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**Export diversification as a commodity price risk management strategy:
introducing new tools and approaches**

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



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Agenda

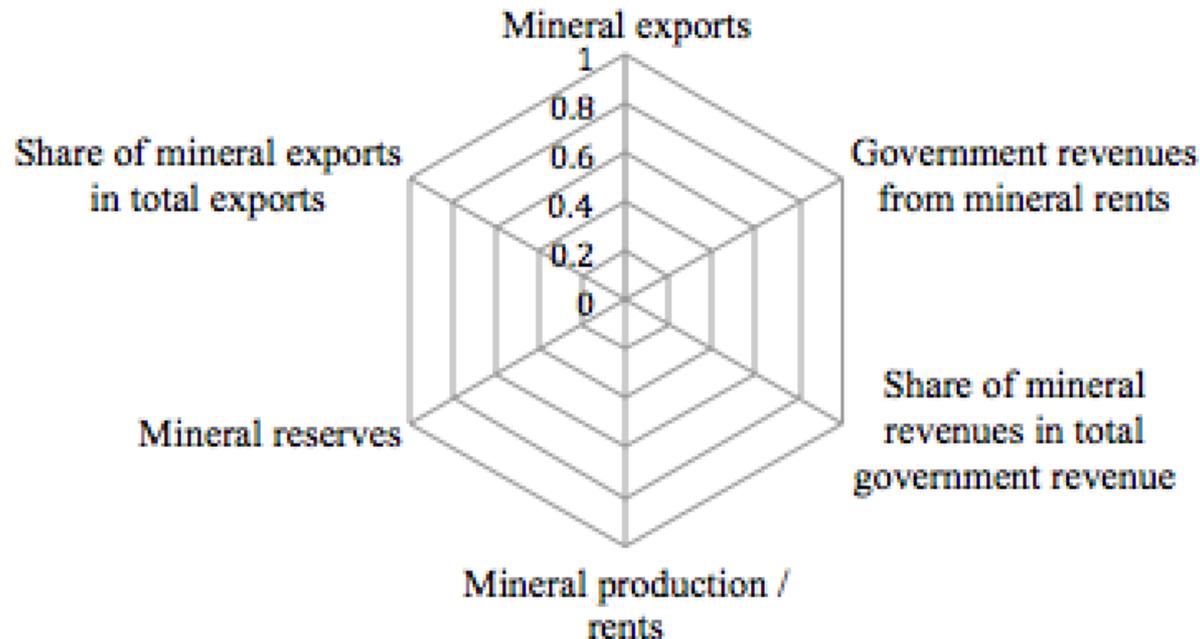
1

How to measure resource abundance? : *The multidimensional diagnostic tool*

2

How to manage resource revenues...for economic diversification?

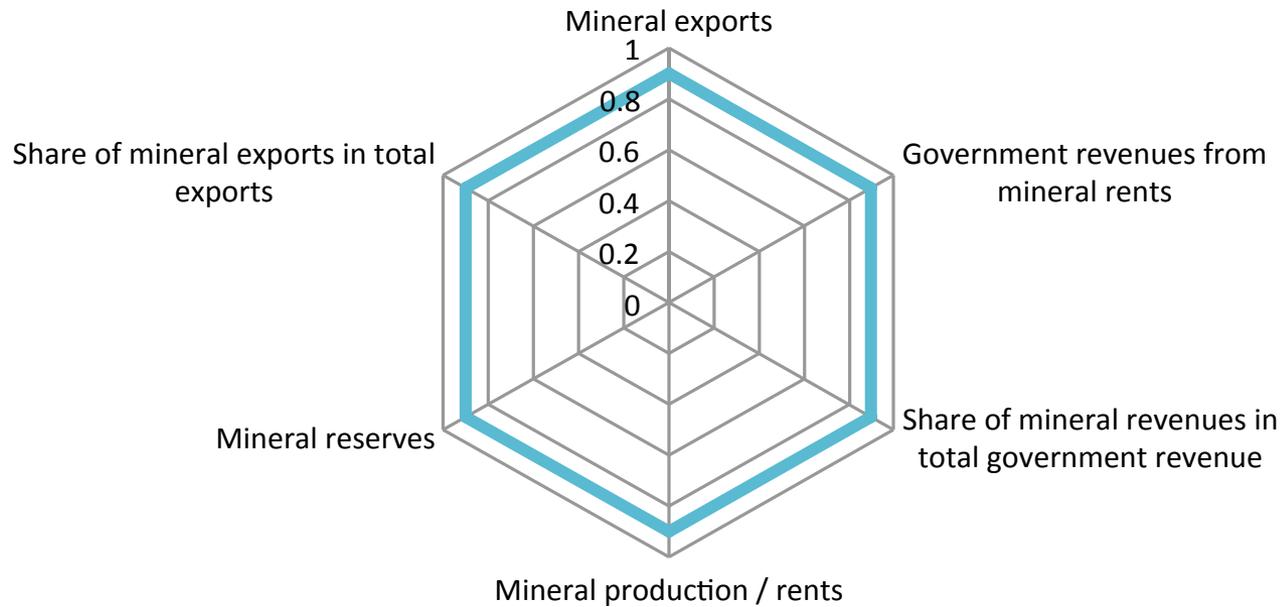
Towards a multidimensional approach to examine resource abundance



- Weights different indicators of resource *abundance* and *dependence*
- Can serve as the basis of a diagnostic tool to identify the policy challenges a resource rich country is facing
- All indicators are expressed in per capita terms and in USD (apart from the share of mineral resources in total exports and government revenues)

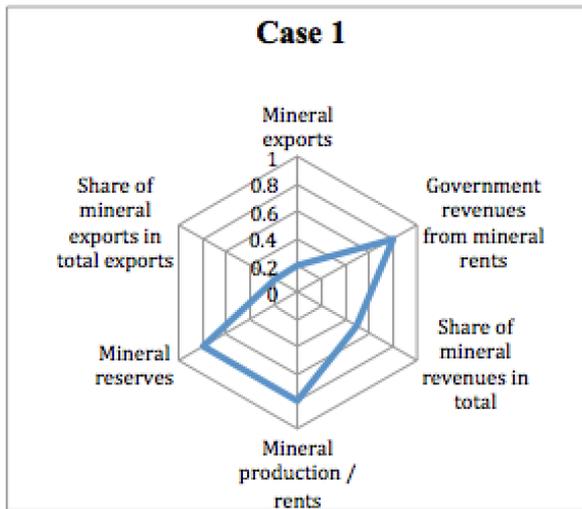
Seven Different Scenarios 1/2

Case 0

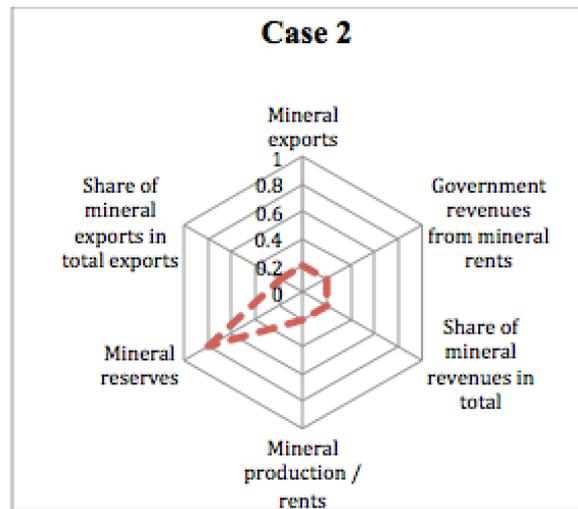


Both resource rich and resource dependent

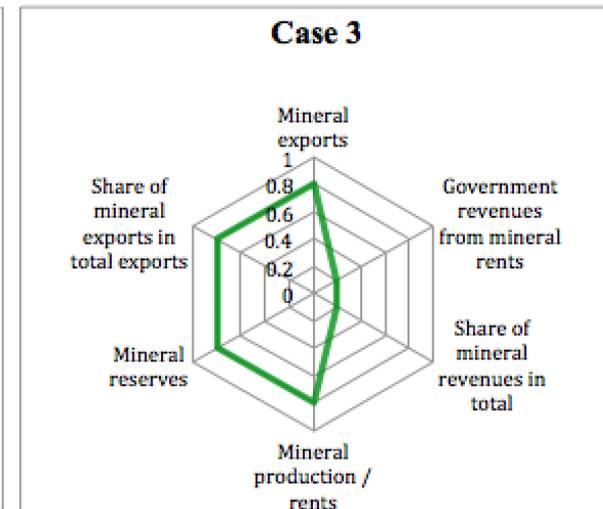
Seven Different Scenarios 2/2



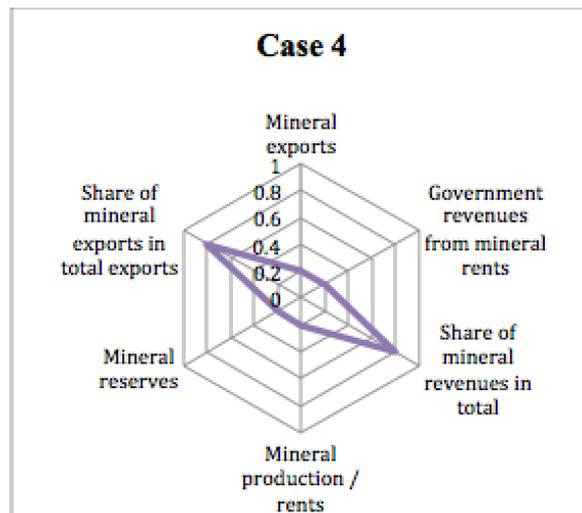
Domestic consumption or value addition



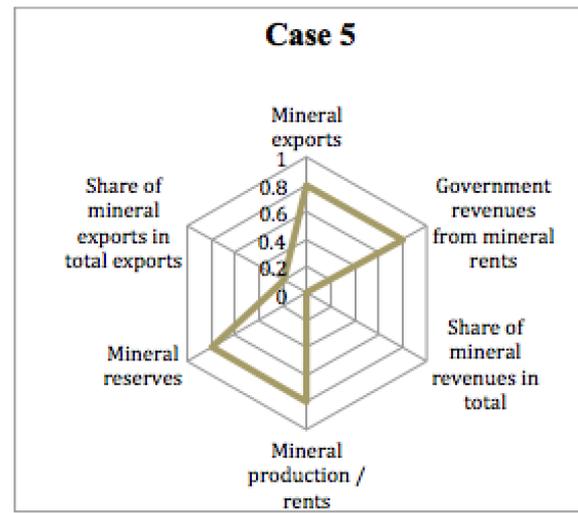
Low attractiveness for extractive investments



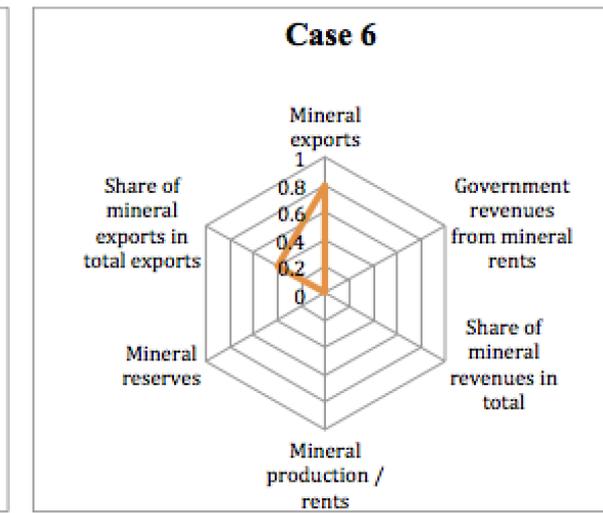
Low appropriation of resource rents



Resource dependent but resource poor

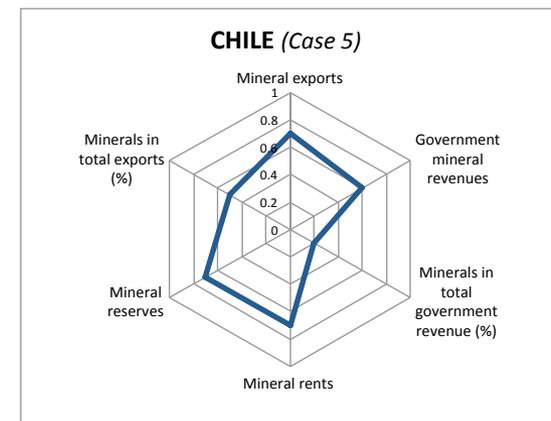
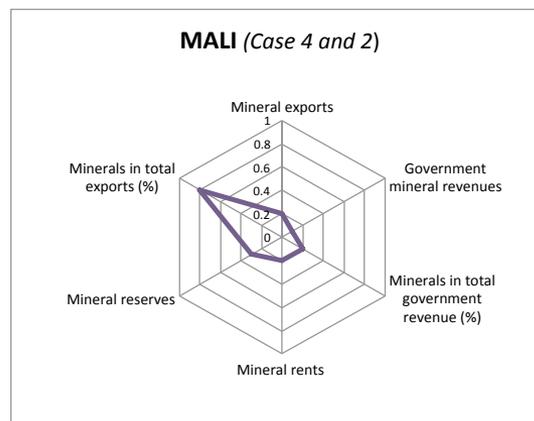
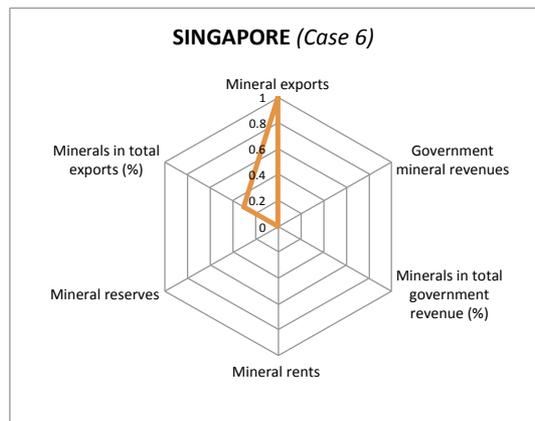
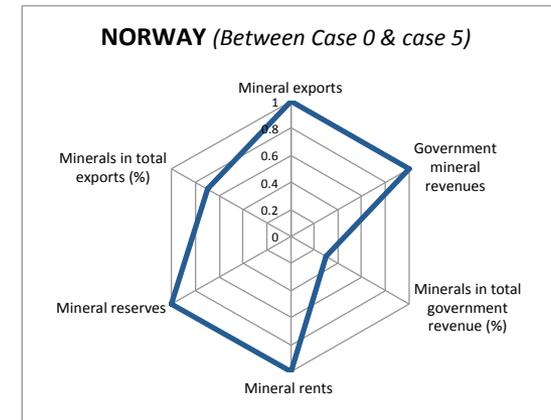
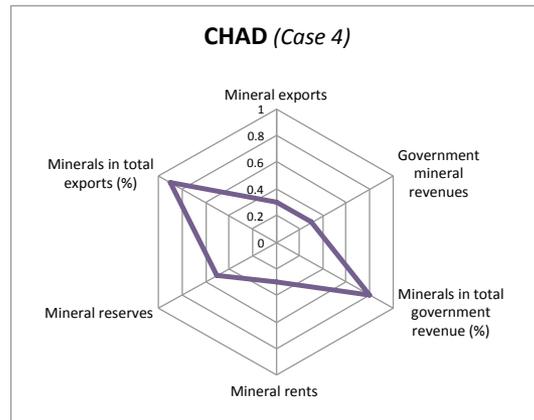
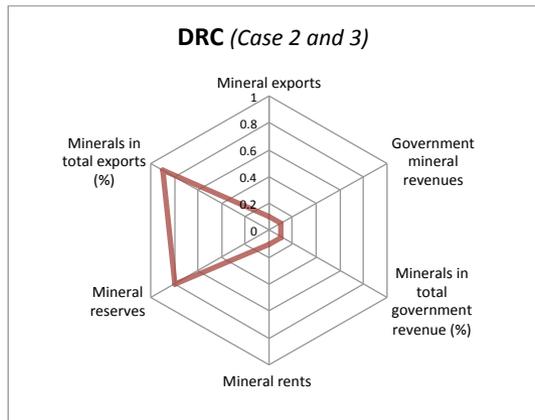
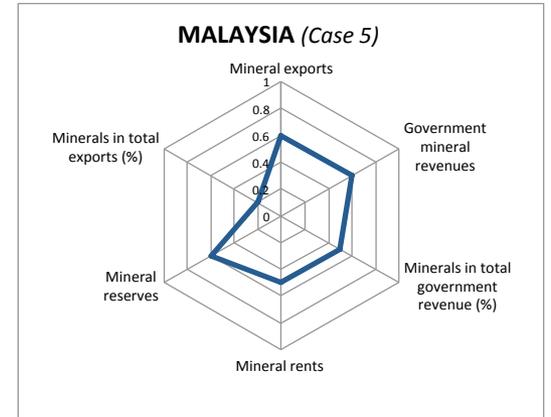
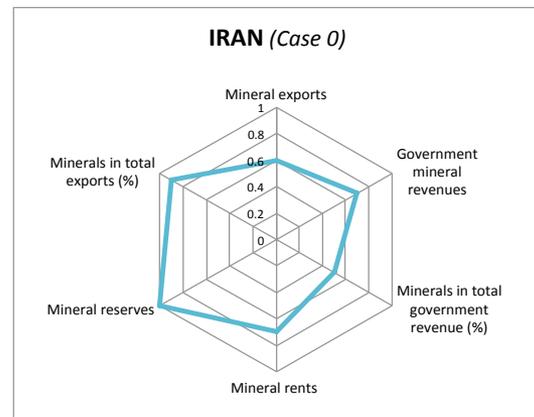
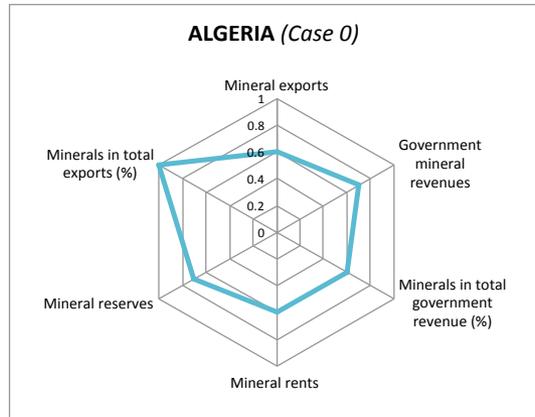


Resource rich but not resource dependent



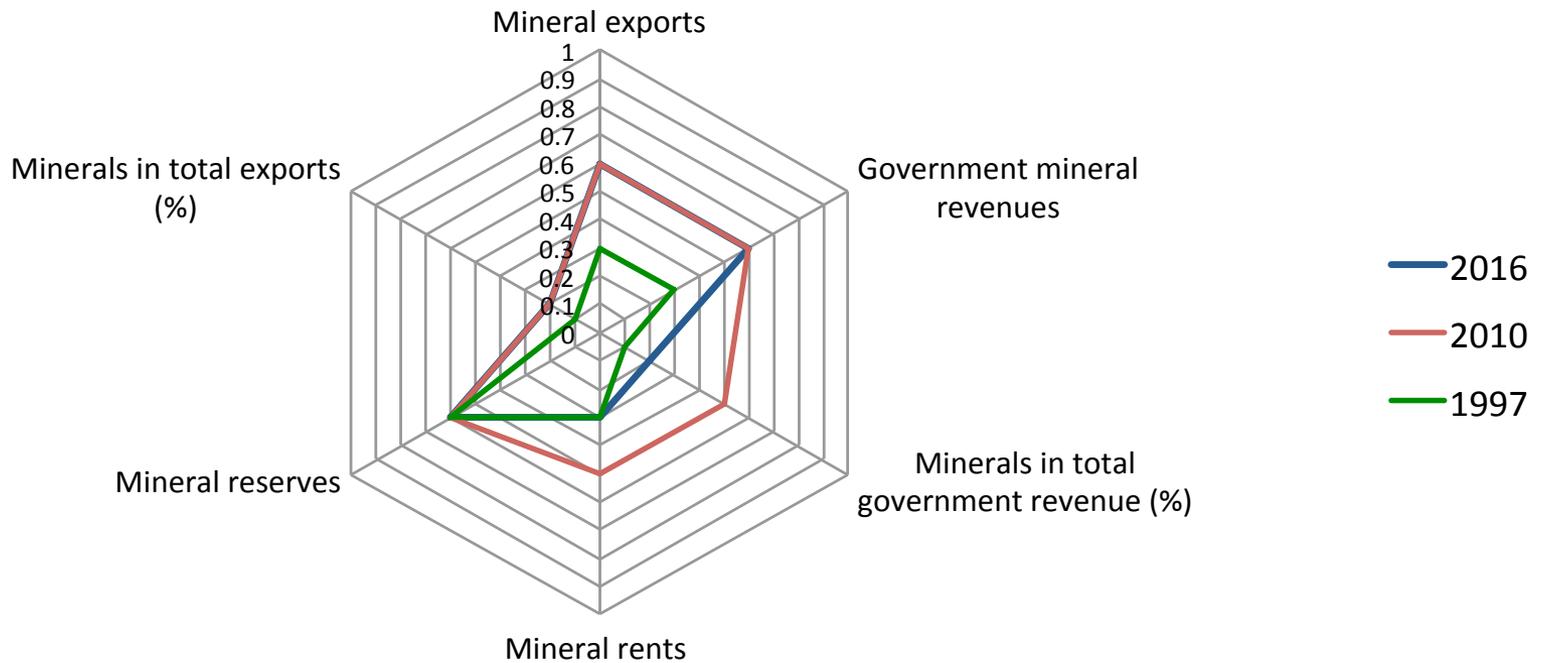
Resource poor but resource exporter

Resource abundance comes in several shapes: the cross country evidence (2010)

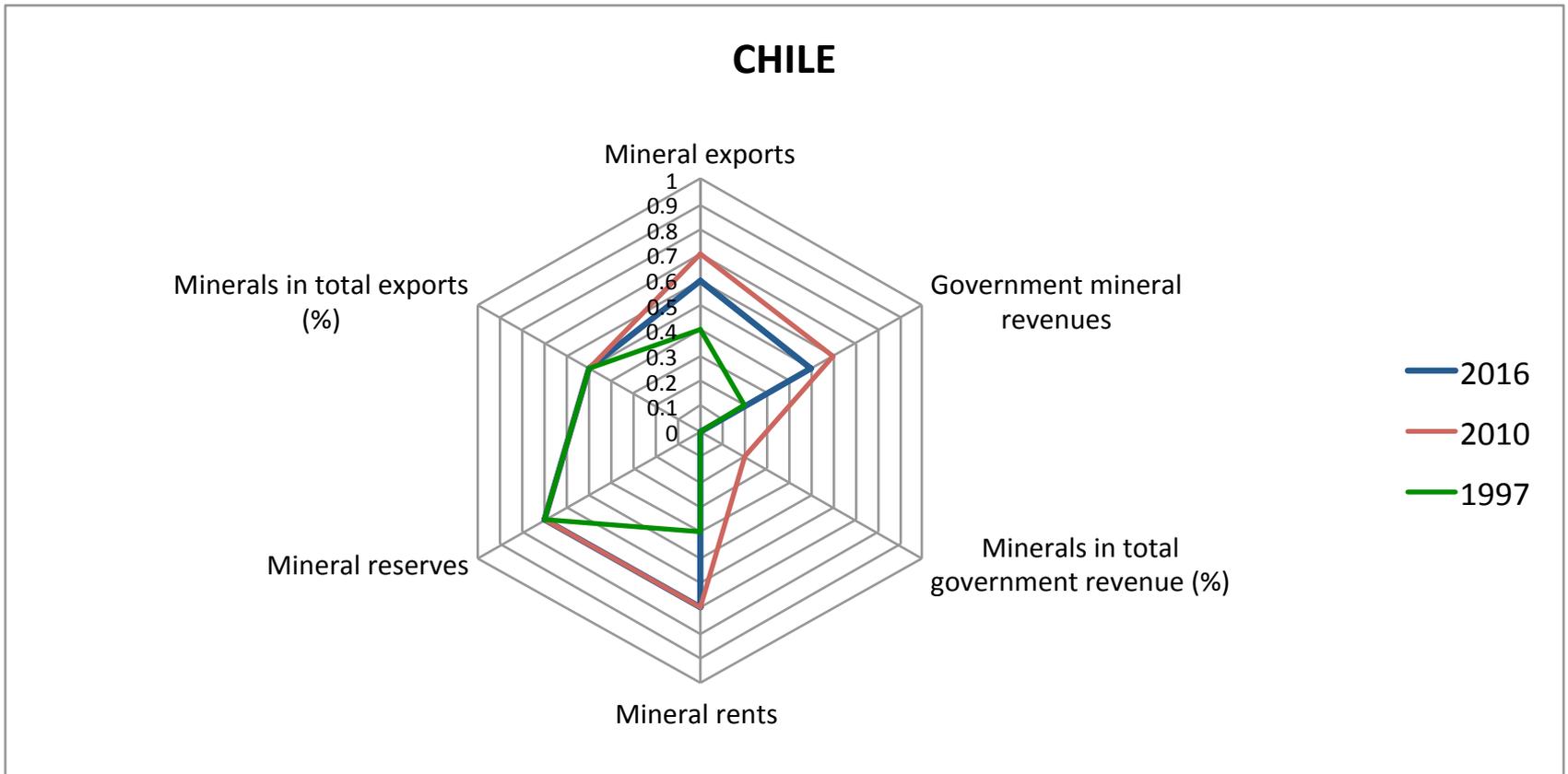


Evolution over time for selected countries 1/5

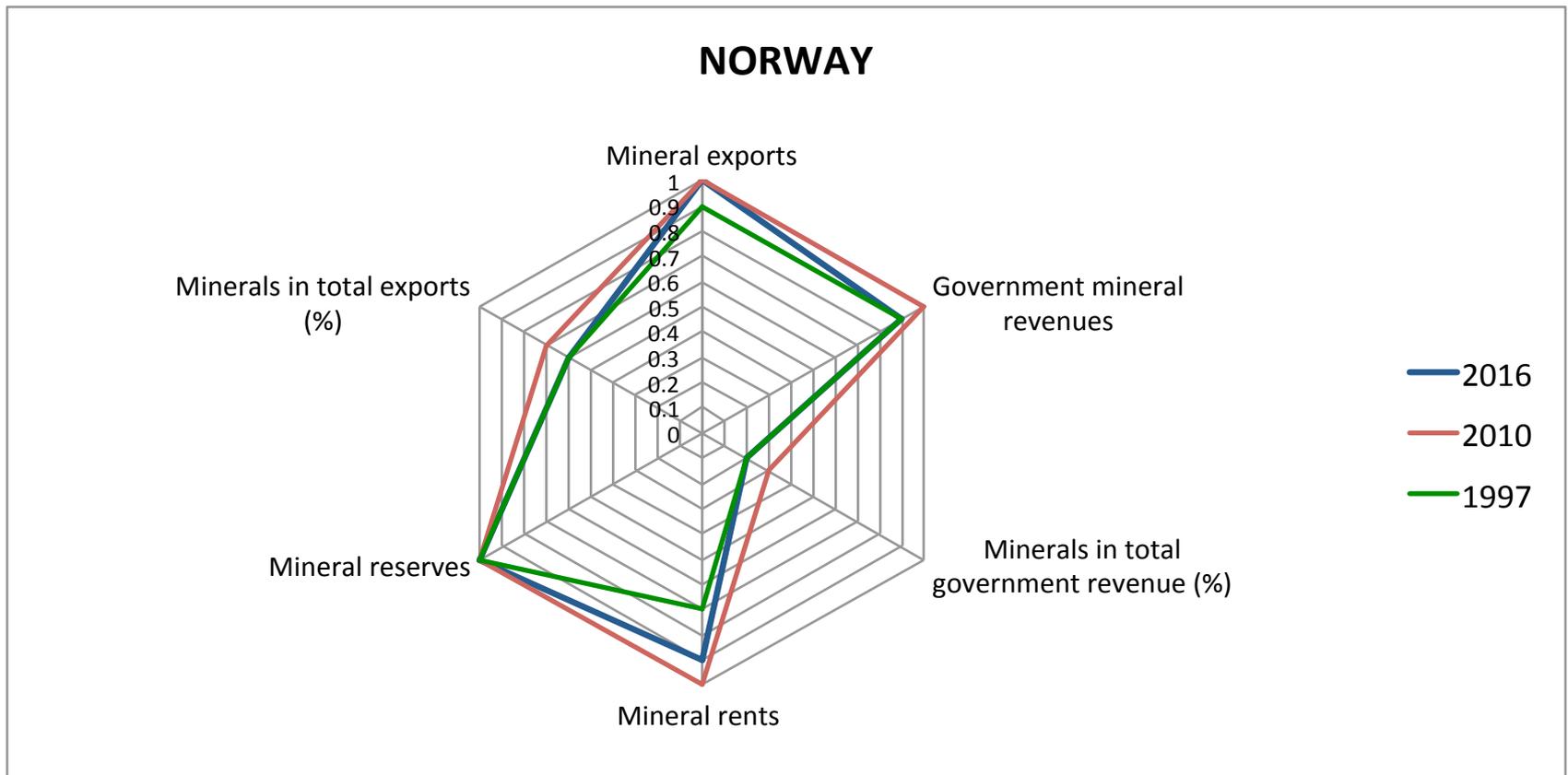
MALAYSIA



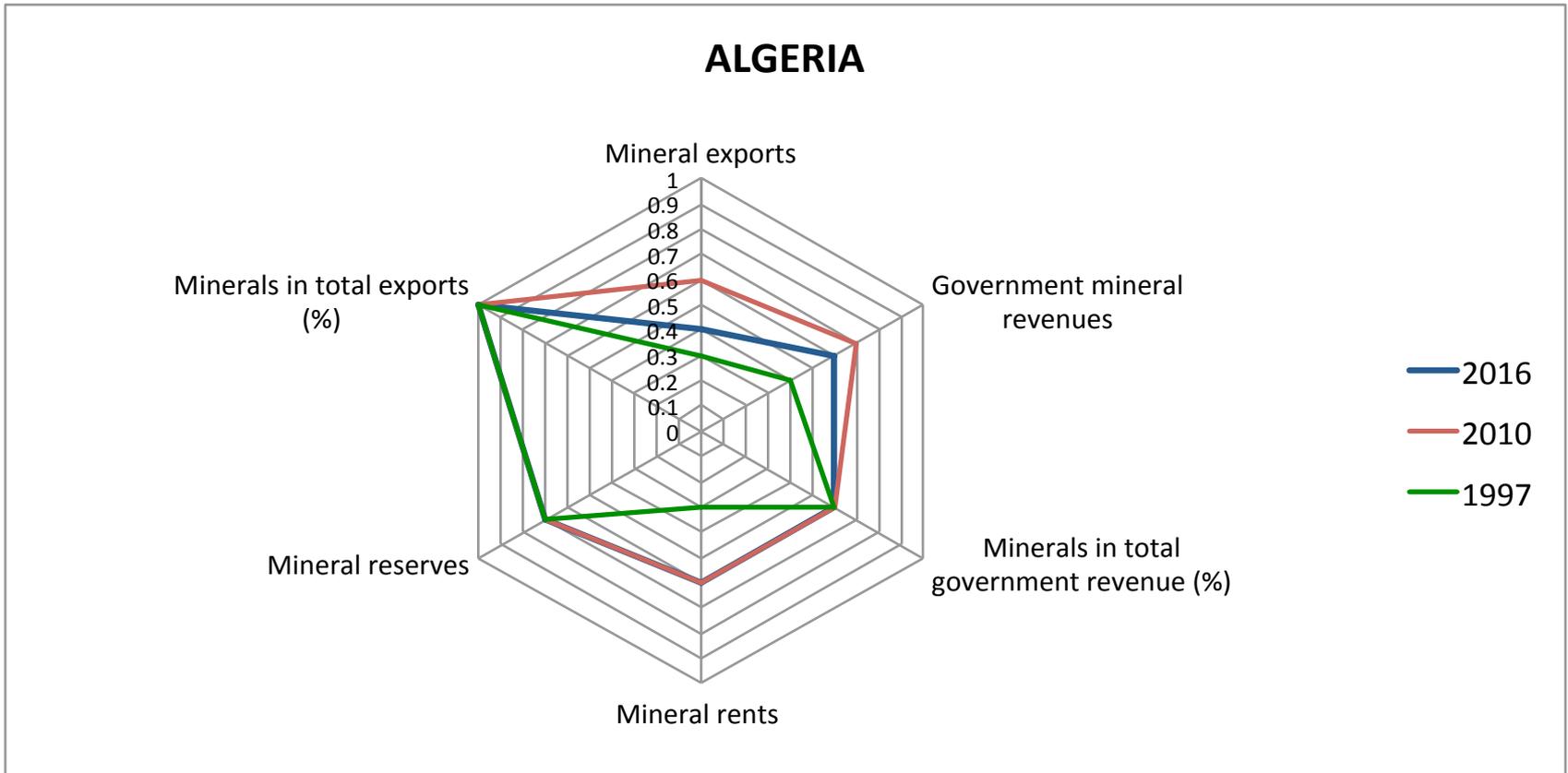
Evolution over time for selected countries 2/5



Evolution over time for selected countries 3/5

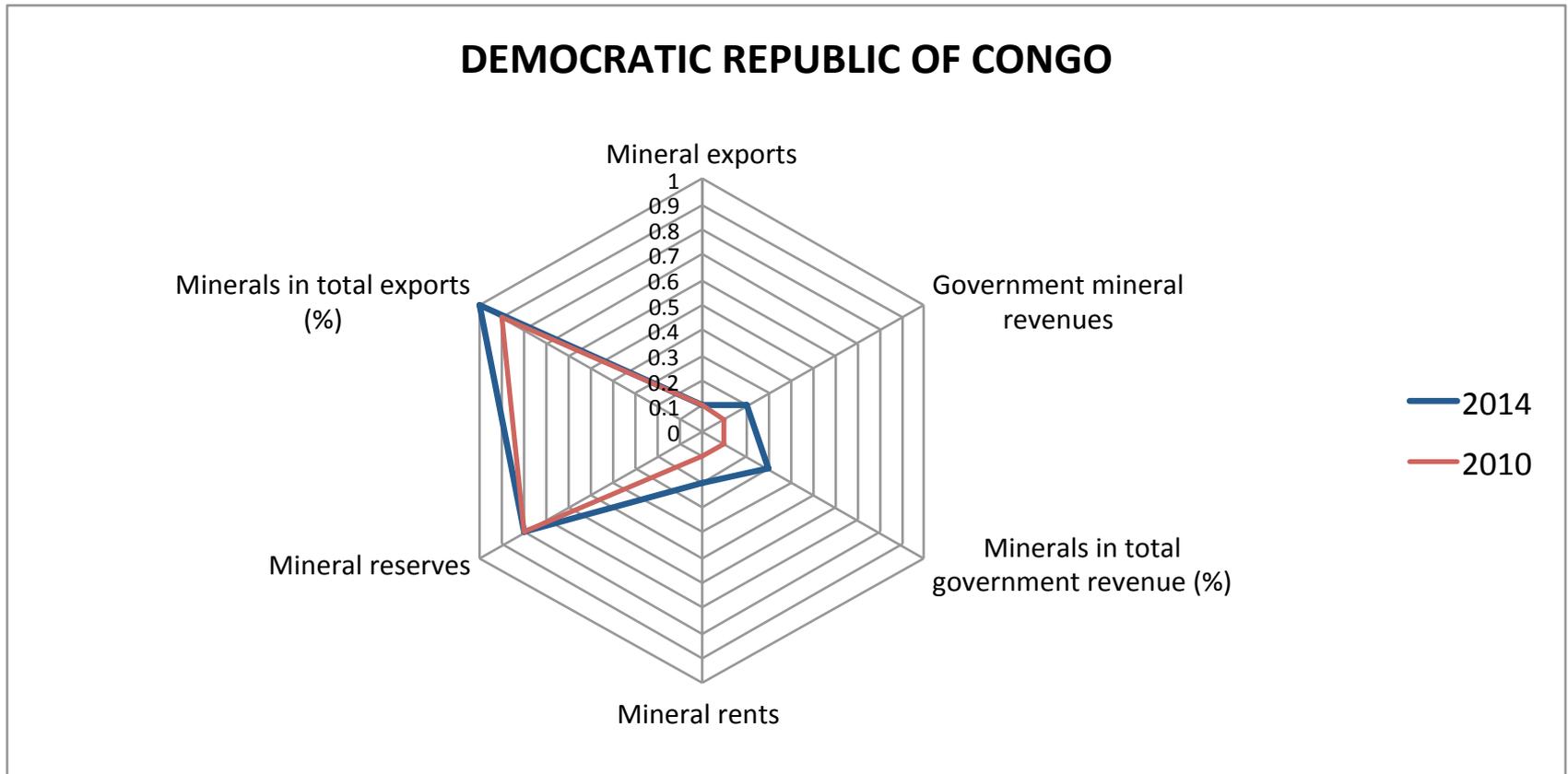


Evolution over time for selected countries 4/5



- In times of low commodity prices, Algeria's "shape" shifts from case 0 to case 4 (extreme dependence)
- In contrast to Malaysia and Chile, Algeria remained dependent on commodities despite the decrease in commodity prices, which is dangerous and highlights the economic vulnerability of the country

Evolution over time for selected countries 5/5



- Within four year, the DRC has managed to appropriate more government revenues.
- This is the result of the reform of the mining tax code in 2012, which aims to increase government revenues from mineral extraction. Results are already visible & further efforts are required in that direction.

Takeaways from part 1



It is important to grasp the **multidimensionality** of resource abundance to distinguish resource abundance, resource dependence and helps shift attention away from the “all encompassing” resource curse argument towards understanding the **specific salient challenges** of resource-based development in a given country at a given time



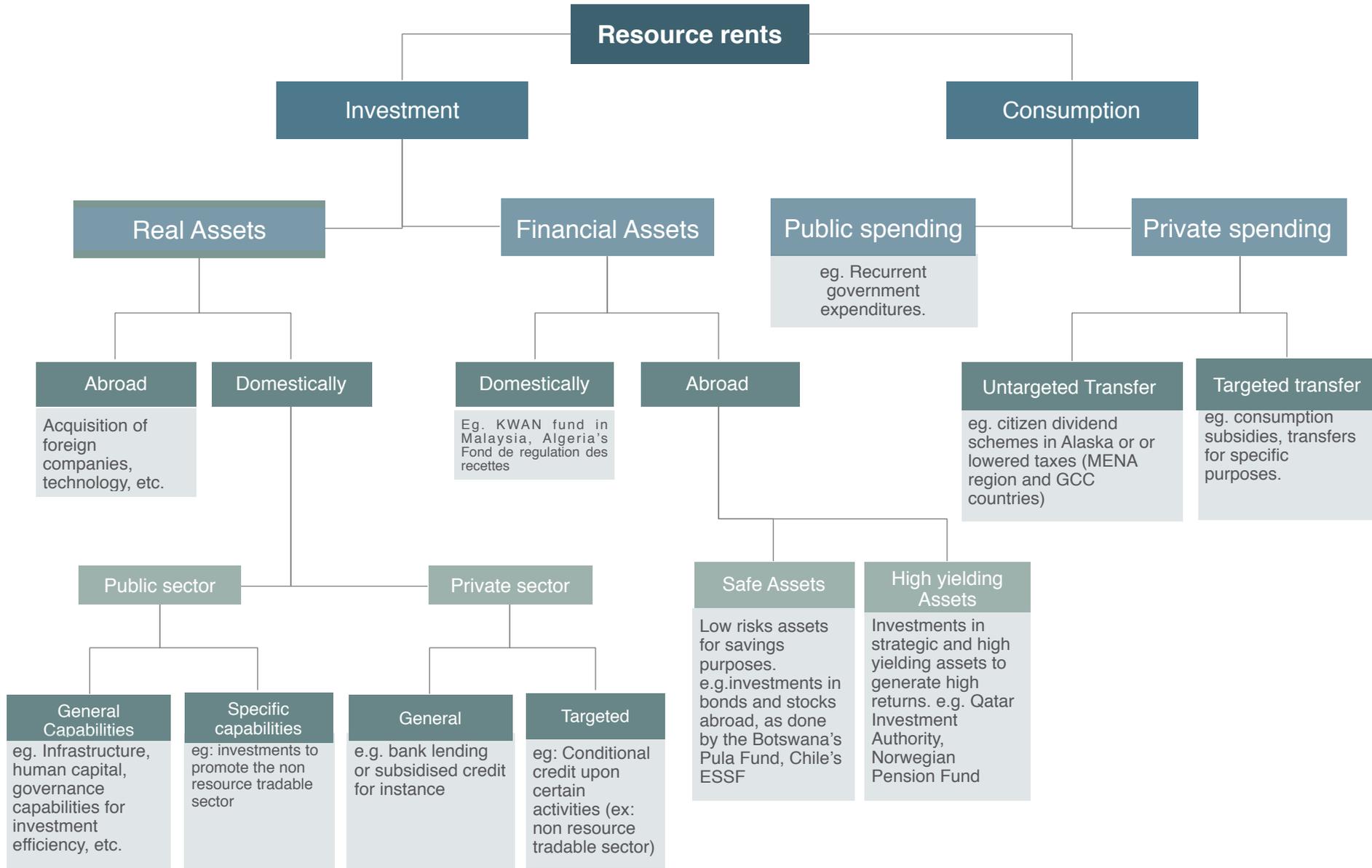
Case 0, Case 3 and Case 4 are the ones that reflect the most **vulnerability to commodity price fluctuations** and **urgency to diversify**.

Part 2

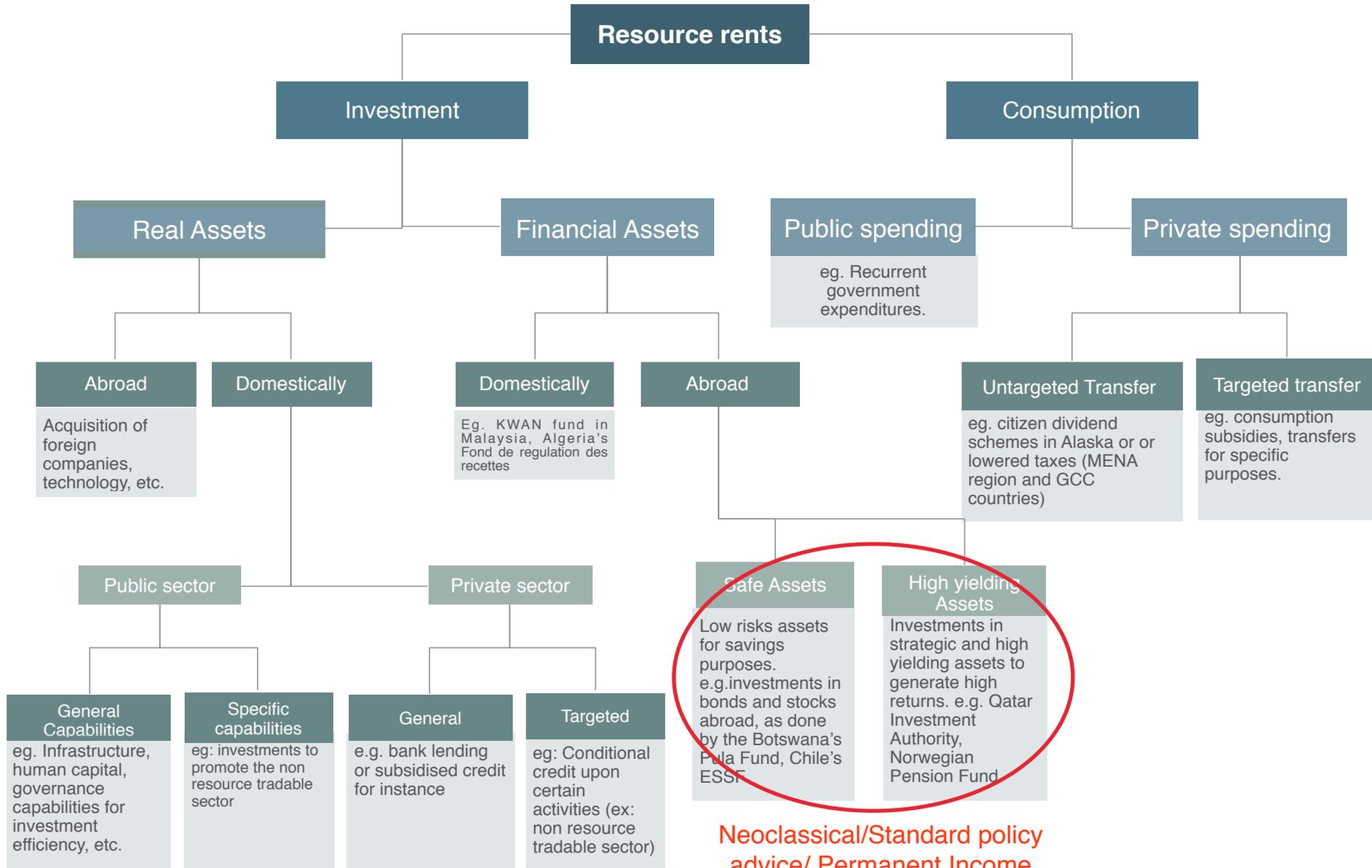
2

How to manage resource revenues...for economic diversification

Options for resource revenue spending

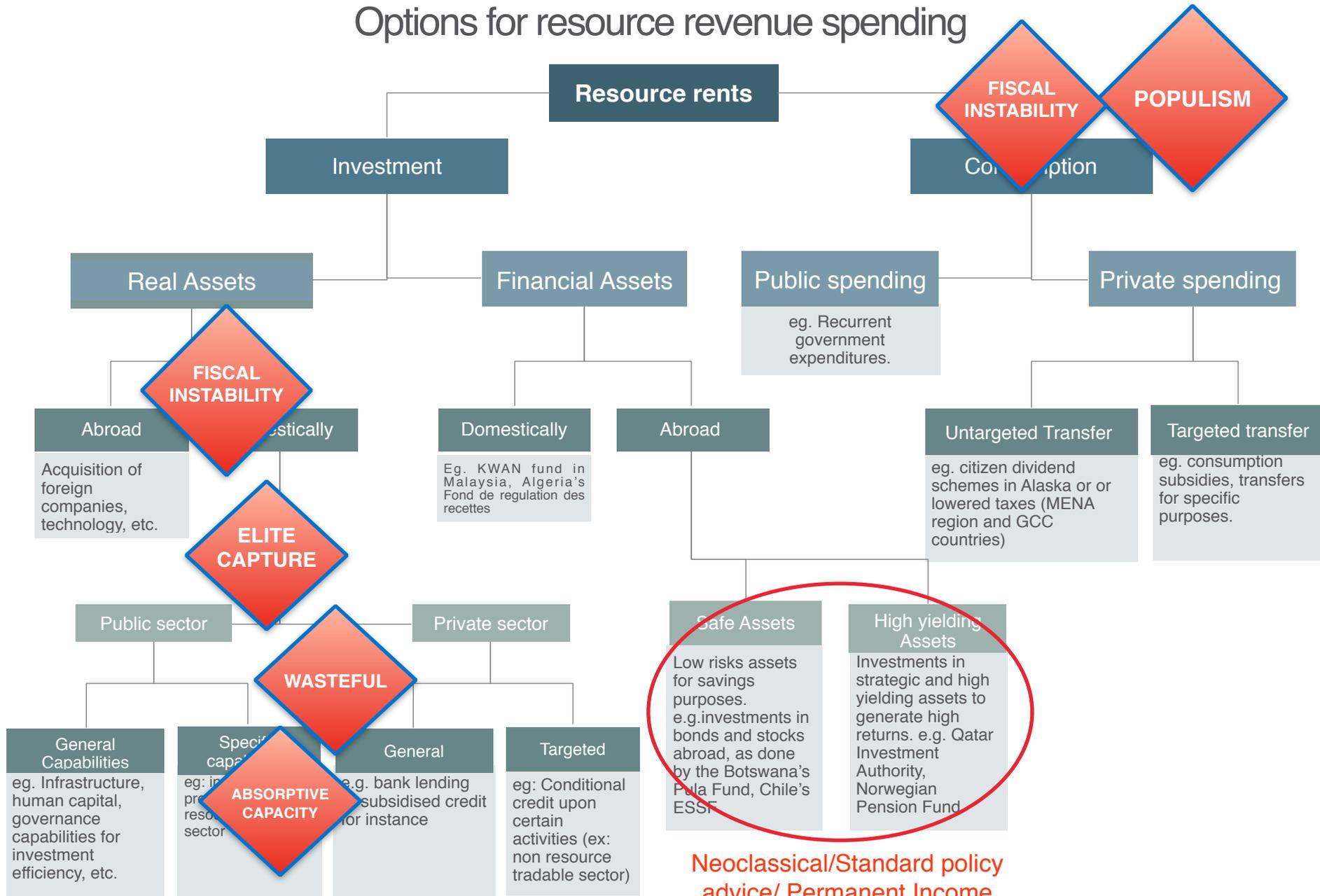


Options for resource revenue spending



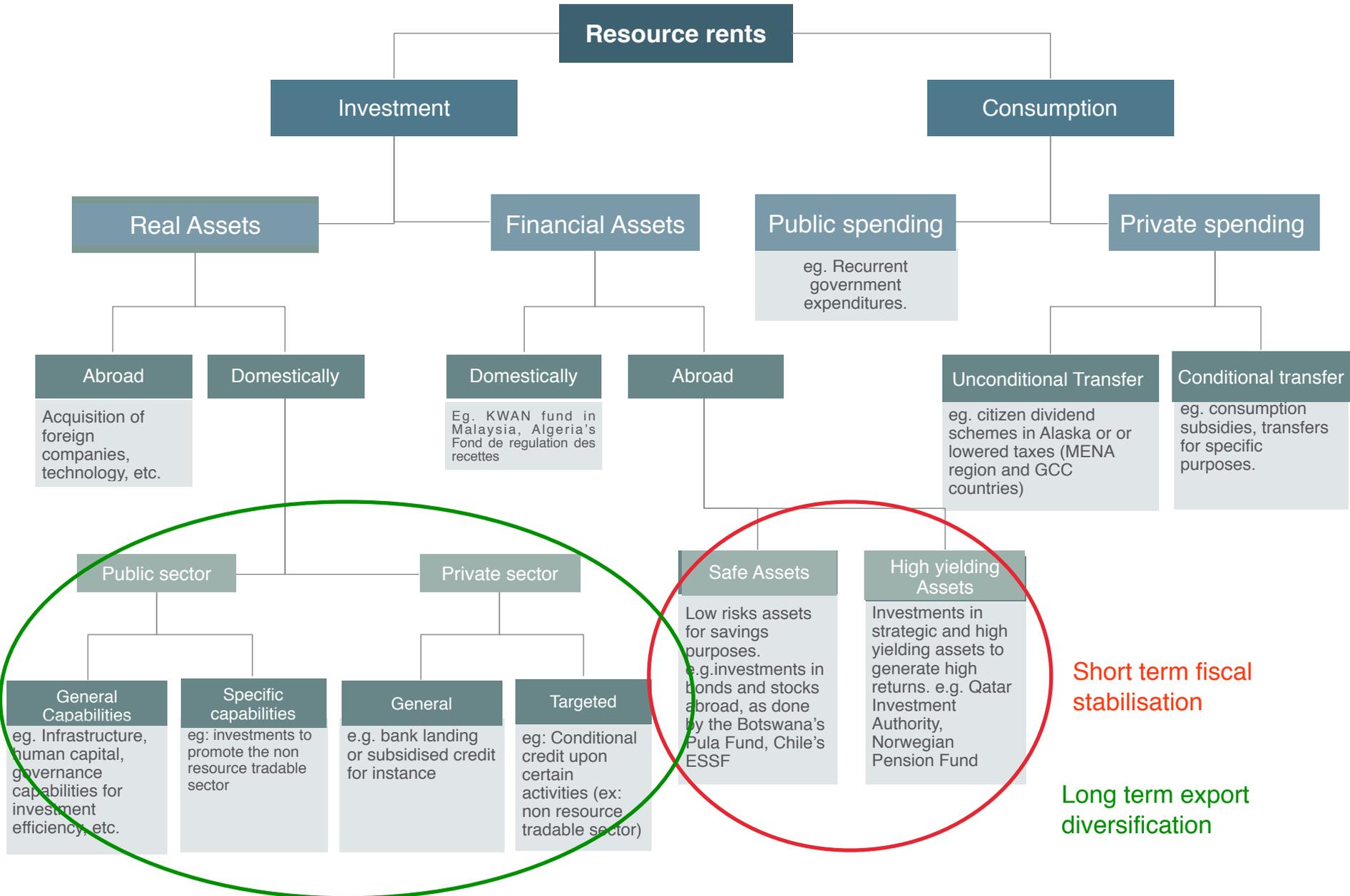
Neoclassical/Standard policy advice/ Permanent Income hypothesis

Options for resource revenue spending



Neoclassical/Standard policy advice/ Permanent Income hypothesis

Options for resource revenue spending



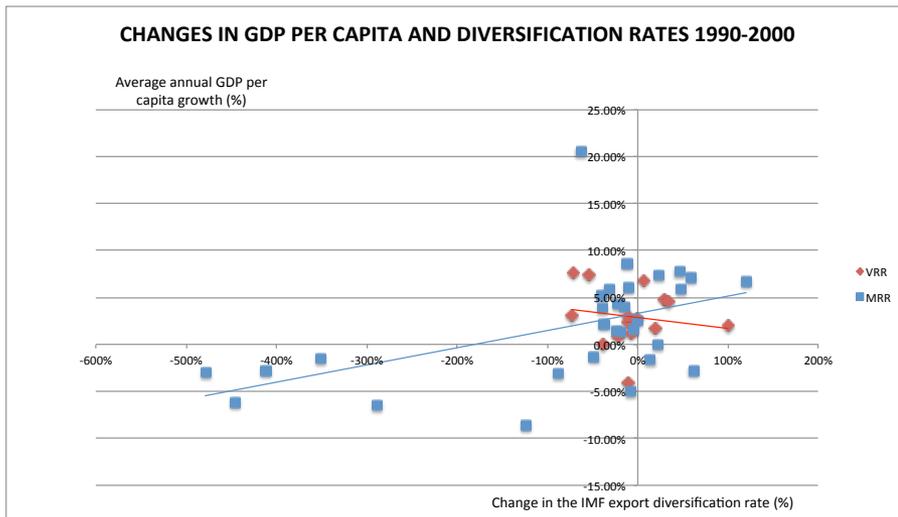
Short term fiscal stabilisation

Long term export diversification

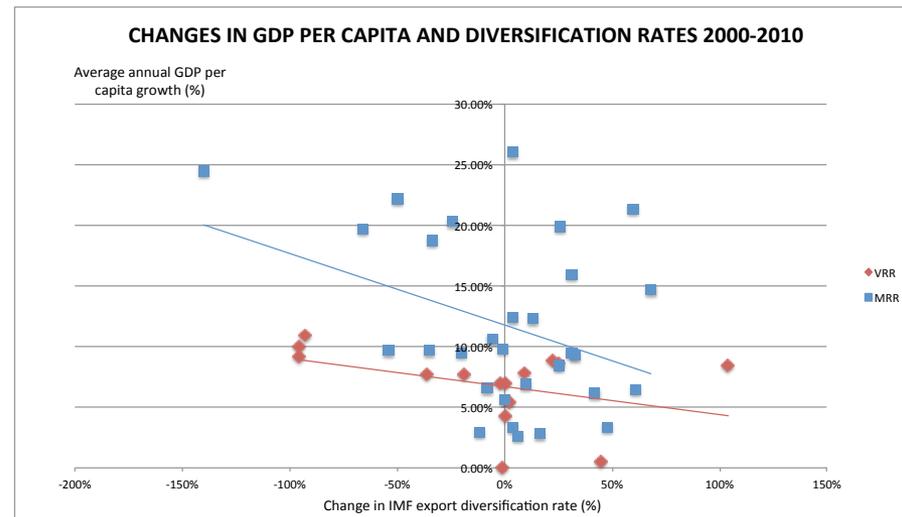
Why, ***When*** and ***How*** does export diversification matters?

Observation 1: The correlation between GDP growth and Export diversification varies over time

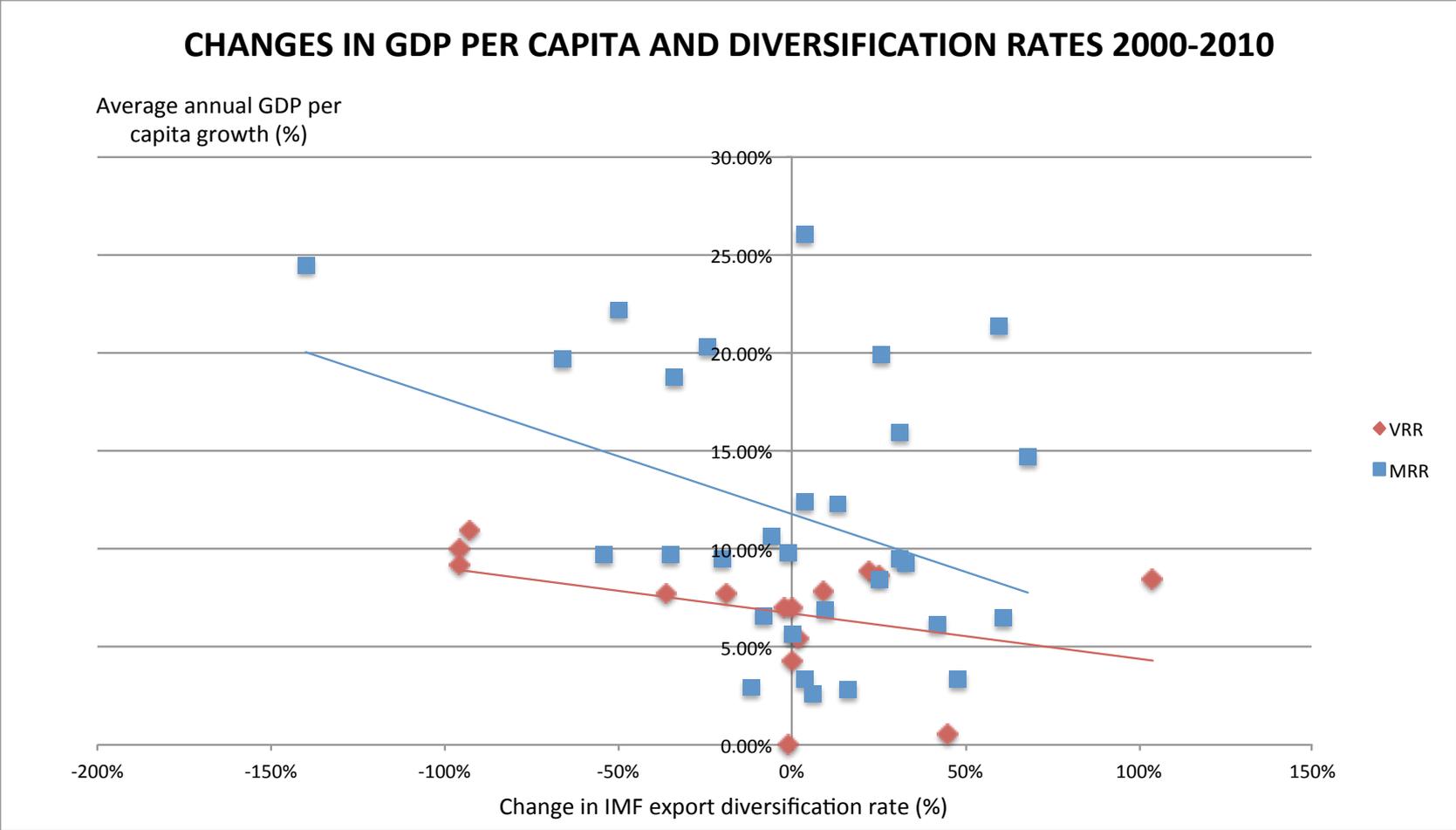
Low commodity prices



high commodity prices

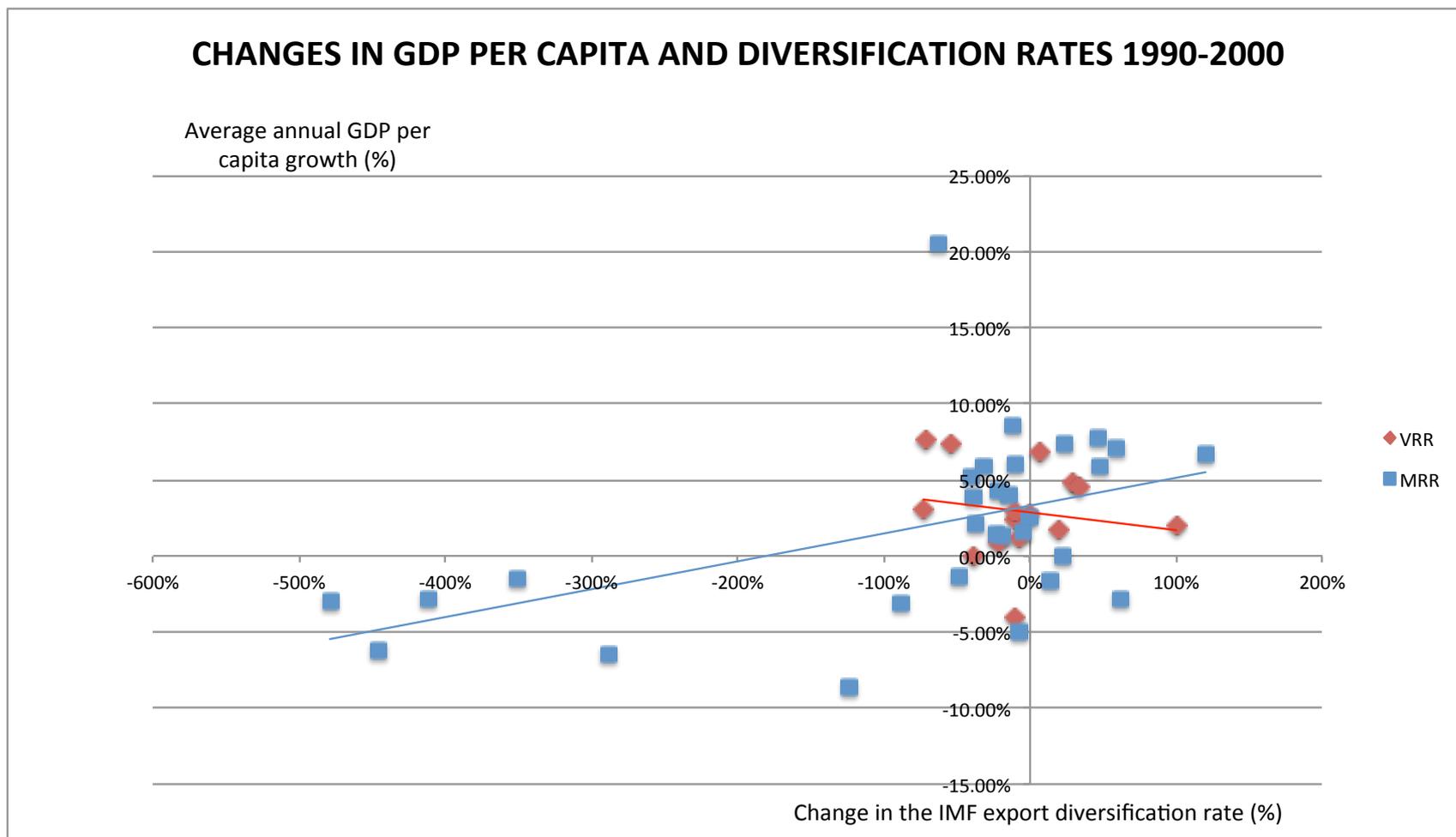


Observation 1: GDP growth and diversification in times of **high commodity prices**



Source: IMF (2018), World Development Indicators (2018) and author's calculations

Observation 1: GDP growth and diversification in times of **low commodity prices**



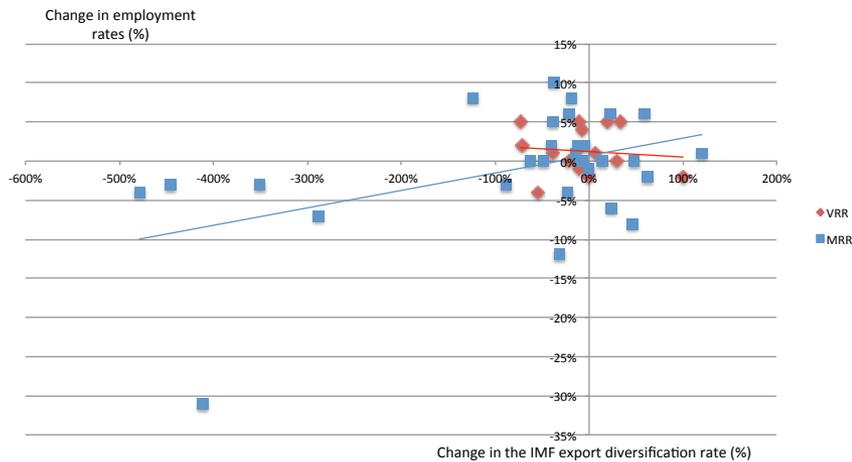
Source: IMF (2018), World Development Indicators (2018) and author's calculations

Observation 2: The correlation between unemployment and diversification varies over time

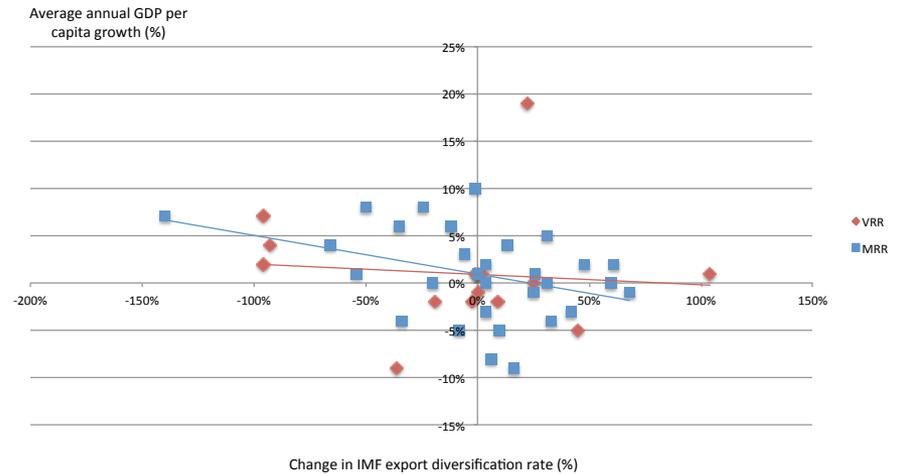
Low commodity prices

high commodity prices

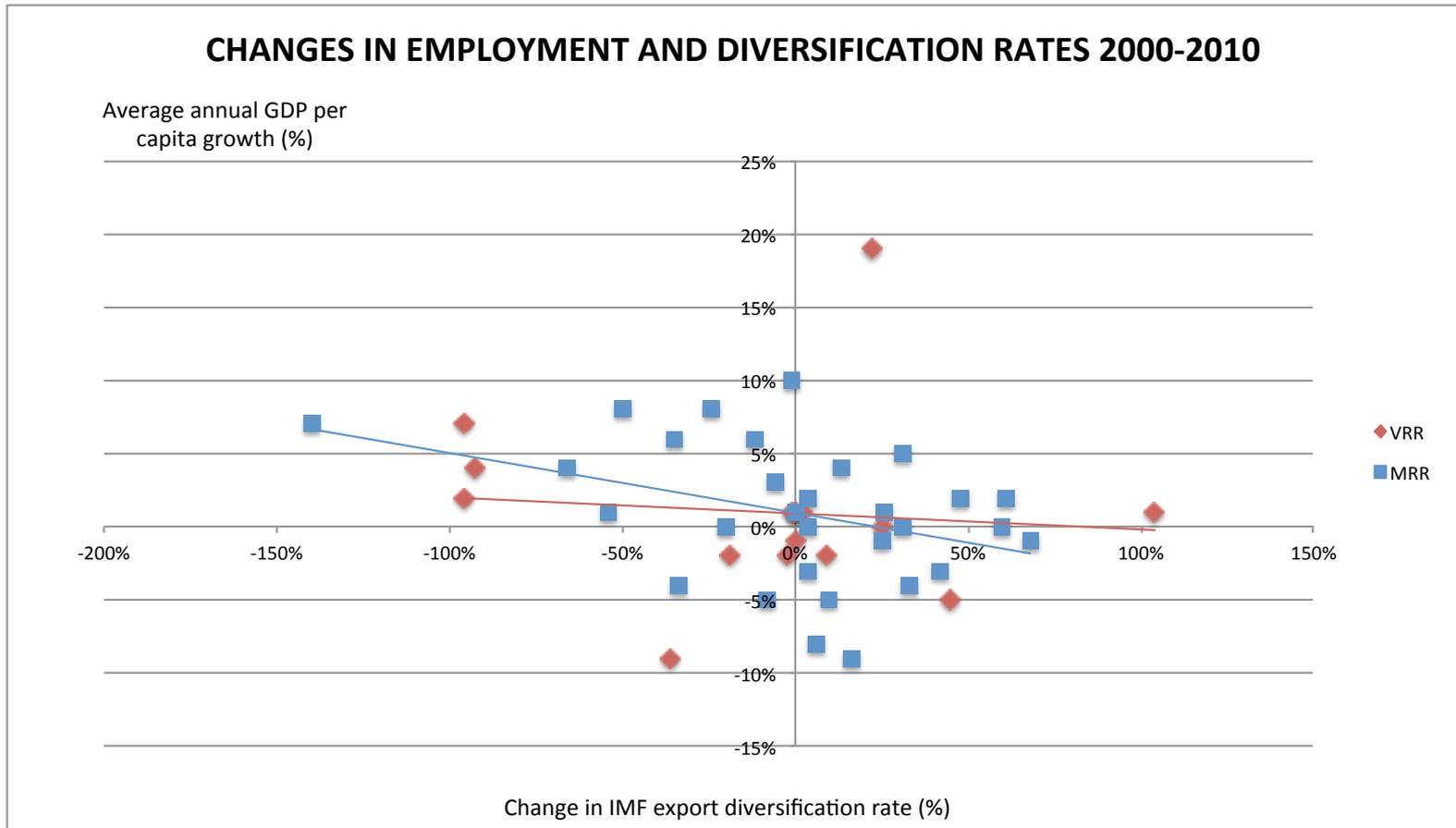
CHANGES IN EMPLOYMENT AND DIVERSIFICATION RATES 1990-2000



CHANGES IN EMPLOYMENT AND DIVERSIFICATION RATES 2000-2010

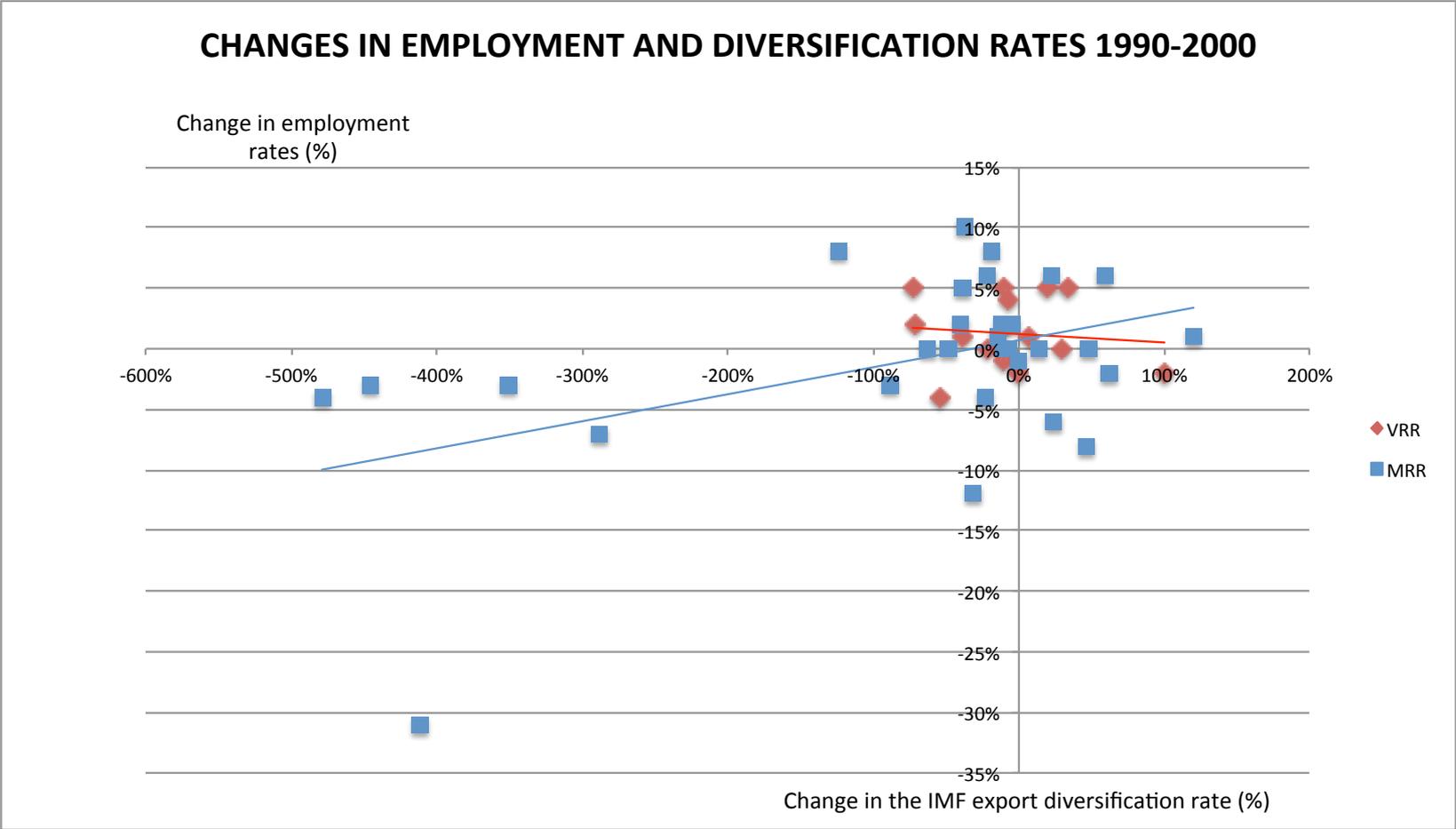


Observation 2: Unemployment and Diversification in times of **high commodity prices**



Source: IMF (2018), World Development Indicators (2018) and author's calculations

Observation 2: Unemployment and Diversification in times of **low commodity prices**



Source: IMF (2018), World Development Indicators (2018) and author's calculations

Export diversification matters



Export diversification is strongly correlated with growth and unemployment in resource rich countries.....but:

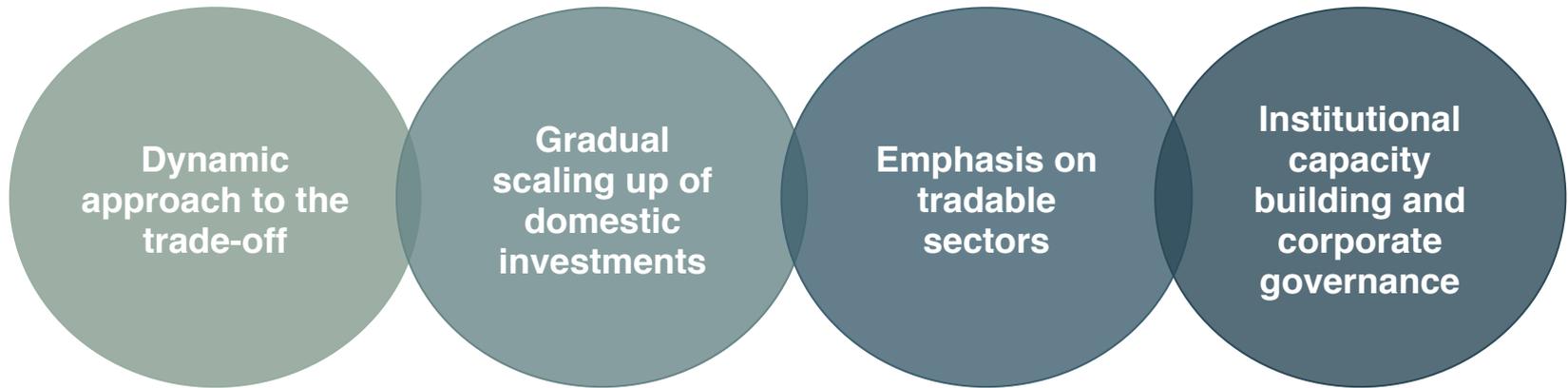
1. The impact of diversification depends on commodity prices. we should not be fooled by the commodity boom!

2. Diversification matters particularly for medium resource rich per capita countries: We should not be fooled by the Norwegian or Qatari experience!

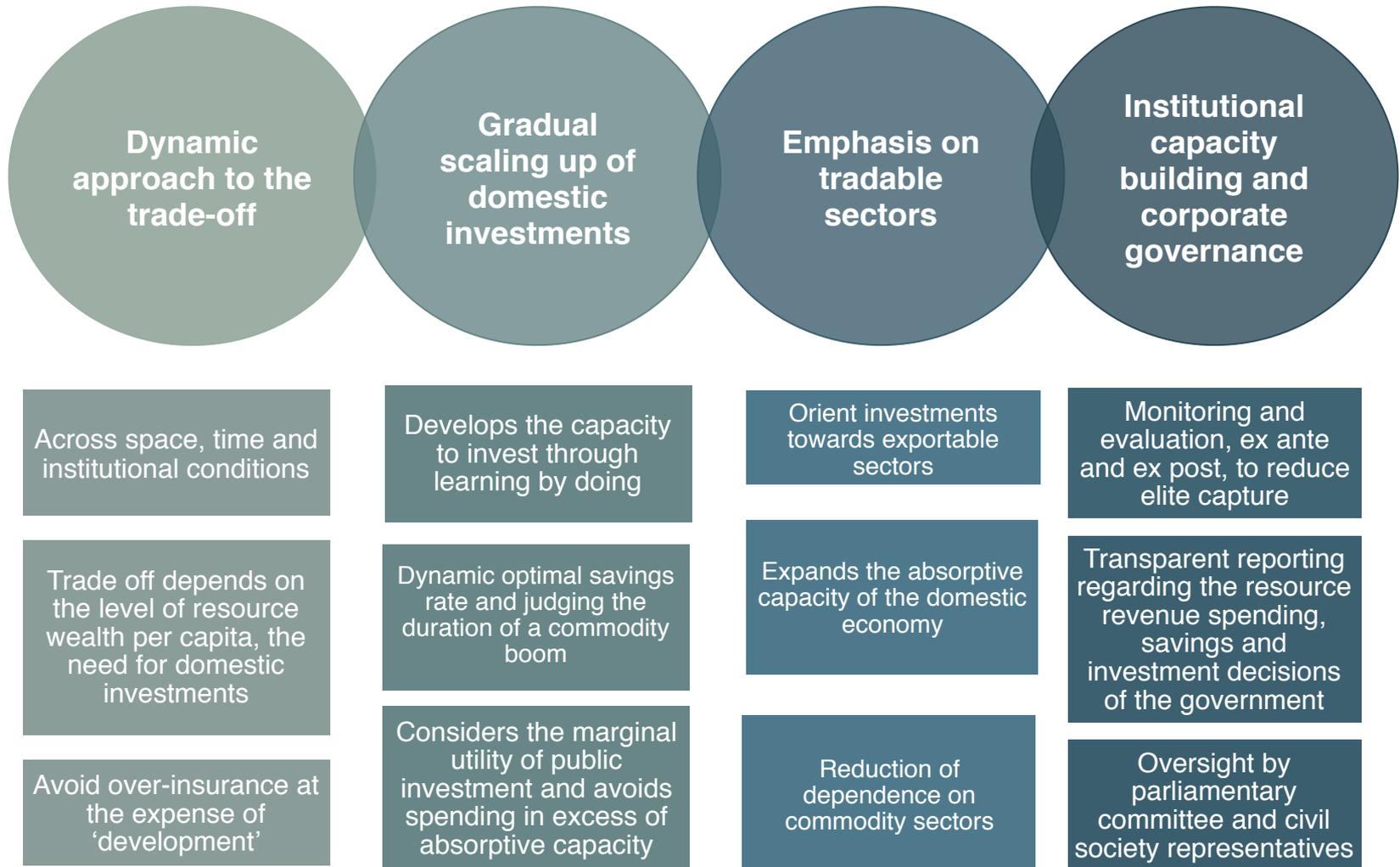


Those findings should contribute to reshape the discourse on resource based development, which has in recent years emphasised the “Norwegian solution” while neglecting the role of export diversification and production.

Main elements of a 'new' Developmental Investment Approach?



Main elements of a 'new' Developmental Investment Approach?



Takeaways from part 2



We need to address the root causes of the vulnerability to commodity price volatility and diversification of production needs to reappear in the resource revenue management agenda



The ladder is being kicked away through the standard resource management policy advice



The set of policy recommendations outlined aims to maximise the developmental impact of the commodity sectors by orienting the management of resource revenues towards achieving export diversification objectives

Thank you for your attention

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