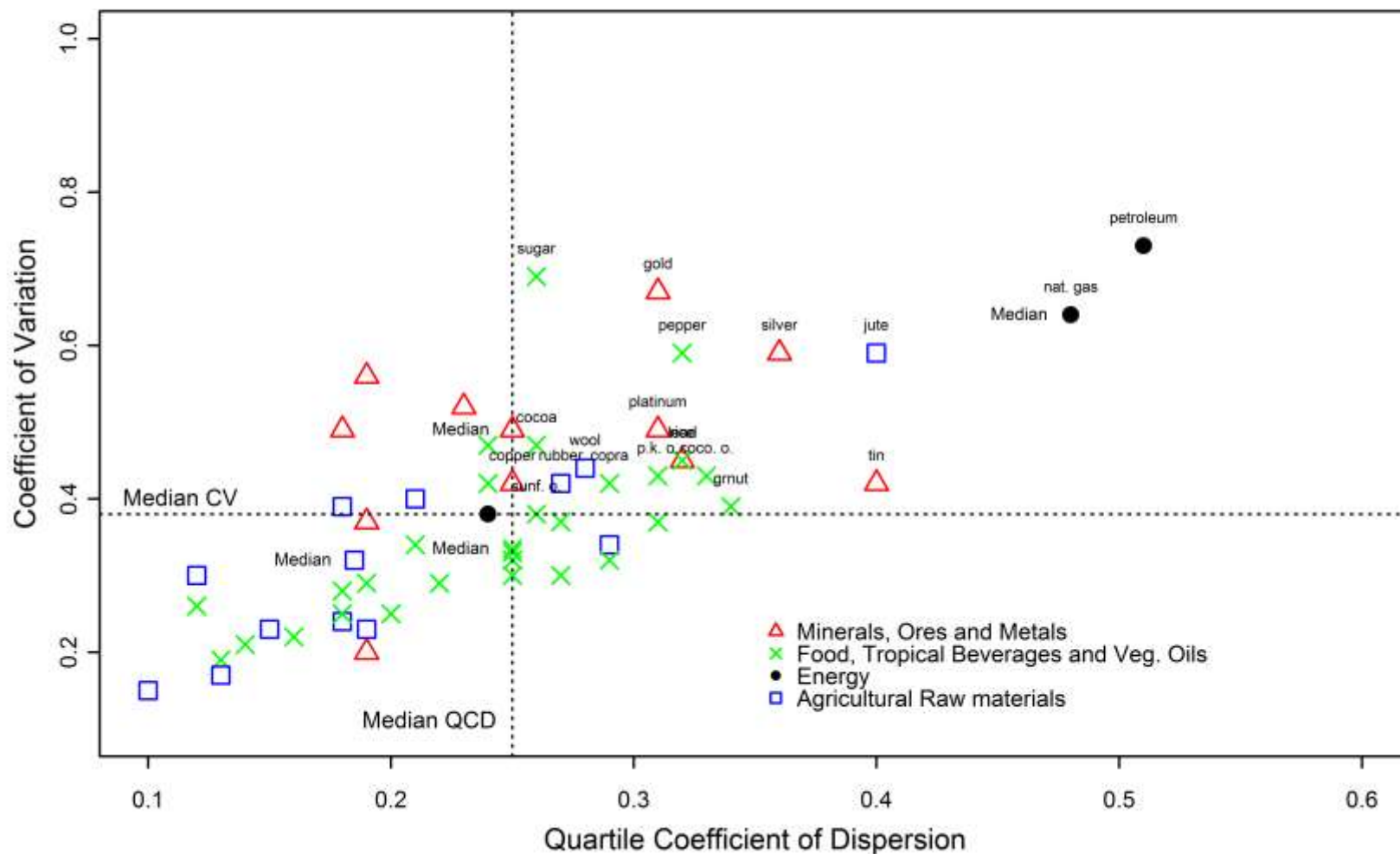
Volatility Heterogeneity: 1960-2016 Nominal Prices



Data source: UNCTADSTAT and World Bank



Volatility Heterogeneity: 1960-2016 MUV-deflated Prices



Data source: UNCTADSTAT and World Bank

Commodity Price Volatility is Heterogeneous

- Energy is the most volatile group
 - crude & natural gas among the most volatile commodities
- Minerals group comes second
 - precious minerals like gold, silver and platinum particularly volatile.
- In Food group, some commodities are especially volatile
 - sugar, rice, cocoa, coffee and pepper highly volatile
 - the vegetable oils sub-group is also volatile.
- Agricultural Raw Materials is the least volatile group



Classifying Export Commodity-Dependent Countries

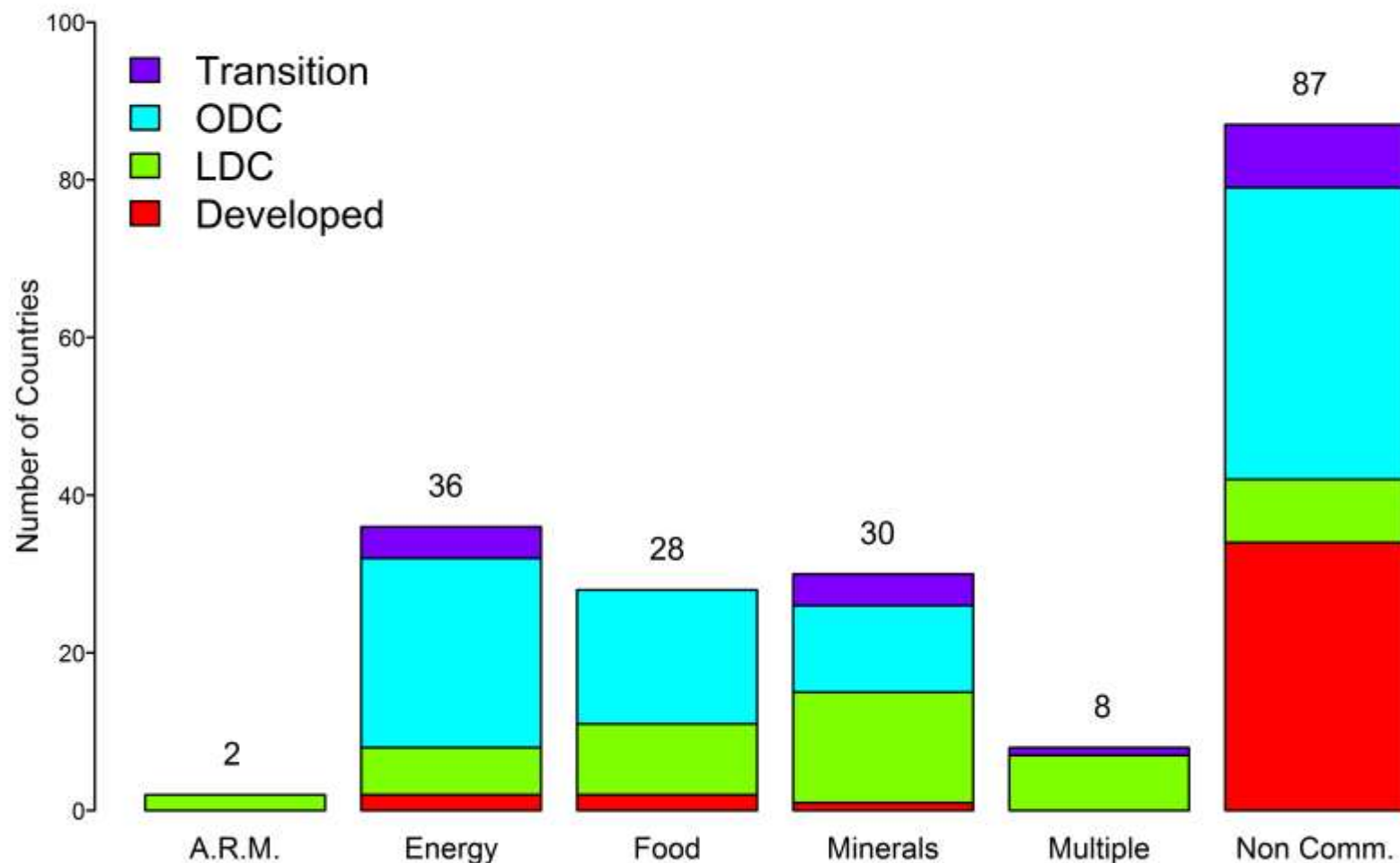


Commodity Dependent Countries

- Commodities \geq 60% of merchandise exports
- Four groups:
 - Agricultural Raw Materials,
 - Food, Tropical Beverages and Vegetable Oils and Fats;
 - Energy;
 - Minerals, Ores and Metals.
- Country depends on commodity group when:
 - it is commodity dependent (60% comm. exports) and
 - more than 1/3 of exports are from commodity group



Countries by Commodity Dependence Group 2013-16



Data source: UNCTADSTAT

Classification

- Commodity-dependent:
 - Two-thirds of developing countries
 - More than half of transition countries
- Non commodity-dependent
 - 34 out of 39 developed countries
 - Only 8 out of 46 LDCs
- Correlation between income group & commodity dependence.



Commodity Dependence & Vulnerability to Shocks

- Crude petroleum:
 - Lead export in 24 countries
 - Export share represents more than 2/3 in 8 countries & more than half in 17 countries
 - Has most volatile price in real terms
- Petroleum-dependent countries highly vulnerable to negative price shocks



Policies for Diversification and Value Addition



Policy Types and Complementarity

- Horizontal Policies:
 - aim at generating overall economy-wide enabling conditions.
- Targeted policies
 - specifically directed at industries, sectors, or problems
- The two are complementary
- These are necessary but not sufficient for value addition & diversification



Brief Overview these policies

- Horizontal:
 - Capital accumulation and Technology
 - Fiscal Policy
 - Monetary Policy
 - Exchange rate policy
- Targeted:
 - Addressing Coordination Problems
 - Addressing Profitability Discovery
 - Competition Policies
 - Others



Thank you!

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