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

Raphael Kaplinsky
Development Policy and Practice,
The Open University
United Kingdom

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

Raphael Kaplinsky
Development Policy and Practice,
The Open University

UNCTAD Commodities and Development Conference,
Geneva 20th March 2013
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

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

Forward linkages

2nd tier supplier → 1st tier supplier → RESOURCE EXTRACTION → PROCESSING (copper electrodes; logs; petrochemicals) → BENEFICIATION (electronics; fitted kitchens; pharmaceuticals)

Backward linkages

Services → Goods
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
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

Inside core Competences - win-lose

Outside Mining Company core competences - win-win

Speeding up and deepening

Speeding up

Oh dear…

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

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<thead>
<tr>
<th></th>
<th>Within govt</th>
<th>Within firms</th>
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</thead>
<tbody>
<tr>
<td>Strategy</td>
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<td>Policies</td>
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<td>Incentives and sanctions</td>
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<tr>
<td>Policy alignment</td>
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<td>Capabilities</td>
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<td>Will</td>
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<td>Alignment</td>
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</table>
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)