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Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development

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Making the Most of Commodities – Promoting Linkages to the Wider Economy

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Making the Most of Commodities – Promoting Linkages to the Wider Economy



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Resource enclaves

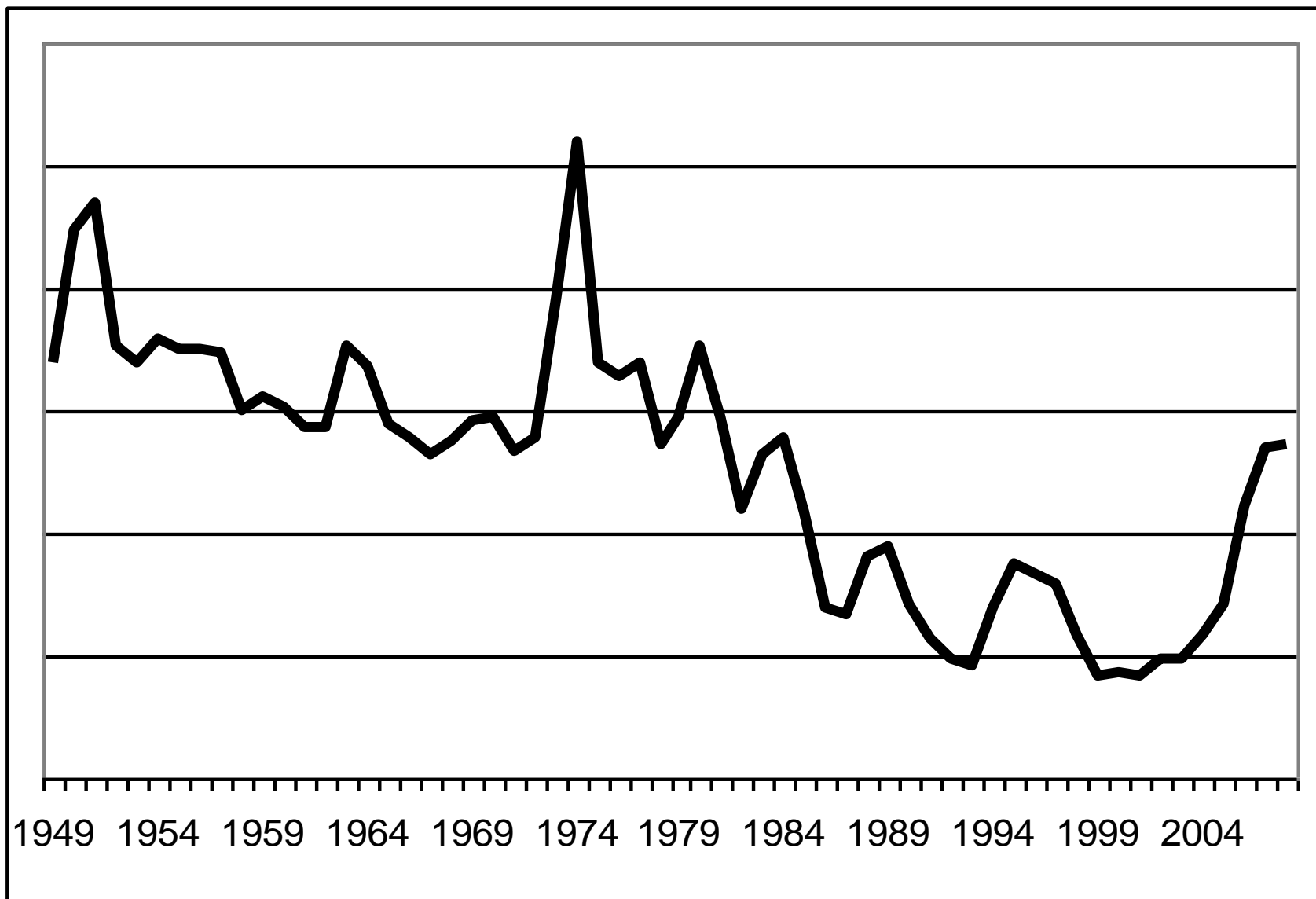
- Low rates of technological progress in supplying industries
- Often inputs are technologically complex and required large scale production
- Resource extracting (foreign-owned) firms are reluctant to source locally
- Adverse terms of trade
- **THEREFORE DIVERSIFY INTO UNRELATED SECTORS**



But ...

- The terms of trade are changing –
supercycle?

The commodities-manufactures terms of trade (1949-2008)



Source: Compiled from data from Pfaffenzeller et al (2007)



But ...

- The terms of trade are changing – supercycle?
- A profound change in corporate strategies to focus on core competences and to outsource



Production linkages

- Core competences:
 - Unique to the firm
 - Difficult to copy
 - Valued by customer
- Outsourcing to least cost supplier
- Nearsourcing is better than farsourcing



But ...

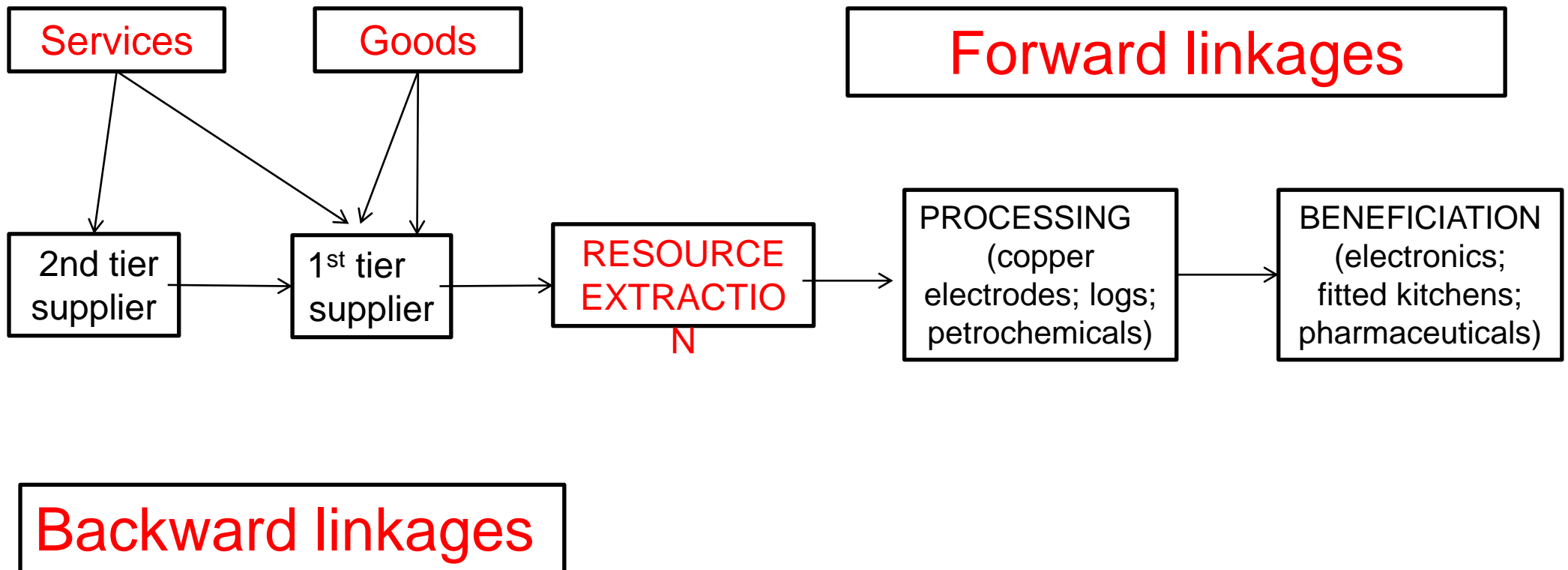
- The terms of trade are changing – supercycle?
- A profound change in corporate strategies to focus on core competences and to outsource
- **Value chains are very complex with numerous backward and forward linkages**

The commodity components of the primary sector

Primary Sector	Category	Major Use	Examples
Soft Commodities	Industrial Crops	Input in manufactures	Timber, Cotton
	Fisheries	Final Consumption (with limited processing)	Prawns, cod
	Cereal		Rice, Wheat
	Beverages		Tea, Coffee, Cocoa
	Livestock		Cattle, Dairy products
Hard Commodities	Precious Metals	Store of value (i.e. financial investment)	Gold, Silver, Platinum
		Input in manufactures	
	Ferrous Metals	Infrastructure and Construction	Iron Ore and Steel
	Non-Ferrous Metals	Input in manufactures	Copper, Zinc, Lead, Aluminium
	Rare metals	Input in manufactures	Molybdenum
Plutonium Cobalt			
Energy	Petroleum products	Fuel for industrial usage	Oil, Natural Gas and Coal.
	Coal		
	Nuclear	Final consumption	Nuclear power
	Renewables		Renewable power



VALUE CHAINS ARE FRAGMENTED AND INCREASINGLY COMPLEX





What does this mean for linkages?

- The market as a driver for linkage development



What does this mean for linkages?

- The market as a driver for linkage development
- But the market has imperfections and there is a need for state support

One Thing Leads To Another

Promoting Industrialisation by Making
the Most of the Commodity Boom in
Sub-Saharan Africa



Mike Morris, Raphael Kaplinsky
and David Kaplan



Free download from
<http://tinyurl.com/CommoditiesBook>

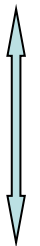
**Raw
Materials
Group**

Linkages in the commodities sector

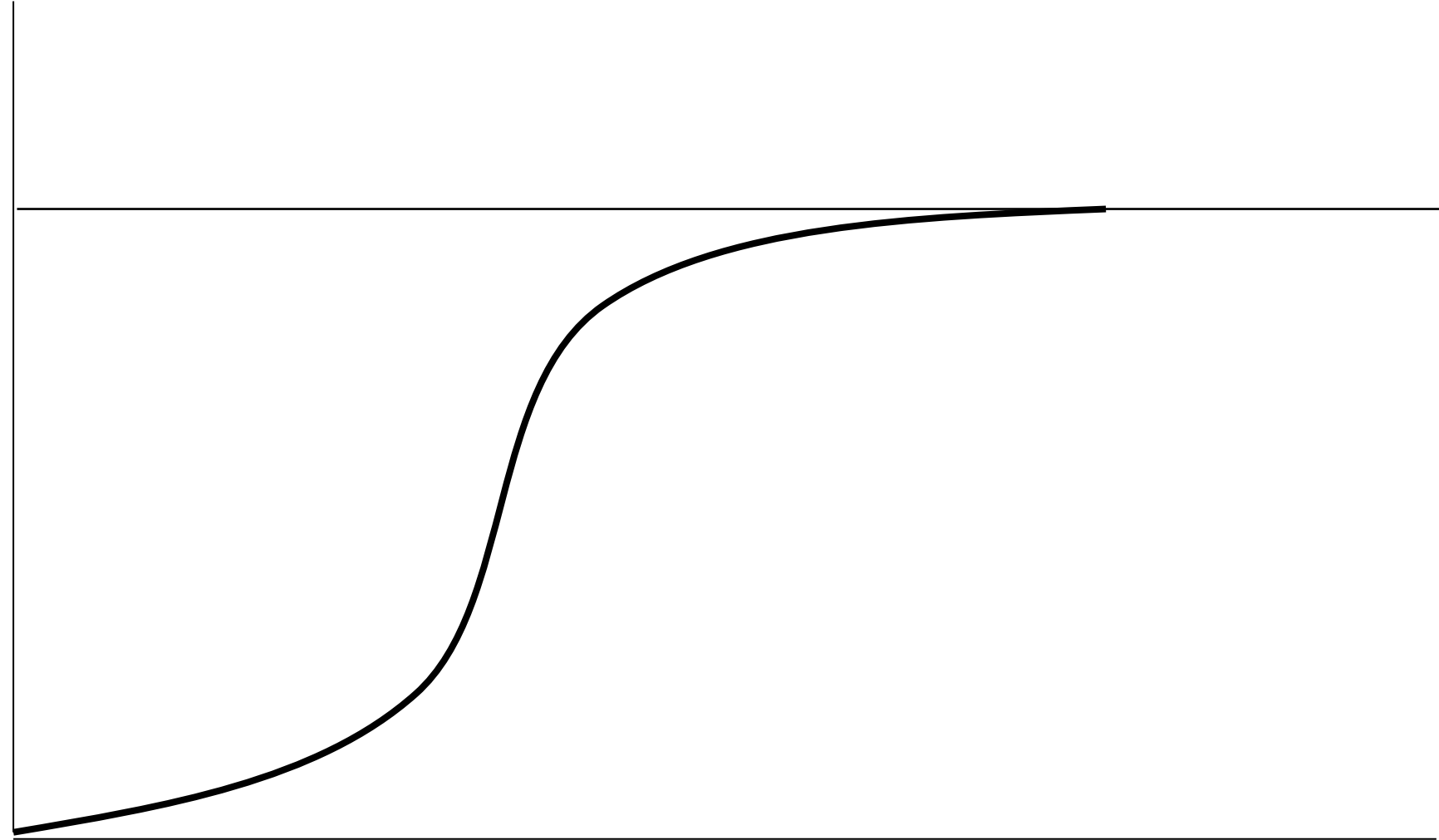
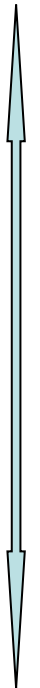


Value added

Inside core
Competences
- win-lose



Outside
Mining
Company
core
competences
- win-win



Time

Linkages in the commodities sector



Value added

Speeding up and deepening

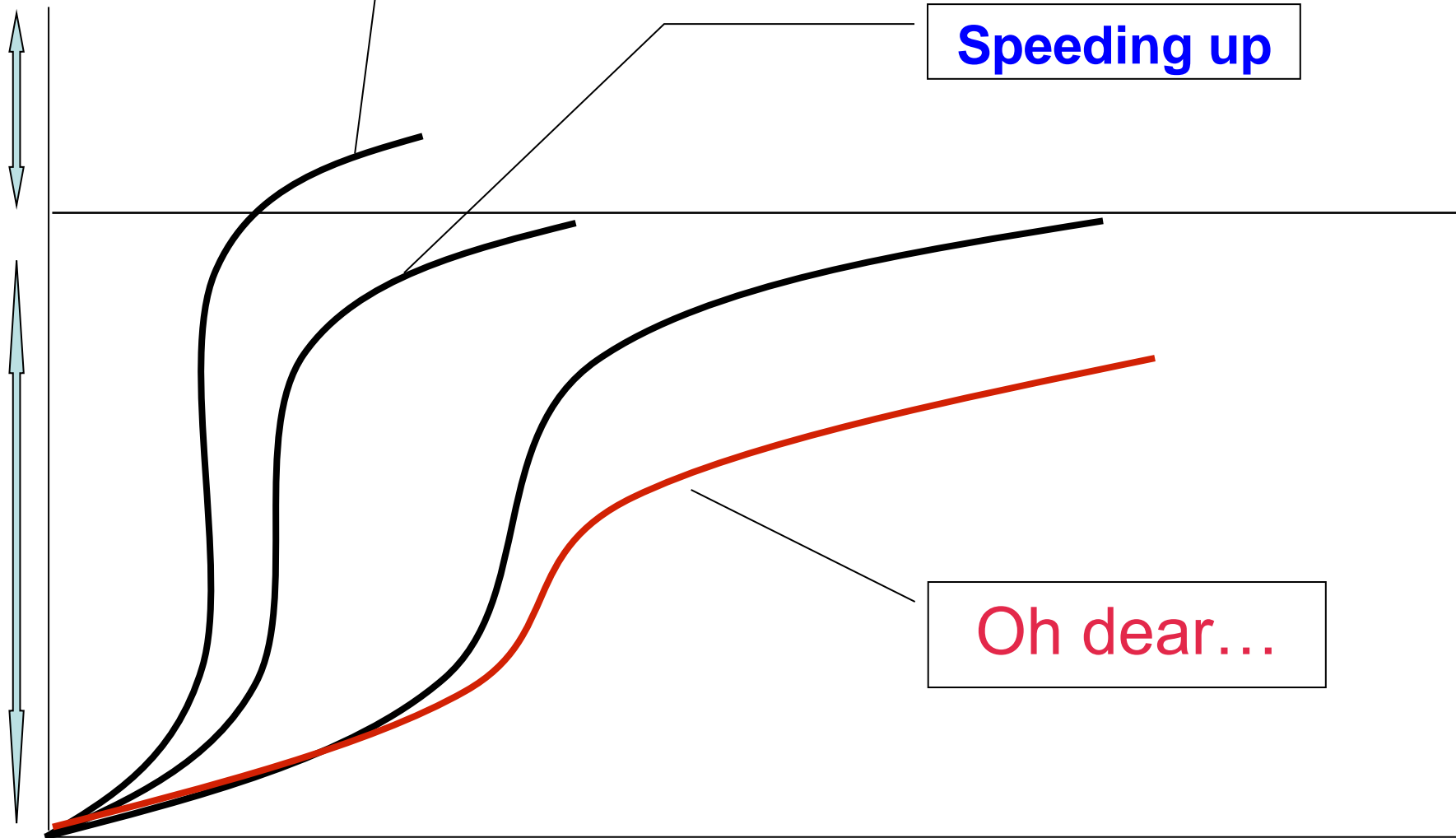
Speeding up

Oh dear...

Inside core
Competences
- win-lose

Outside
Mining
Company
core
competences
- win-win

Time



Detailed research in Africa shows that industrial linkages are a function of

- The sector
- Skills and capabilities
- Infrastructure
- Ownership
- POLICY



Getting the policy right

- This applies to both public and private actors
- Develop a strategy
- Develop policies
- Policies must have sanctions and incentives
- Policies must align
- Attune policies to capabilities
- Is there policy will?
- Stakeholder alignment



A policy checklist

	Within govt	Within firms
Strategy		
Policies		
Incentives and sanctions		
Policy alignment		
Capabilities		
Will		
Alignment		

Who?



- Stakeholders
 - Governments
 - Private sector with key role for lead value chain firms
- Interested parties
 - National Systems of Innovation actors
 - Civil society
- Facilitators
 - UNCTAD, UNIDO
 - World Bank
 - Bilaterals



Flexible rigidities...

- *“If you don’t know where you are going, you will probably land up somewhere else”* (Philips R&D Manager)
- *If I knew what the picture looked like before I started, why would I bother”* (Matisse, with apologies to Mintzberg’s Emergent Strategy)