

CORNHUSKER ECONOMICS

Reflections on the Effects of Commodity Price Increases on Economic Development in Africa

Market Report	Yr Ago	4 Wks Ago	6/12/09
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	\$92.98	\$84.58	\$81.79
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	130.25	127.16	112.32
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	110.50	99.70	102.04
Choice Boxed Beef, 600-750 lb. Carcass.	157.03	146.14	139.78
Western Corn Belt Base Hog Price Carcass, Negotiated.	69.35	63.63	55.76
Feeder Pigs, National Direct 50 lbs, FOB.	40.97	61.00	45.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	75.00	60.66	56.21
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.	116.25	105.00	115.00
National Carcass Lamb Cutout, FOB.	267.48	246.06	258.07
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	8.54	5.50	5.57
Corn, No. 2, Yellow Omaha, bu.	7.00	4.00	3.99
Soybeans, No. 1, Yellow Omaha, bu.	14.55	11.29	12.42
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	11.77	6.16	6.54
Oats, No. 2, Heavy Minneapolis, MN, bu.	4.18	2.28	2.41
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	195.00	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	77.50	*	*
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	177.50	145.00	132.87
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	65.00	53.25	49.87
*No Market			

The 47 countries located in Africa south of the Sahara Desert have long been among the poorest on the planet, and the current world economic crisis is likely to lead to even greater poverty in these countries. Prior to the crisis, however, Sub-Saharan Africa (SSA) was experiencing fairly robust economic growth which reached six percent in 2008. Analysts at the United Nations Economic Commission for Africa (UNECA), attributed much of this growth to primary commodity price increases. SSA economies are highly dependent on primary commodity exports which include agricultural goods, petroleum and mineral resources. World commodity prices increased about 246 percent between 2000 and the peak in July 2008 but have recently declined, and in May 2009 prices were only 81 percent above their level in 2000 (IMF). The fall in commodity prices and the effects of the world-wide economic crisis have led many observers to predict that economic growth in SSA will slow to only about two percent in coming years (UNECA).

Some recent economic analyses raise questions about the link between commodity price increases and economic growth in SSA. Working with several collaborators, Paul Collier, an economist at Oxford University, has documented the ways in which an abundance of natural resources can actually slow long-term economic growth in low-income countries. For natural resources such as petroleum, diamonds or copper, there are strong incentives for those in power to use force to capture the economic benefits of their sale on world markets. Not only do the resources benefit only a few of the country's citizens, their presence leads to conflict, civil war and corruption that can further depress economic growth. Collier and Goderis show that while abundant natural resources can lead to short-term growth, they slow economic growth in the long-run. These effects are mitigated if a country has well-conceived legal institutions, the rule of law and a generally effective government. Because of an effective democratic government, Botswana has not experienced the kinds of conflicts found elsewhere, despite its reliance on diamond exports. In addition, the "resource curse" as this phenomenon has come to be

known, generally does not apply to agricultural commodities, which are more difficult to monopolize by political elites.

Two examples from West Africa illustrate the hazards of abundant natural resources. Sierra Leone suffered a decade-long civil war that was fueled primarily by competition for control of the country's extensive diamond deposits. Diamonds from Sierra Leone and Liberia were referred to as "blood diamonds" during the wars in those countries. The conflict in Sierra Leone ended in 2002 after intervention by the United Nations and a British peace-keeping force (BBC News, 2009a). With a population approaching 150 million, Nigeria is the most populous country in Africa and the eighth most populous in the world. Its economy is dominated by petroleum, which is the object of conflict and the source of extensive government corruption. Competition between the people living in the Niger River Delta, where most of the petroleum is found, government officials trying to capture a share of the oil revenues and large multinational petroleum companies, has led to civil unrest and human rights abuses. Very few people in Nigeria have benefitted from the country's vast petroleum reserves (BBC News, 2009b). Both countries have suffered from the resource curse which has also affected economic growth and poverty in other African countries including Liberia, Chad, Sudan, the Democratic Republic of Congo and many others.

Most countries in the world today are either high-income industrialized countries, or developing countries that are experiencing economic growth and declining poverty. About a billion people, however, live in countries, most of them in SSA, which are not developing (Collier, 2007). Collier argues that these countries are stuck in various traps including the natural resource trap described above, as well as traps associated with civil strife and conflict, bad governance and being "landlocked with bad neighbors." To escape from these traps, he suggests that active international intervention will be required. He points to the military intervention in Sierra Leone as an example of a relatively low-cost action that has generated enormous benefits. He also calls for the development of international laws and charters that would establish rules and regulations for natural resource exploitation, democratic governance, budgetary transparency, post-conflict governance and investment. As with any international legal instruments, such rules and regulations have to be self-enforcing or implemented through international agreements that are policed and enforced by the governments of the countries that have signed on to them. Such institutions are global public goods that are likely to be under-supplied without substantial support from the governments of wealthy countries in North America, Europe and on the Pacific Rim.

Collier also argues that trade and foreign aid will be important in helping SSA to escape from these traps. Exports of agricultural goods, cotton in particular, are important for many countries in SSA. Unfortunately, trade and agricultural policies in high-income countries have frequently led to lower prices for these commodities, to the detriment of low-income farmers. U.S. subsidies for cotton and sugar have depressed

world prices for these commodities by as much as 20 percent, reducing income and compromising efforts to reduce poverty in many African countries (Peterson). In many respects, globalization has not paid off as much as expected for many low-income countries, because high-income countries protect their agricultural sectors and charge higher tariffs on finished goods than on raw materials, a process known as tariff escalation. Tariff escalation slows the development of processing industries in countries producing primary commodities. Along with more open international trade, foreign aid can play a constructive role in increasing economic growth in SSA. In an earlier study, Collier and Dehn (2001) showed that foreign aid can mitigate the negative effects of primary commodity price volatility, and recommended targeting foreign aid to countries that are experiencing negative commodity price shocks.

The problems of the poorest countries are interrelated, of course. An abundance of natural resources can lead to conflict, civil strife and bad governance, and these afflictions are made worse in countries that are landlocked and surrounded by neighbors with their own sets of problems. Moreover, the solutions suggested by Collier may not always work. In countries with authoritarian governments, for example, foreign aid can free up government resources to finance increased military spending and fuel regional arms races (Collier and Hoeffler). The recent declines in commodity prices may slow short-term economic growth in SSA, but at least in the case of natural resources they may actually mitigate the negative effects of the resource curse. If conflict, civil strife and bad governance in SSA are reduced as a result, the longer-term prospects for growth and development in the region will be substantially improved.

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