

**Commodities
and
Development**

Roberto Garrone

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Preface

Historically, commodities have been considered a source of wealth and power with the considerable influence of state intervention during pre-industrial, industrial, and modern societies. From times to times, the states have extracted (i.e., expropriation, taxation, concessions, nationalizations, etc.) some part of the benefits deriving from the ownership and exploitation of commodities and relative markets offering as compensation to their citizens a range of different benefits (public goods, welfare, services, etc.) often aimed at augmenting, with various degrees of success, the national level of development. New and intertwined transnational political and economic linkages between finance, commodities, and geopolitical power have followed the end of the Bipolar order, the surge of the South-South trade, and its impact on the North-South trade patterns. Specifically, the global production and trade patterns may indirectly promote or directly consolidate structural inequality and exclusion (Shaw, Mahrenbach et al. 2019).

The first expressions of the principles of non-discrimination in trade and of multilateralism have been the Atlantic Charter of 1941 and the Mutual Aid Agreement of 1942 devised on a common need for a new international regime to govern international trade after the world conflict. The intentions of the United States and Britain were substantiated in the Proposals for Consideration by an

International Conference on Trade and Employment of 1945 and recognized by the UN Economic and Social Council that paved the way for the first world conference on trade and employment of 1948 hosted in Geneva, London, and Havana. The resulting Havana Charter was based on the free market principles supported by the United States and included provisions to negotiate and reduce trade barriers but also measures affecting development, employment, and investment. In the charter, the consideration for intergovernmental commodity agreements was finalized at the management of special issues not addressable by the market forces¹; however, the participating developing countries successfully promoted economic development as one of the exceptional circumstances for the adoption of ICAs and protectionist barriers. As a result of such compromises, the charter had not been ratified in the United States but relegated for incorporation in the General Agreement on Tariffs and Trade (GATT) of 1948; although GATT was responsible for the organizations of *rounds* of negotiations and the enforcement and definition of its rules among members, most of the issues for developing countries were left out of the agenda of international economic institutions (Maizels 1992).

Most of the conventional economic analysis in international trade theory derives from Ricardo's argument for

¹ Havana Charter 1948, Article 57(a) and 62.

free trade based on comparative advantage. In his theory, the main consequences of specialization were the higher levels of international production and the distribution of the relative gains as a function of the terms of trade (i.e., the rate of exchange). Specifically, Ricardo's barter analysis first abstracted from money and then used it as a conforming benchmark for monetary analysis. First, the demand for imports was commanded by exports (i.e., variations of capacity or seasonal quantity of harvests); thus, a sudden change in exports' surpluses (i.e., a domestic crop failure) increased imports which were paid with other domestic exports. Second, on the assumption that the immediate payment by gold shipments was impracticable, short term lending from foreign bankers would have covered the payment with the additional exports as collateral. Specifically, increased exports' expectations would have resulted in a higher forward exchange rate than the spot rate for sterling; thus, debts in gold or foreign currencies were considered cheaper than gold shipments (Glasner 2013).

In the literature, trade policies based on comparative advantage are considered supportive of the interests of the developed market economies, whereas trade policies including structuralist theories are considered supportive of the interests of the developing countries. On one hand, the neo-classical or conventional approach relies on marginal and short-term analysis and accept the existence of power relations and

market asymmetries. On the other, the structuralist school assumes diverse, asymmetric and imperfect market structures as the determinants of economic outcomes but requires institutional intervention; additionally, this approach privileges the long-term view and recognizes as injustices some consequences of power relations without excluding the use of marginal analysis. In this context, the free movement of capital, commodities, and technology is in the interests of transnational corporations eager to obtain heterogeneity in the labor market (i.e., mobility for highly skilled technical, managerial, and financial staff and immobility for lower-skilled workers) (Tribe, Nixon et al. 2010).

A case in point is Ghana and its commodity-based economy. Despite the large oil price volatility and decline in prices, the discovery of the Jubilee oil field and on-shore reserves were the drivers of extensive growth in Ghana's oil and gas industry; however, the corruption scandals, disputes over borders, political polarization, and government's issues with macroeconomic policies, reforms, and development substantially hindered the Ghana National Petroleum Corporation's efforts to develop its supply chain, promote organic growth, and internationally compete. On the one hand, GNPC struggles to stabilize income and maximize capacity utilization by internally developing the required technical resources and capabilities and retaining a skilled and educated labor force. On the other, the challenges in petroleum

contract-management arose from scarce compliance with the Petroleum Act by the government because of insufficient institutional cooperation. Moreover, the division characterizing the interaction of the local communities and private companies on communal interests, high expectations set by the government in terms of development and employment, and power frictions resulting from a political culture of authoritarianism and patronage could potentially determine higher discontentment and conflict.

Part I: Commodities and Developing Countries