

A Political Economy Interpretation of Cointegration of Prices along Commodity Chains

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Recently, cointegration analysis has been applied to the study of price transmission and market integration of geographically separated segments of global commodity chains. In general, results indicate that the liberalisation of low income country (LIC) commodity markets have resulted in the more rapid and complete transmission of world prices to local markets and producers (Bosco Sabuhoro and Larue 1997; Baffes and Ajwad 2001; Baffes and Gardner 2003; Abdulai 2006). Cointegration between prices in local and world markets has been taken as supportive evidence for the success of the liberalisation process in enhancing the efficiency of the market by allowing the transmission of price signals to harmonise supply and world demand. This paper argues against the logic of the neoclassical supply and demand framework. Using examples of coffee and cotton commodity chains we demonstrate that the statistical relationship between world and local prices is the outcome of the social, economic and political processes of price formation along commodity chains. New avenues for value capture in the context of the financialisation of capital via commodity derivatives have increased the importance of international commodity exchanges in price formation along the commodity chain from production to export. Increasing participation of institutional investors such as hedge and pension funds, together with the uneven access to derivatives markets by actors along commodity chains has resulted in the divorcing of price from the supply and demand of the physical commodity with implications for income distribution along the commodity chain.