

The deterioration of prices of export commodities of Bolivia during the exogenous shock of 1998 and 1999

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ABSTRACT

The adverse shock to commodity prices registered between 1998 and 1999 has received little attention compared with the recent financial crisis. In the case of a small, open economy and dependent on the exports of commodities as Bolivian economy, the shock has meant a notable fall in real income of exports.

The nineties decade, although it was a relatively short period of time, allows to analyze the recent adverse shock in which prices had a cyclical behavior with decreasing trend, where the duration of the boom phase was similar to the bust one but the magnitude of the price decline was greater than the increase. The recent fall of international prices seems to confirm, - for the case of the export basket of Bolivia-, that most commodity prices tend to move together in expansive and contractive phases of the cycle.

Permanent shocks play an important role to explain the variance of export prices of Bolivia, especially of metals. Unlike other developing countries, it was found that sectorial diversification of commodities exports has not allowed attenuating the effects of prices cycle, that is, it was not a countercyclical diversification. However, at products level it was found that a third of exports comprise countercyclical products.

The general price index of export products does not show a high volatility. Nonetheless, considering different sectors, outstands the volatility of fuel prices. Amongst agricultural products, highlights the exhibited volatility of prices of coffee, sugar, and cotton. In the 1997 crisis, it increased the variability of prices of most of the products, of both metals as of fuels or agricultural products.

It was found that in the decade of the 90's, the joining of a new commodities exporter sector, the soy sector, did not mean a decrease of total risk, inherent to exports portfolio. However, at products level it was identified a relevant percentage of intra and inter sectorial compensations.

Empirical evidence suggests that the implicit export policy applied in Bolivia in the 90's and focused in the commodities diversification, did not allow - in the recent crisis- to minimize risk, attenuate cycles, diminish volatility of prices, nor increase real income of exports. That ratifies the necessity to diversify Bolivian exports through a strategy of exports of labor intensive manufacturing that contributes to diminish the vulnerability in front of adverse external shocks.

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