Development Strategies of LDCs: Commodities Matter

By

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Common Fund for Commodities
Commodity dependence: the facts

- Widely used estimate is 2.1 bn people deriving large part of their income from commodities
- 55 countries belong to CDDC group i.e. >50% dependent on non-oil commodities
- CDDCs’ share of all commodity trade fell from 5.8% to 4.2% over past 10 years
- Unit prices received by CDDCs below average for 12 out of 16 largest commodities (P. Gibbon, CFC 2006)
Resource curse

From: Linking Natural Resources to Slow Growth and More Conflict
Resource curse

- Relation between commodity dependence and poor growth is widely recognized to exist. The causes are a subject of much debate.
- The “Usual Suspects”:
  - Poor governance: corruption, institutional weakness
  - Conflict caused by rent seeking groups
  - “Dutch disease”
Volatility: significant part of the curse

- Volatility:
  - Benefits of resource endowment swamped by negative effect through volatility
  - the resource curse is less pronounced when financial sector develops
  - landlocked countries with ethnic tensions have higher volatility and lower growth


- Impact capital intensive sectors first
Volatility: hitting commodity producers first

- In the long run, primary commodities decline relative to manufactured goods. Commodity producers lose their economic share (Prebisch-Singer hypothesis)
- Producers of perishable commodities have weak bargaining position
- Poor bargaining position in value chain means producers must absorb most of the price volatility
- Particularly destructive for small producers in LDCs
Volatility: mostly affecting the poor

- The brunt of price fluctuations falls on the least efficient market player
- The damage from market volatility focuses on the weakest commodity producers
- Weak competitiveness hurts national economies of the poorest countries, i.e. LDCs
What matters first:

- NOT the scale, but
- Precise targeting of interventions against constraints:

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<th>Marketing</th>
<th>Capacity and capability</th>
<th>Financing</th>
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<td>quality</td>
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