



COMMODITIES AND THE AfCFTA

Presenter

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Outline

- Why is commodity dependence a relevant issue for Africa's CFTA?
- Transmission channels of commodity dependence
- Challenges of Africa's trade structure
- Maximizing the benefits of the AfCFTA: policies
- Conclusion



Why is commodity dependence relevant for AfCFTA?

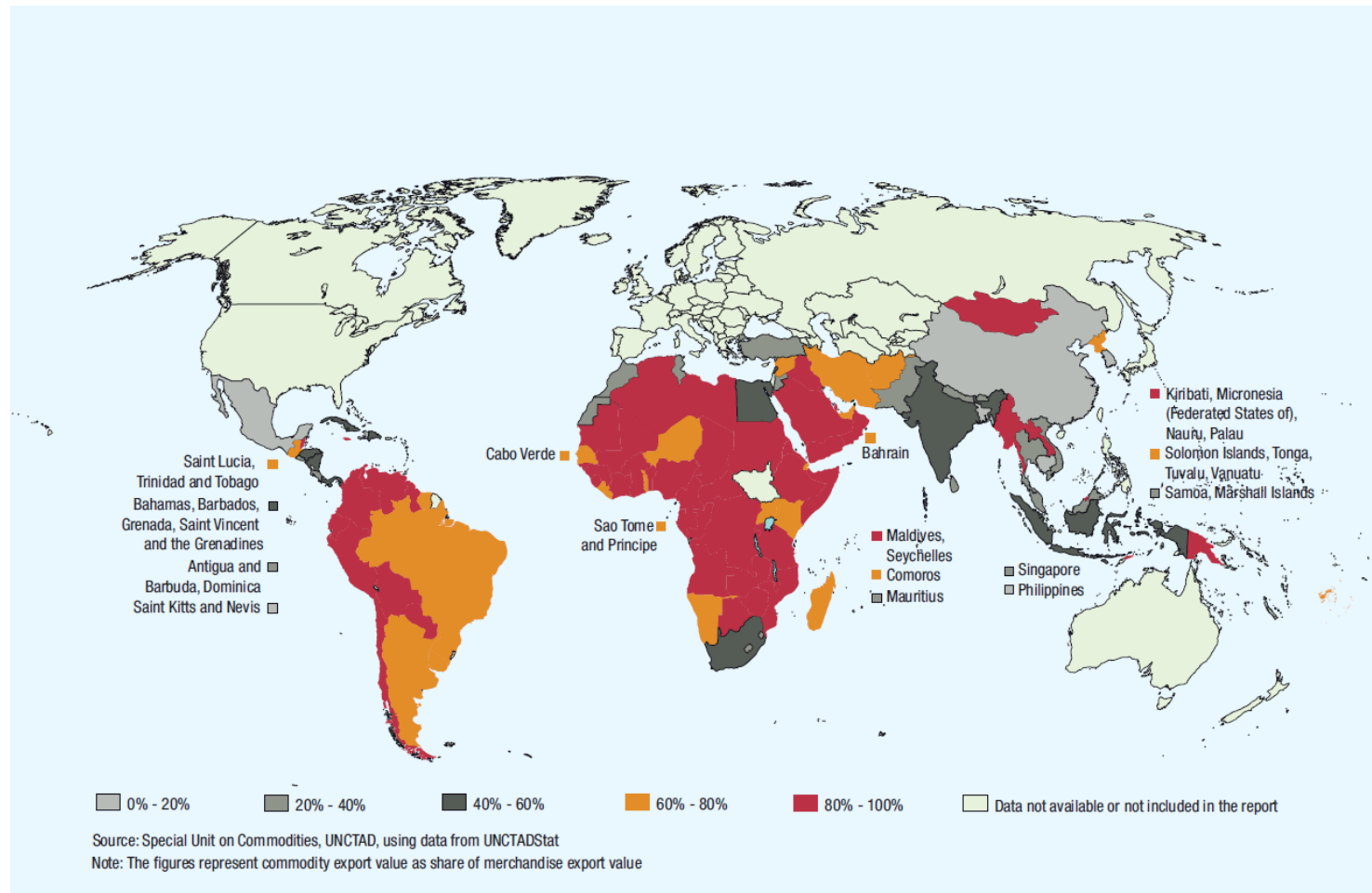
Fact #1: Almost all African countries are commodity-dependent

Fact #2: Commodity prices closely correlated with growth & human development in Africa

Fact #3: Africa does not trade with itself

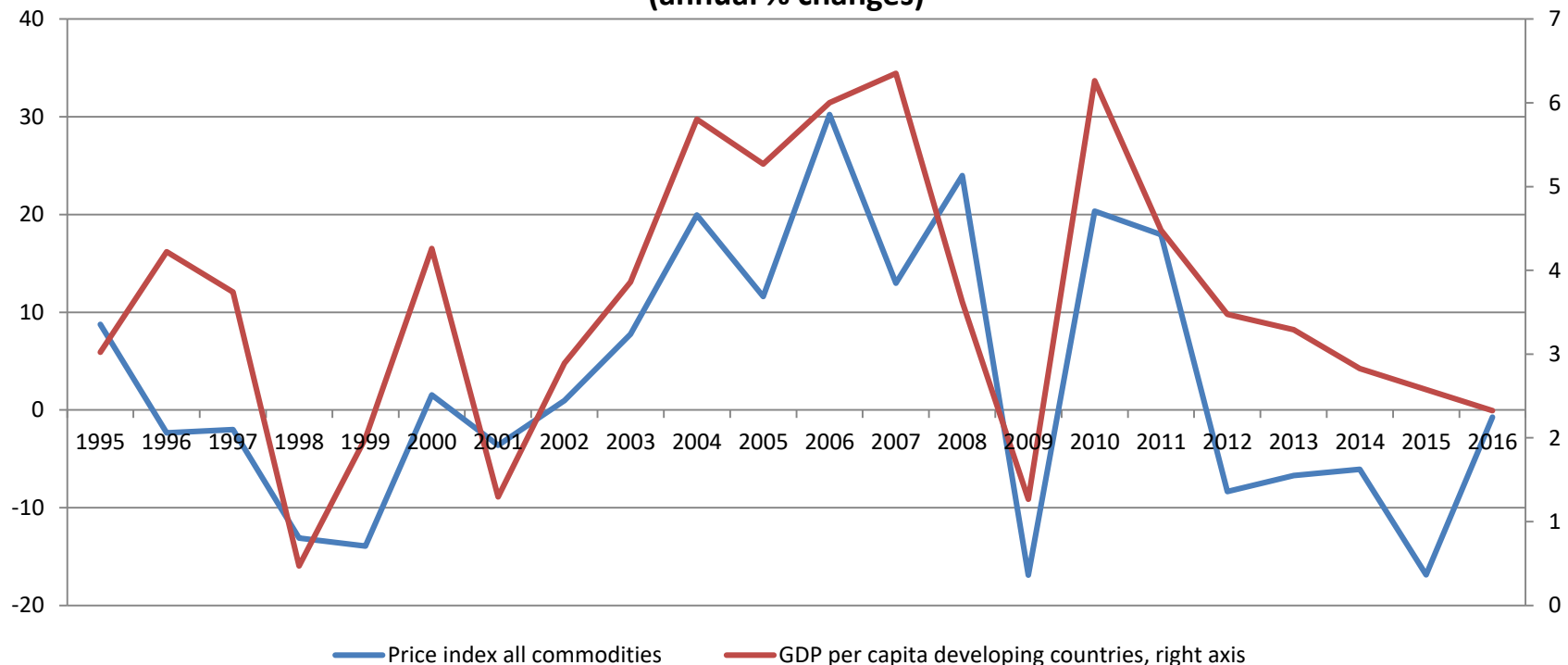
Fact #4: To fully benefit from AfCFTA, need for structural change in production & trade

Map of commodity-dependent developing countries



Commodity prices are closely related to per capita growth in developing countries

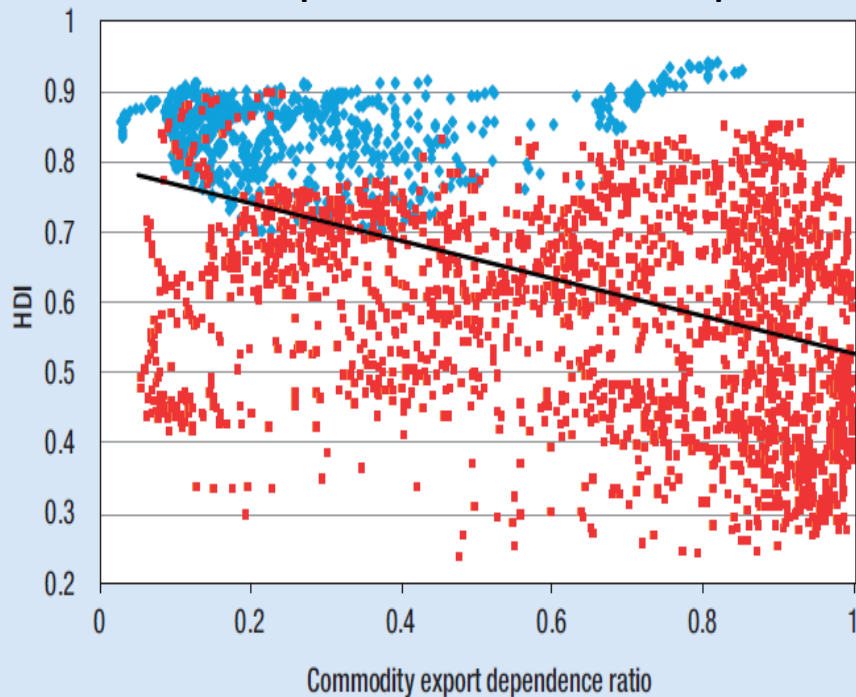
UNCTAD Non-oil Nominal Commodity Price Index and GDP per capita developing countries 1995-2016
(annual % changes)



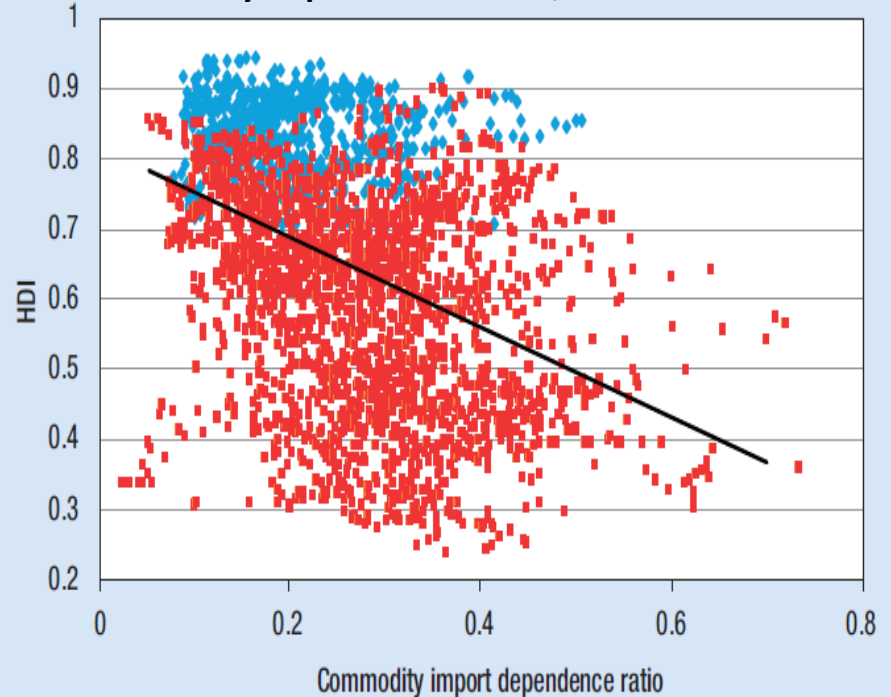
Correlation coefficient = 0.79

Commodity dependence and development

Scatter plots of the Human Development Index and commodity dependence ratios, 1995-2013



◆ Developed economies ■ Developing and transition economies — Fitted value

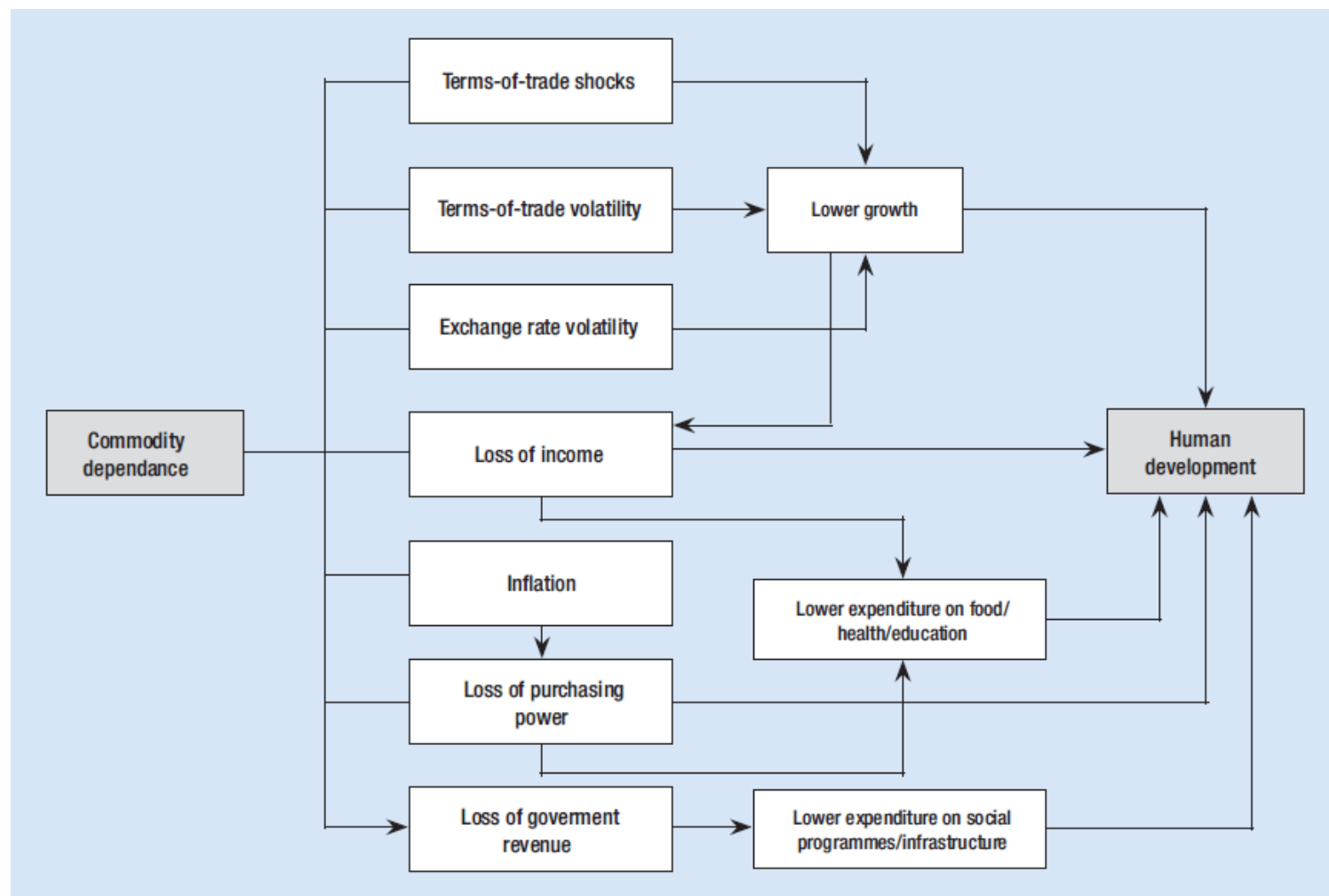


◆ Developed economies ■ Developing and transition economies — Fitted value

Key transmission channels



Transmission channels



Terms of trade: betting on wrong horse

Fiscal and monetary policy challenges

Impacts at the micro level

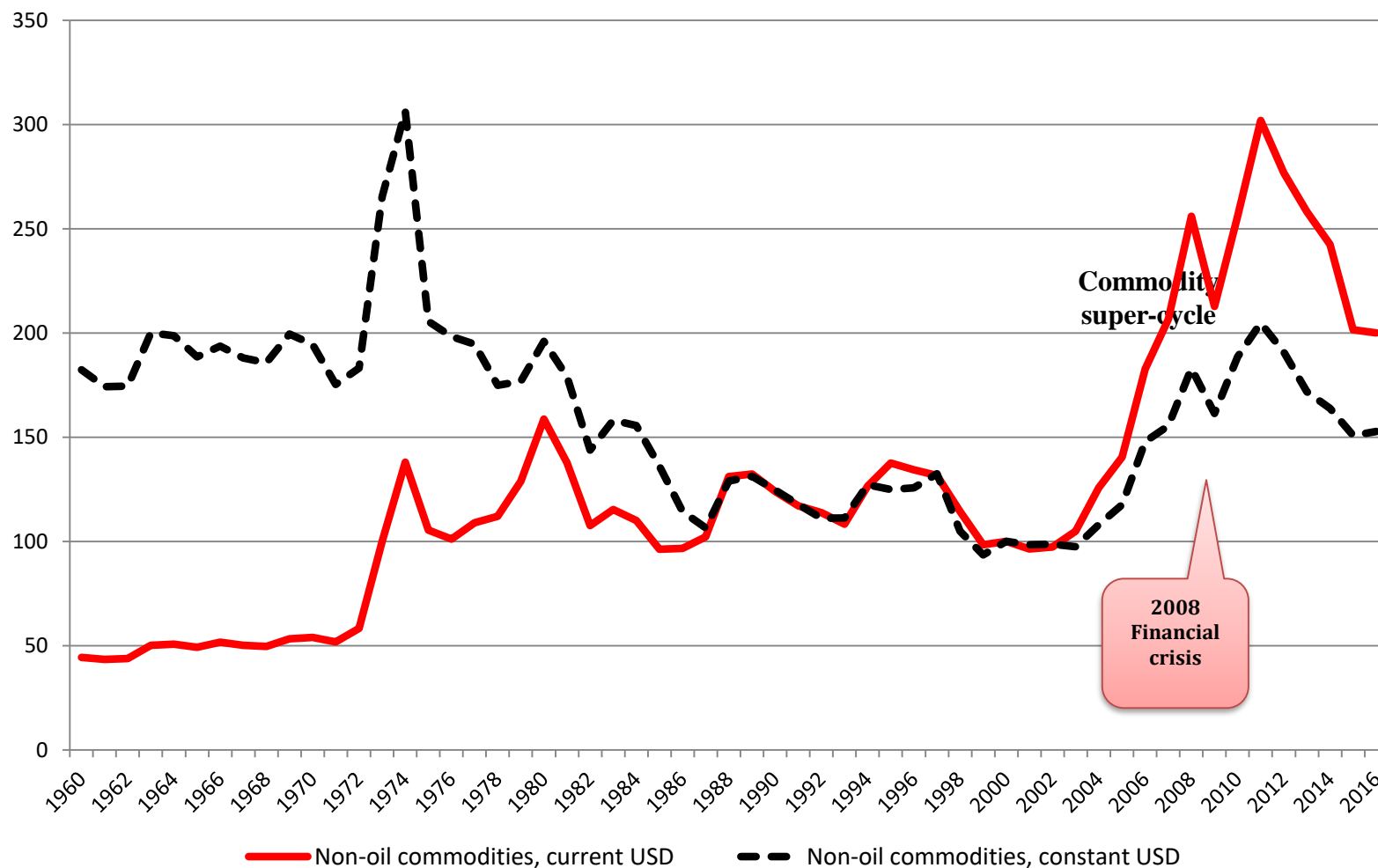


Key transmission channels

Terms of trade & commodity
prices: betting on wrong horse

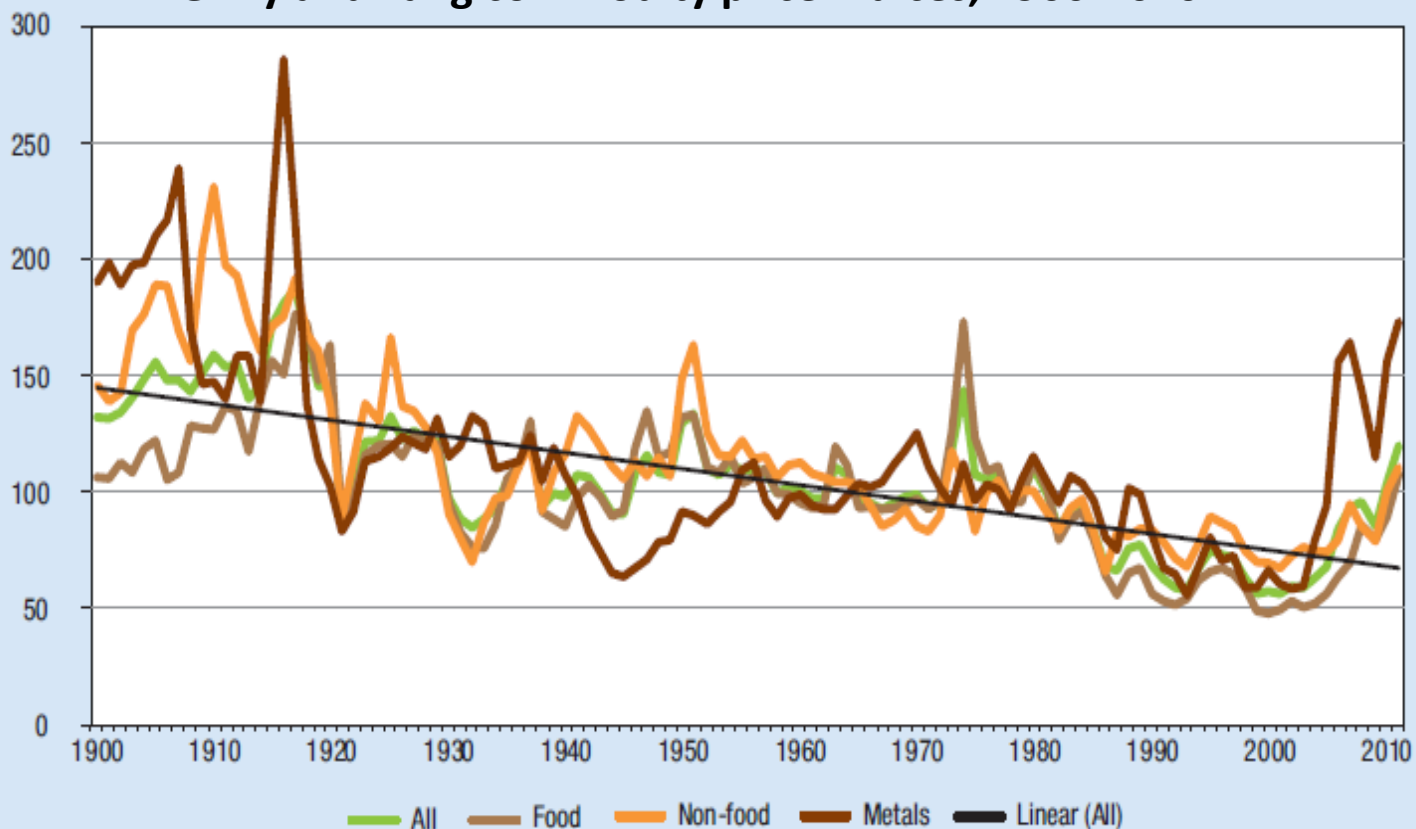


The terms of trade channel: betting on wrong horse



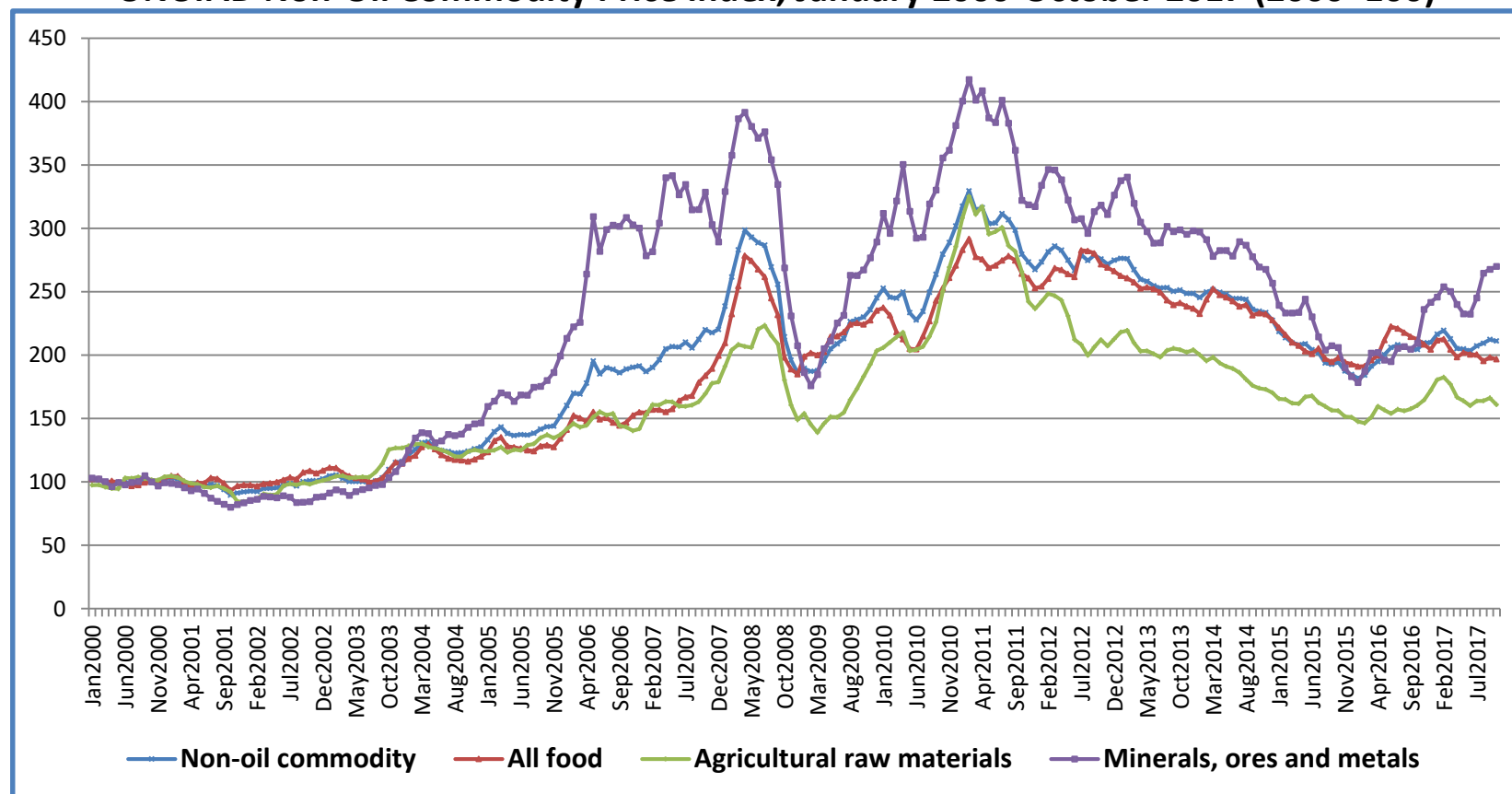
Long-term view on commodity prices

Grilly and Yang commodity price indices, 1900-2010



Recent commodity price developments

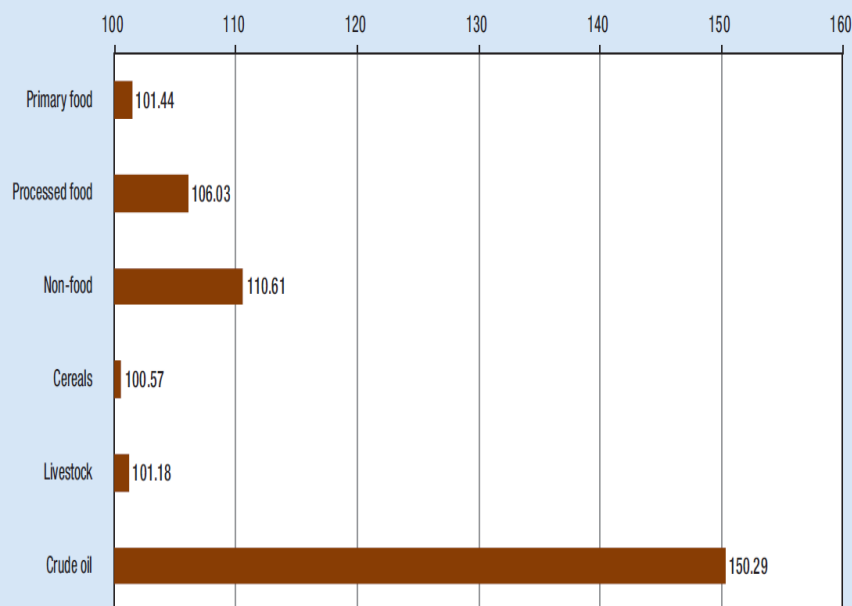
UNCTAD Non-Oil Commodity Price Index, January 2000-October 2017 (2000=100)



Projected commodity prices in 2030

- Primary food prices projected to remain at 2010 level
- Prices of non-food commodities projected to grow moderately
- Oil expected to register highest price increase by 2030

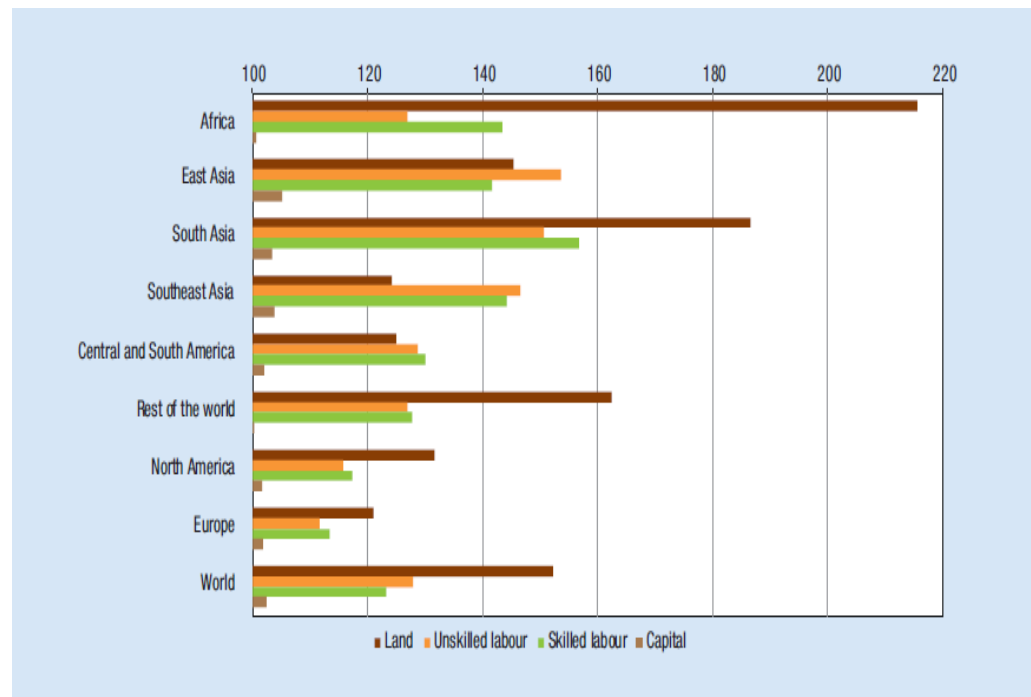
Projected output price indices in 2030 (2010=100)



Projected production factor prices in 2030

- Large differences in factor price variations across regions
- In Africa, wage of skilled labour increases more than for unskilled labour
- Land price increase strongest in Africa

Projected factor prices in 2030 (2010=100)



Fiscal and monetary policy challenges

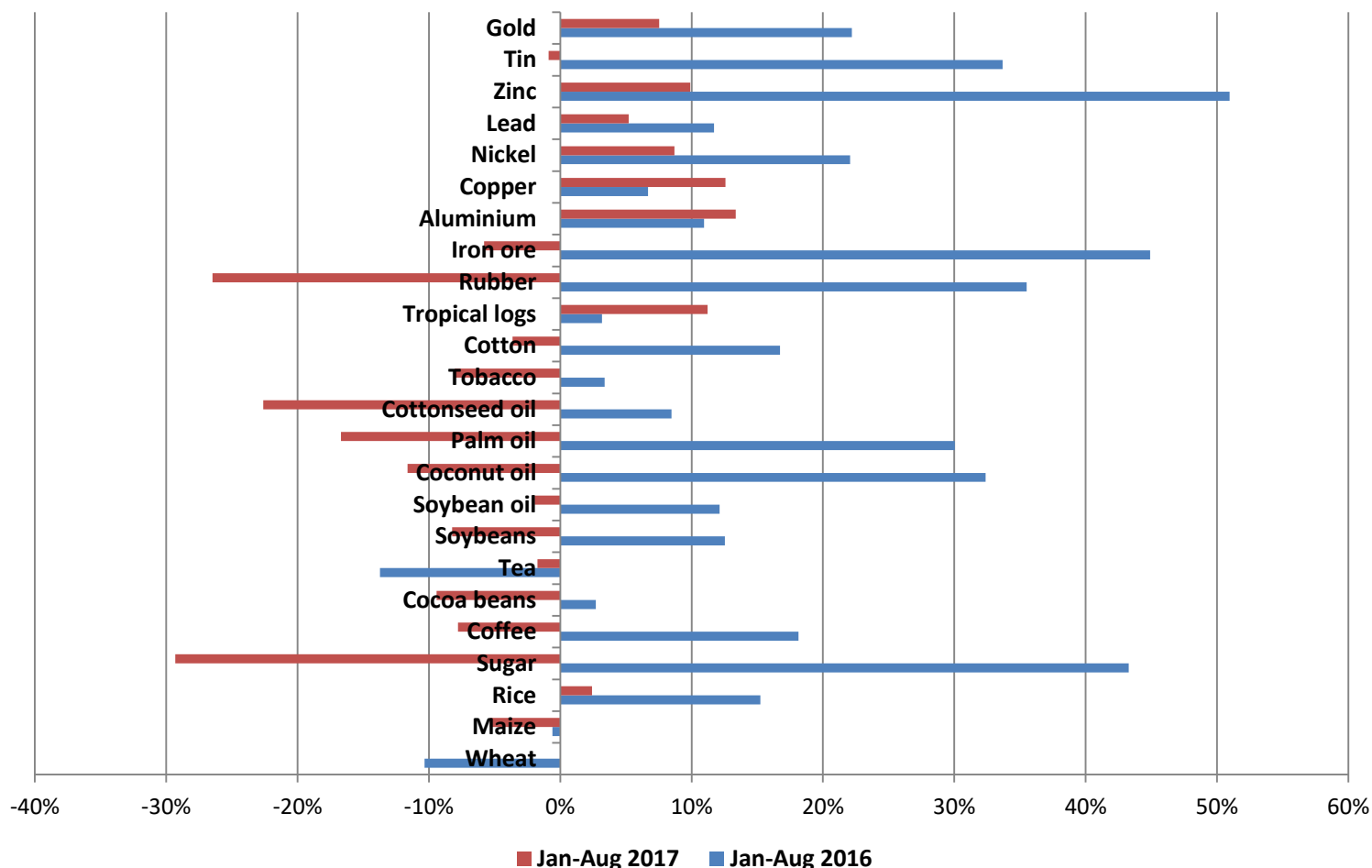


- Commodity price swings affect:
 - export earnings and taxes
 - country budgets (e.g. break-even oil prices)
- Reliance on commodities associated with Dutch Disease (decline of agriculture & manufacturing)
- Declining commodity prices lead to:
 - currency depreciations (Angola, Nigeria, etc.)
 - downgrade in country sovereign ratings



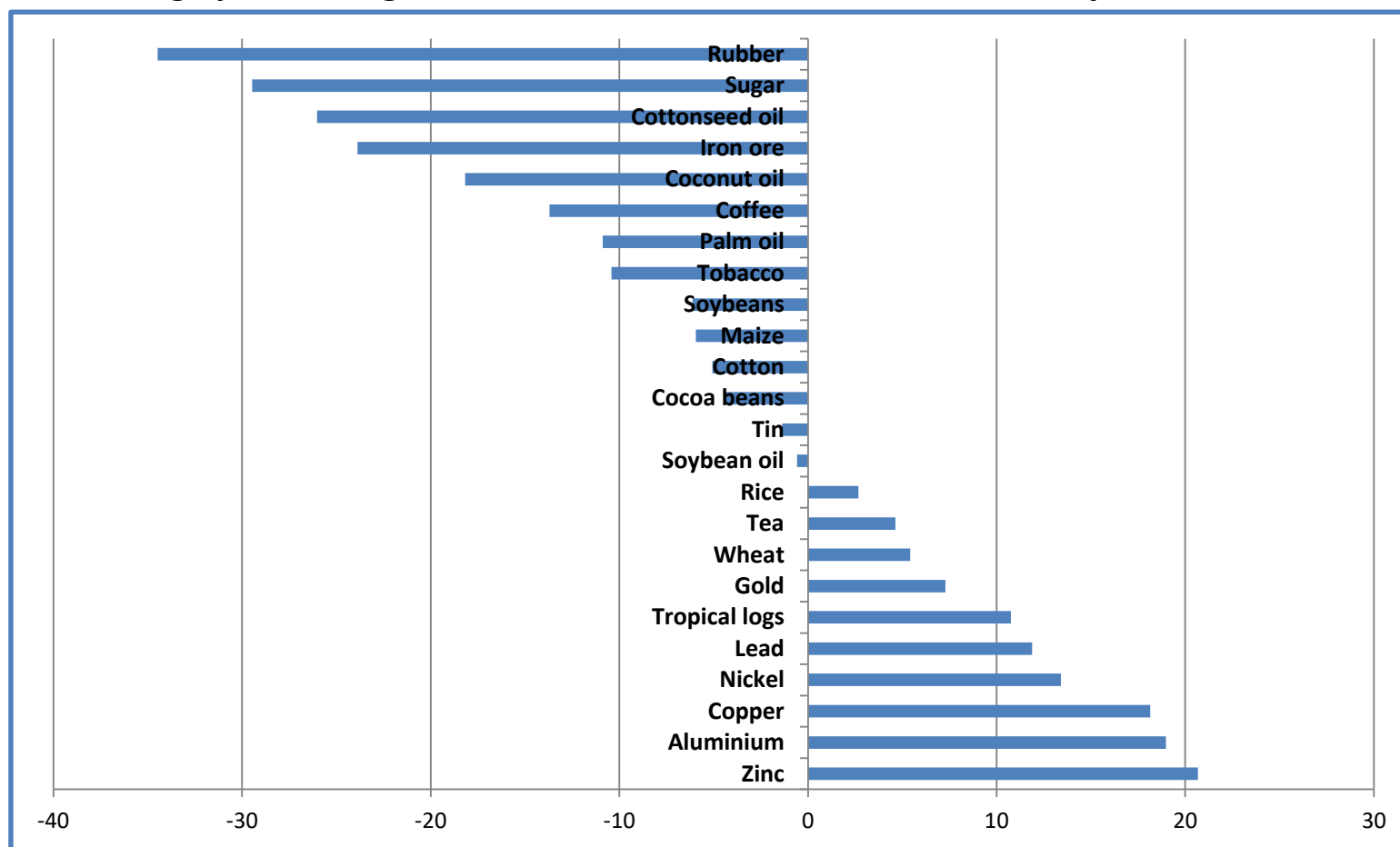
Commodity price volatility-- 2016 vs. 2017

Monthly price, January vs. August (% change)



Commodity price trends 2017

Percentage price change of selected commodities between January and October 2017



Impacts at the micro level



- Commodity price changes directly affect households:
 - producer prices for agricultural commodity exports
 - food prices
- Indirect effects on firms and households:
 - currency depreciation makes imports more expensive
 - public investment and spending decline



Challenges posed by Africa's trade structure



Africa's export products

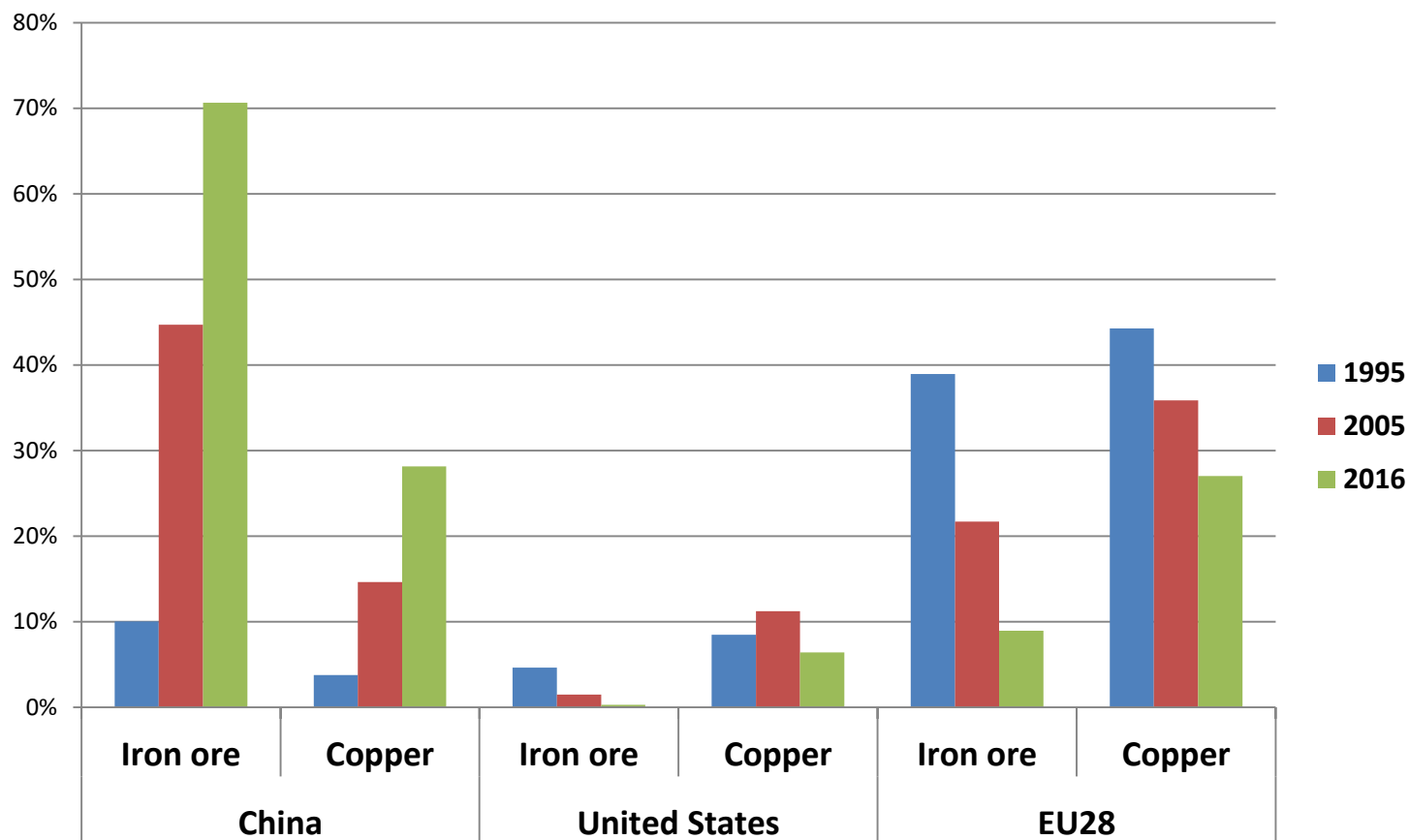
Country	Top 2 exports	% Share	Country	Top 2 exports	% share
Burundi	Gold, coffee	72	Benin	Cotton, gold	50
Comoros	Spices, ferrous waste	93	Burkina Faso	Gold, cotton	82
Djibouti	Petr. Prod. & live animals	45	Cabo Verde	Fish, petroleum oils	90
Eritrea	Copper, fisheries	64	Côte Ivoire	Cocoa, petroleum oils	59
Ethiopia	Coffee, vegetables	39	Gambia	Forestry, fruits & nuts	64
Kenya	Tea, vegetables	47	Ghana	Gold, petroleum oils	58
Madagascar	Nickel, spices	59	Guinea	Al ores, petroleum oils	62
Malawi	Tobacco, sugar	68	Liberia	Iron ore, rubber	61
Mauritius	Fish, sugar	69	Mali	Gold, cotton	91
Mozambique	Aluminium, pearls, etc.	35	Mauritania	Iron ore, fish	66
Rwanda	Base metals, coffee	59	Nigeria	Petroleum, natural gas	90
Seychelles	Fish, petroleum oils	96	Senegal	Petroleum oils, fish	46
Somalia	Live animals, gold	80	Sierra Leone	Precious stones, base metals	69

Africa's export partners

Country	Top 2 partners	% Share	Country	Top 2 partners	% share
Burundi	UAE, EU	62	Benin	China, India	41
Comoros	EU, Singapore	63	Burkina Faso	Switzerland, India	66
Djibouti	UAE, Yemen	43	Cabo Verde	EU, India	89
Eritrea	China, India	90	Côte Ivoire	EU, Africa	58 (42+16)
Ethiopia	EU, Africa	40 (23+17)	Gambia	China, India	71
Kenya	EU, Africa	51 (33+18)	Ghana	EU, India	46
Madagascar	EU, USA	52	Guinea	EU, India	52
Malawi	EU, Africa	51 (42+9)	Liberia	EU, China	53
Mauritius	EU, Viet Nam	73	Mali	UAE, South Africa	53 (32+21)
Mozambique	EU, S. Africa	56 (37+19)	Mauritania	China, EU	62
Rwanda	DRC, China	38 (22+16)	Nigeria	EU, India	52
Seychelles	EU, Japan	78	Senegal	Africa, EU	56 (32+24)
Somalia	S. Arabia, UAE	73	Sierra Leone	China, EU	93

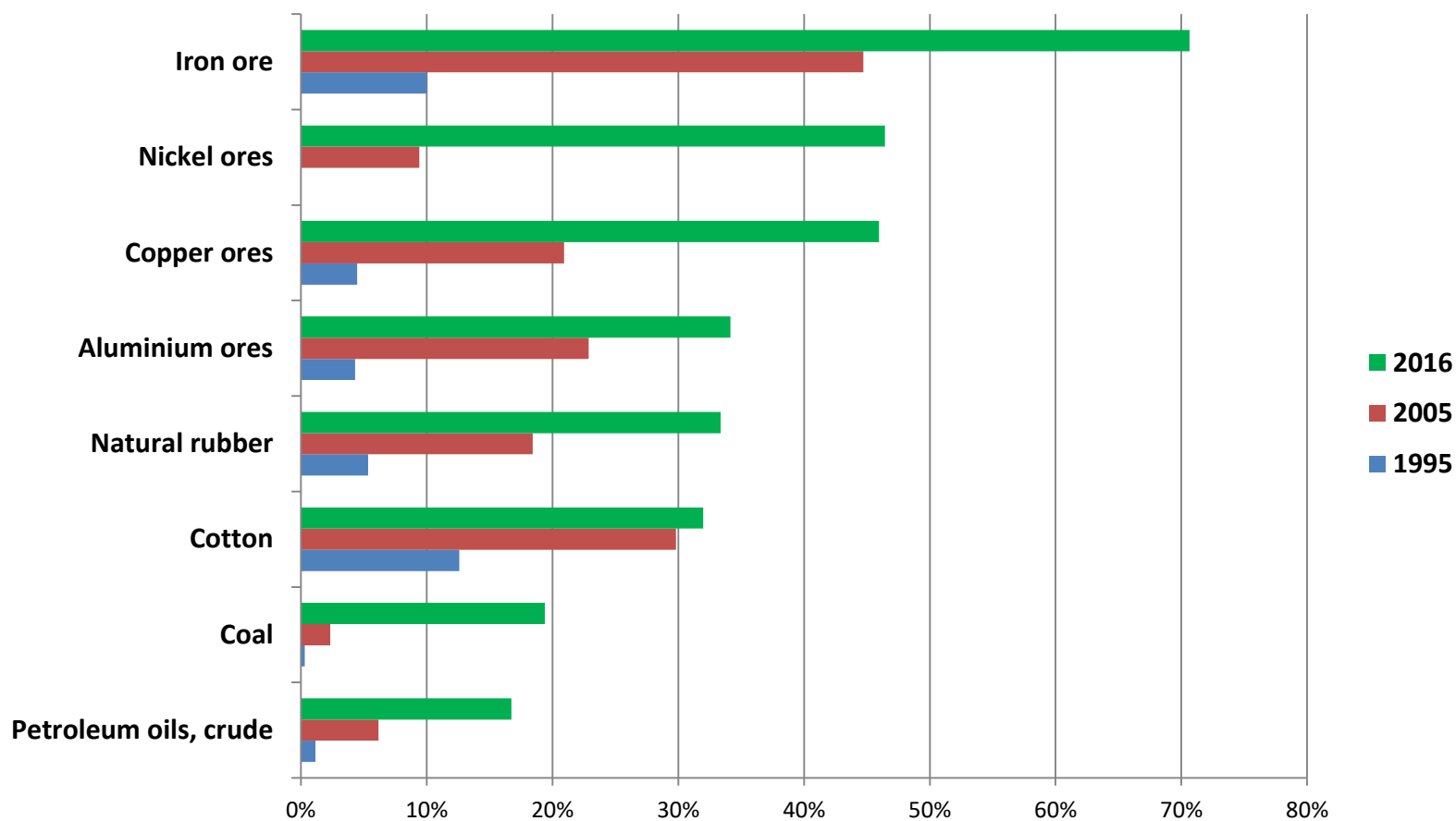


Growing importance of emerging economies





China's major role



Maximizing the benefits of the AfCFTA



- Continued reliance on commodities not winning strategy
- Modifying export basket:
 - Manufactured products are more traded regionally
 - Trading in food products
 - Trade in services
- Multi-country projects for value addition (chocolate from Ghana and Côte d'Ivoire?)
- Fostering regional value chains



Maximizing the benefits of the AfCFTA

- Diversification crucial to reduce risks associated with commodity dependence
- Capturing value added important to generate sustainable growth & employment to meet SDGs
- Investment in human capital key element for inclusive development



Maximizing the benefits of the AfCFTA

- Adopting horizontal policies to foster economic and export diversification:
 - Monetary policy
 - Fiscal policy
- Targeted policies
 - Identifying countries' comparative & competitive advantages
 - Putting in place flexible industrial policy
- Learning from other developing regions (e.g. MERCOSUR)



Maximizing the benefits of the AfCFTA

- Building resilient regional economies
 - Maximizing government revenue
 - Pursuing industrial diversification
 - Countercyclical fiscal policy
 - Good governance
- Expanding linkages of commodity sectors with local economy to avoid enclaves
- Promoting inclusive growth



Conclusion



- Commodity dependence poses risks to long-term development
- For AfCFTA to reduce commodity dependence:
 - restructuring production and trade
 - building more multi-country ventures to attain scale
 - Generating regional value chains
- Without these adjustments:
 - African economies will remain locked into commodity and ...
 - fail to take advantage of the AfCFTA
- Need to strengthen knowledge on commodities: create an Institute on Commodity Studies in Africa (ICSA)?



Some recent UNCTAD
publications on
Commodities







Thank you.

Download report:

<http://unctad.org/en/Pages/SUC/Commodities-Special-Unit.aspx>

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