Turning commodity increases into economic development
Daniel Altman

They say money can't buy happiness, but the question facing the world's poor countries is slightly different: Can money buy economic development?

The sharp upturn in prices for commodities has presented some of the poorest countries with an enormous opportunity. Many of the beneficiaries, in Asia, Africa and Latin America, export mainly crops and raw materials. During this decade, the value of those commodities rose about 75 percent compared with the value of other goods, according to the International Monetary Fund's latest economic outlook.

Commodity prices are holding steady, despite the current economic downturn. More money will flow into the pockets of exporters in poor countries and into the treasuries of their governments. So, will they use it to improve their economic future - and indeed, can they?

Pranab Bardhan, a professor of economics at the University of California, Berkeley, said the answer varies from country to country, depending in large part on a country's political economy.

As an example, Bardhan suggested the contrast between Indonesia and Nigeria after the oil price boom of the 1970s.

"If you take the next 20 years, Indonesia went one way and Nigeria went the other way, even though they were both authoritarian countries," he said. "Indonesia is an example of a very poor country using this opportunity to invest in rural infrastructure, building lots of schools and - what I think is extremely important - encouraging economic diversification." Meanwhile, in Nigeria, "apart from simple stealing by the military dictators, they were distributing short-run patronage to keep some ethnic groups happy."

These days, Indonesia has become a net importer of oil, and natural gas accounts for less than 10 percent of its exports. It now ships electrical appliances and textiles abroad in addition to its commodities. Meanwhile, petroleum products still make up about 95 percent of Nigeria's exports. The gap in per capita income between the countries has grown steadily over the past couple of decades.

"In the future, when the prices of these commodities go down, the economy is not left high and dry, but there are other industries to produce," Bardhan said.

Of course, oil and natural gas are not the only commodities whose prices have shot up in the past several years. Soybeans, corn, gold, copper - if it comes straight from the earth, it is probably a lot more expensive now than it was in 2000. As a result, you don't have to be selling oil or natural gas to receive a 1970s-style windfall.

For example, a doubling of rice prices in the past year will eventually flood some Southeast Asian countries with money, despite a few short-term hiccups with the weather and speculative contracts.

Thailand and Vietnam are the biggest producers, but they have very different political-economic situations. In Thailand, a huge amount of the crop is controlled by a small number of companies, while Vietnam still has a largely peasant-based economy with lower overall inequality.

Because Vietnam's rice farmers are a numerous bunch, Bardhan said, it is less likely that the nation's elites will capture their profits and use them to buy foreign-made luxury goods that contribute virtually nothing to the local economy. Diffused ownership also sets agricultural booms apart from booms in minerals and fossil fuels, he added.

"Ownership of metals or ownership of oil is much too concentrated, and often foreign-owned," Bardhan said. "Gains are often concentrated in people who have undue influence on the economy." By contrast, "when the gains are diffused among a large population, and they spend the money on a large variety of goods, that gives a stimulus to the diversification process."

Vietnam's government has also been using its share of the rice profits to safeguard the economy's future. "The way Vietnam has been using the gains from the rice price rise is very much similar to the Indonesian case," Bardhan said. "They are encouraging labor-intensive industries." That is essential in a country where a million people join the work force every year.

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