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Diversification and Value Addition

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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 >= 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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