

Commodity dependence and recent trends on commodity markets

Short course for Permanent Missions in Geneva

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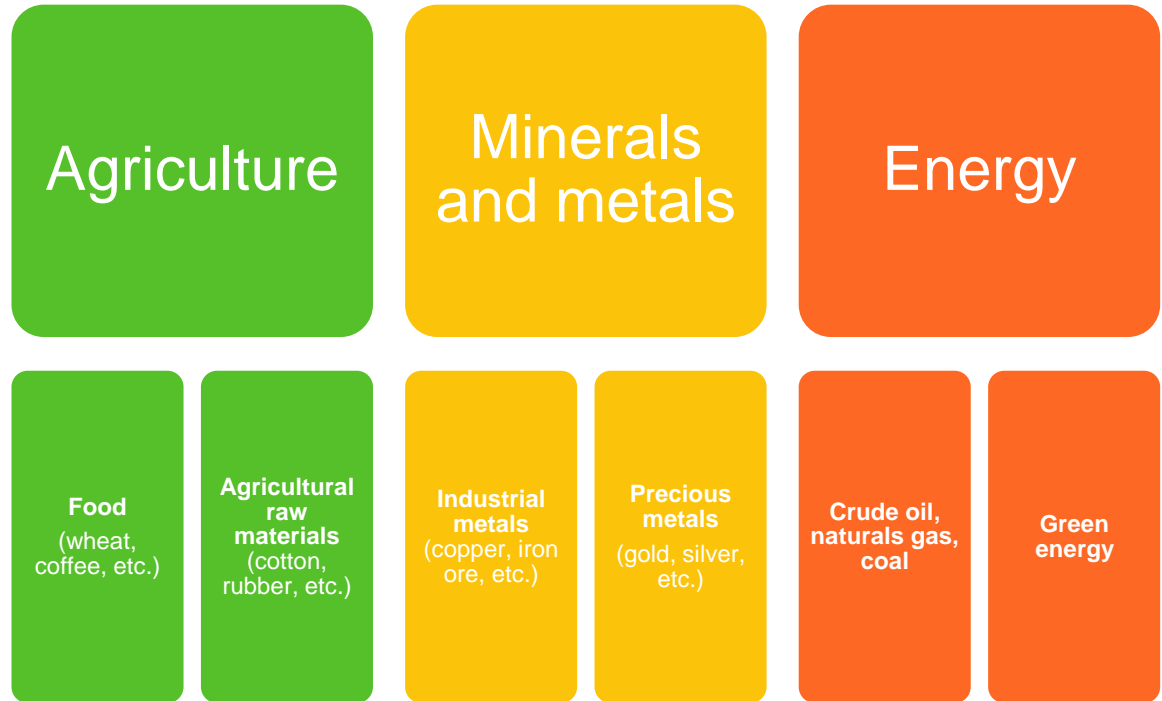
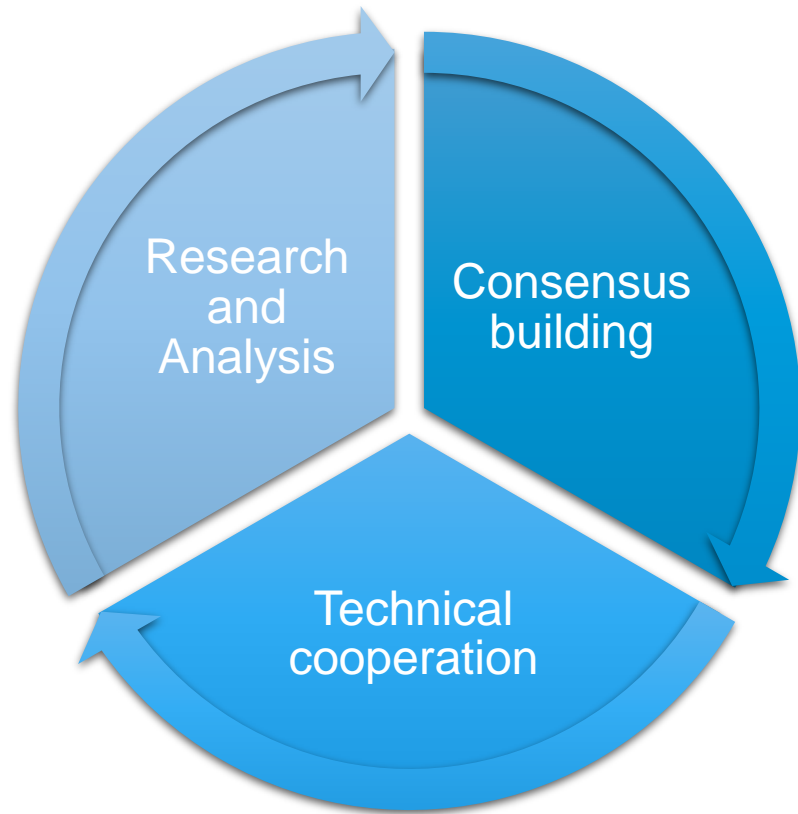
Overview

- Introduction
- Recent trends on commodity markets and their impacts
- The commodity dependence trap
- Q&A

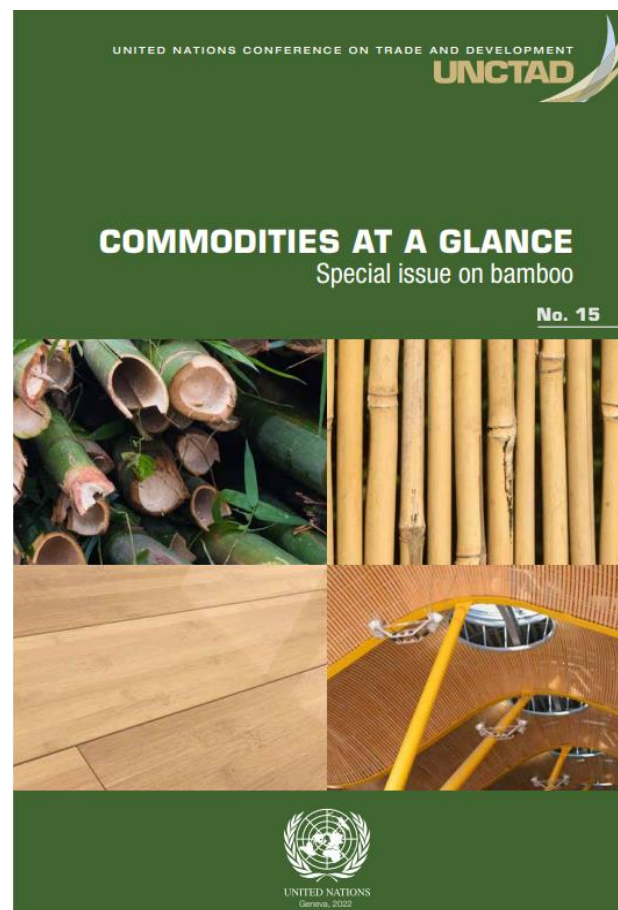
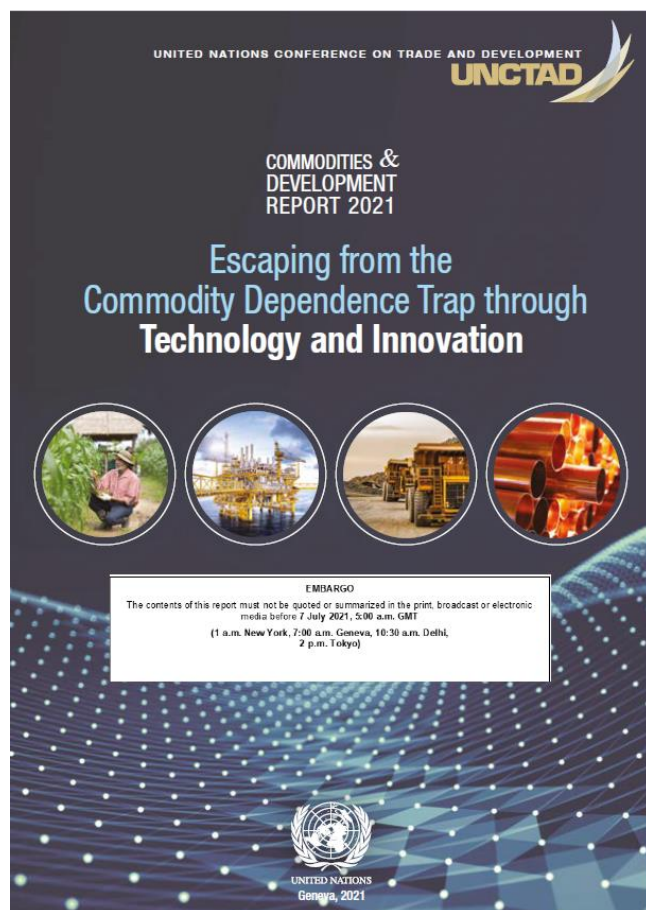
Introduction



Work of UNCTAD Commodities Branch



Research and analysis



Fora for consensus building

- Multiyear Expert Meeting on Commodities and Development---Annual
- Global Commodities Forum---Biennial
- Project-based meetings and events
- Training activities and speaking engagements

Technical cooperation

- THAN technical assistance project on agricultural value chains
 - Coffee in Ethiopia
 - Maize in Laos
 - Meat in Mongolia
 - Dried fruits in Uzbekistan
- EIF project on Cotton by-products:
 - Feasibility study of cotton by-products in Malawi
 - Feasibility study of cotton by-products in Togo
- Projects seeking funding:
 - Gum arabic in Sudan and other countries
 - Cashew nuts value chain in Eastern and Southern Africa
 - Phosphates in African countries

Recent trends on commodity markets



UNCTAD Commodity Price Index

ALL FOOD

- Food

Wheat

Maize

Rice

Sugar

Bovine meat

Bananas

Pepper

Soybean meal

Crustaceans

Fish

- Tropical beverages

Coffee

Cocoa beans

Tea

- Vegetable oilseeds and oils

Soybeans

Soybean oil

Sunflower oil

Groundnut oil

Copra

Coconut oil

Palm kernel oil

Palm oil

AGRICULTURAL RAW MATERIALS

Fish meal fodder

Tobacco

Cotton

Wool

Jute

Hides and skins

Tropical logs

Tropical sawnwood

Plywood

Rubber

MINERALS, ORES AND METALS

- Minerals, ores and non-precious metals

Phosphate rock

Manganese ore

Iron ore

Aluminium

Copper

Nickel

Lead

Zinc

Tin

Tungsten ore

- Precious metals

Gold

Silver

Platinum

FUELS

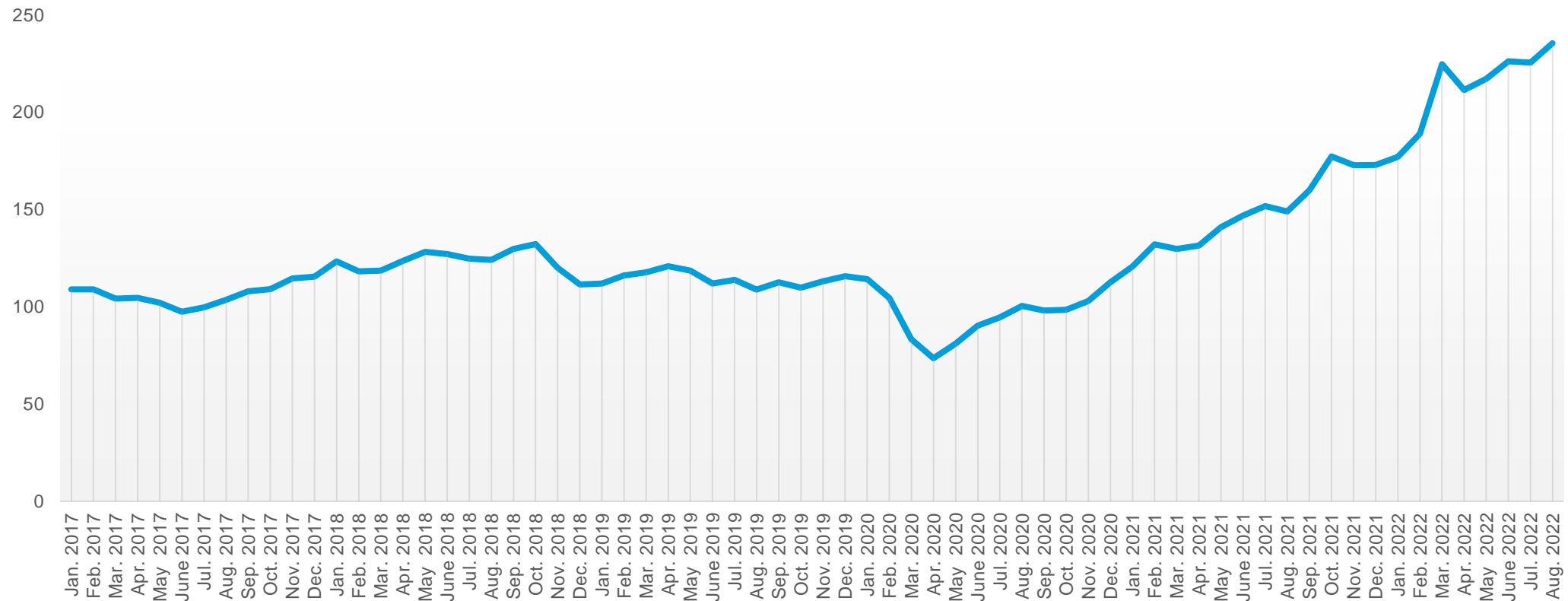
Natural gas

Coal

Crude petroleum

Commodity prices have been on an upward trend since mid-2020

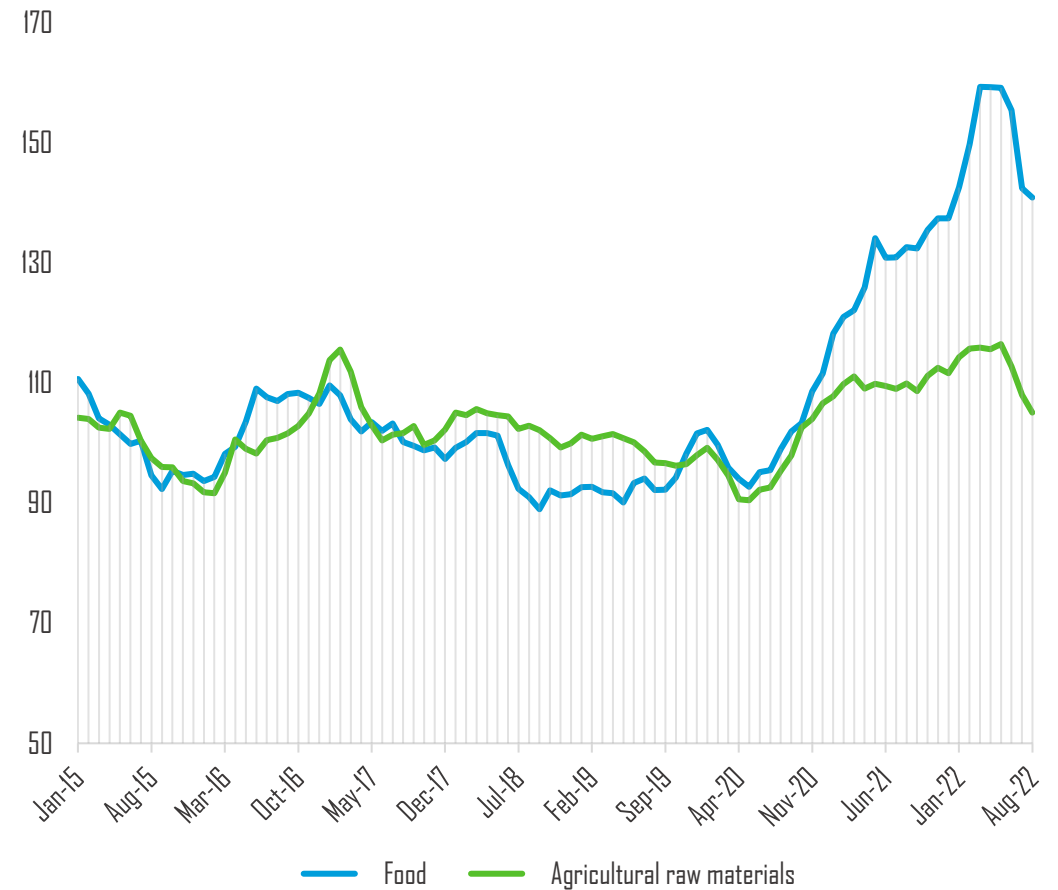
UNCTAD Commodity Price Index (2015=100)



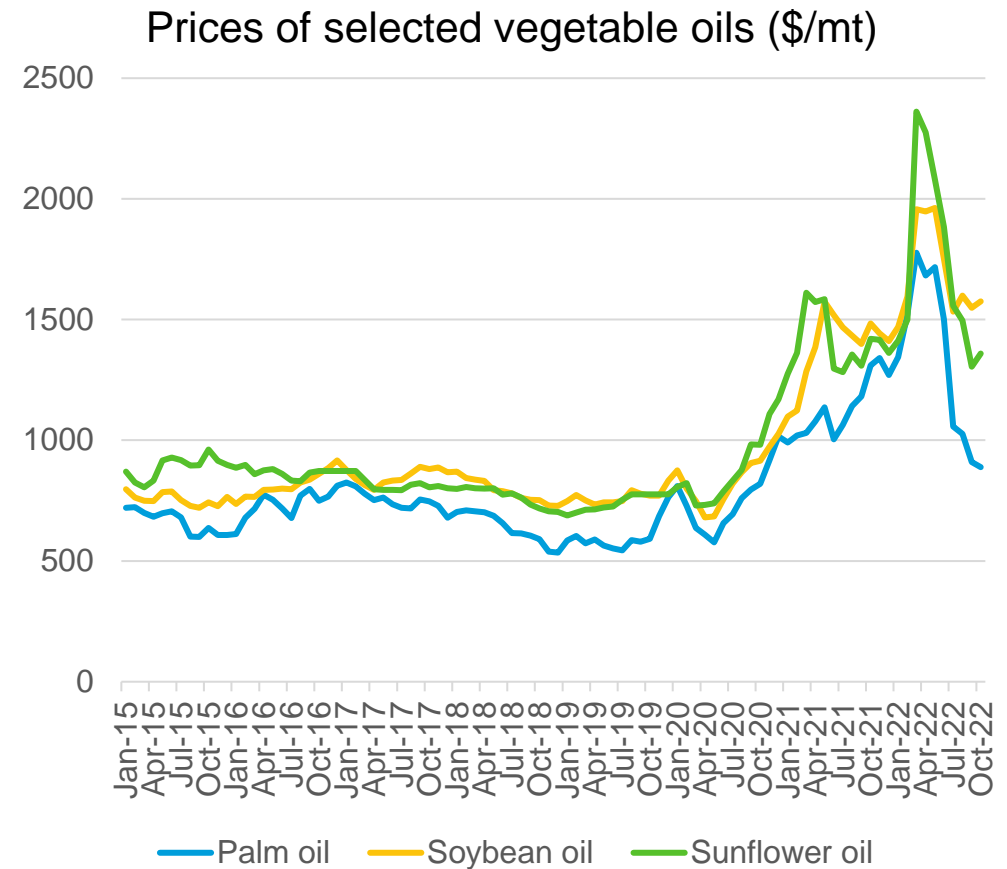
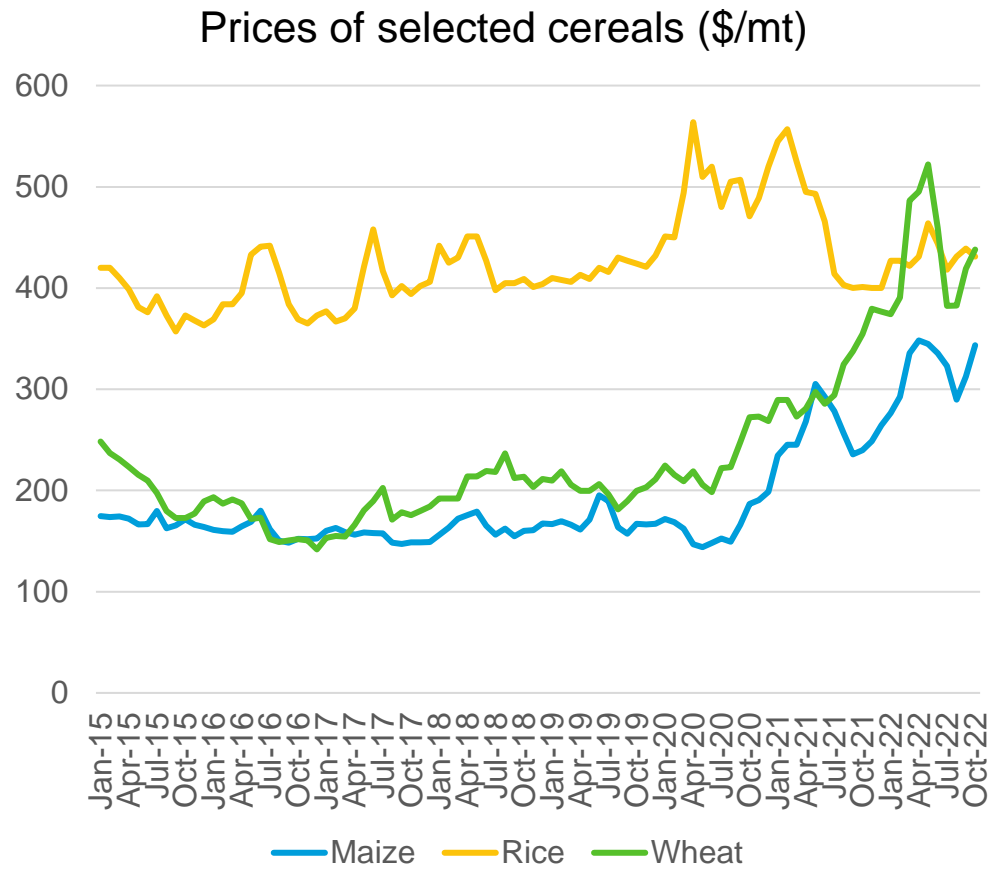
Soaring food prices: concerns over food security

- Unfavourable weather conditions, strong demand and soaring input costs prompted a 16% increase in the UNCTAD food price index in 2021.
- The food price index peaked at 159.3 points in March 2022, fueled by the war in Ukraine and disruptions in the wheat, maize and sunflower oil markets.
- The food price index remains high, causing growing concerns about food security.
- The price index of agricultural raw materials marginally increased up to May 2022 due to rises in cotton prices before resuming its downward trend.

UNCTAD Food Price Index (base year=2015)



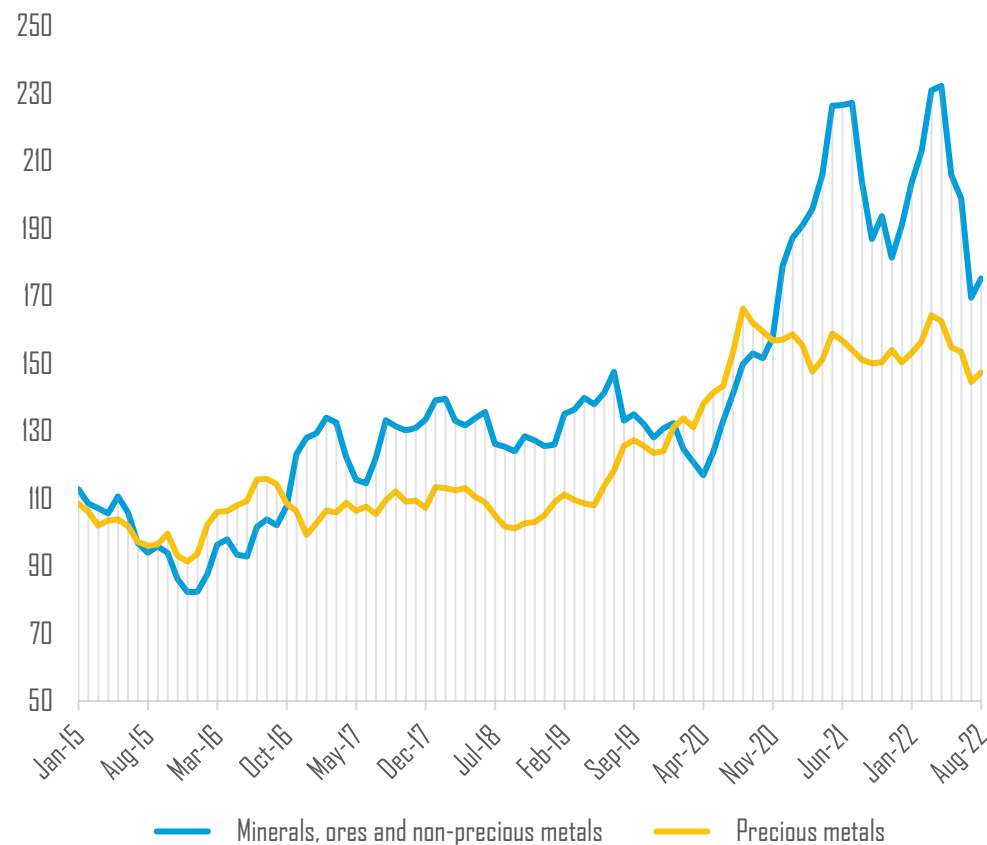
The prices of cereals and vegetable oils hit record highs in 2022



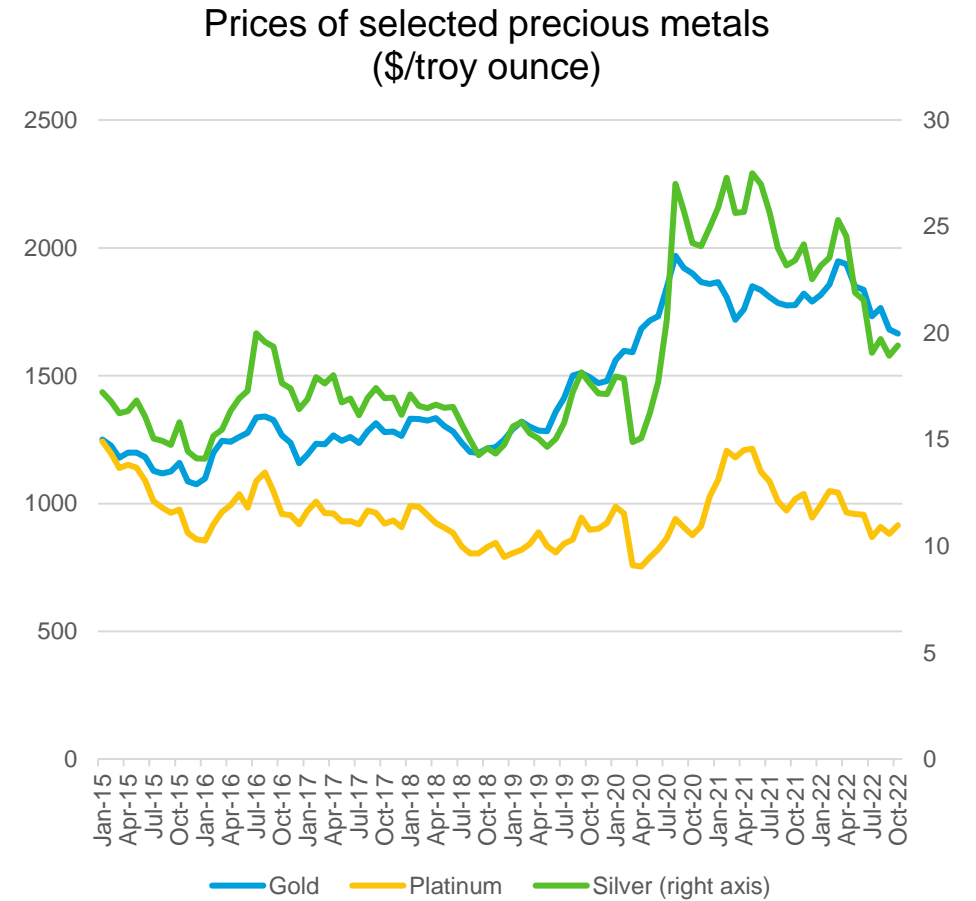
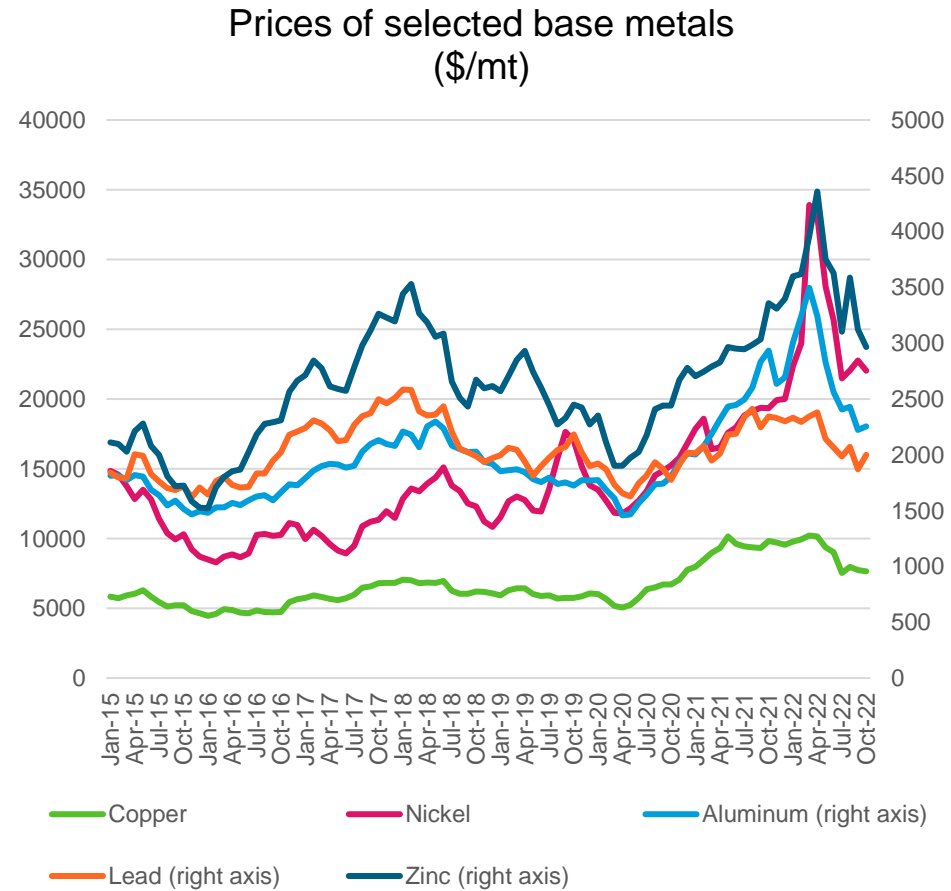
Minerals, ores, and metals markets: volatility and uncertainty

- In the first half of 2021, UNCTAD's minerals, ores and non-precious metals price index rose by 21%, driven by price increases in all commodities in the group, particularly iron ore, aluminum and copper.
- The interruption in the second half of 2021 was due to a drop in iron ore prices.
- In Q1 2022, the index returned to its increasing trend due strong demand before dropping again in Q2 2022 as amidst fears of a global economic slowdown
- The precious metals index remains at elevated level in 2021 and 2022

UNCTAD Metals Price Index (base year=2015)

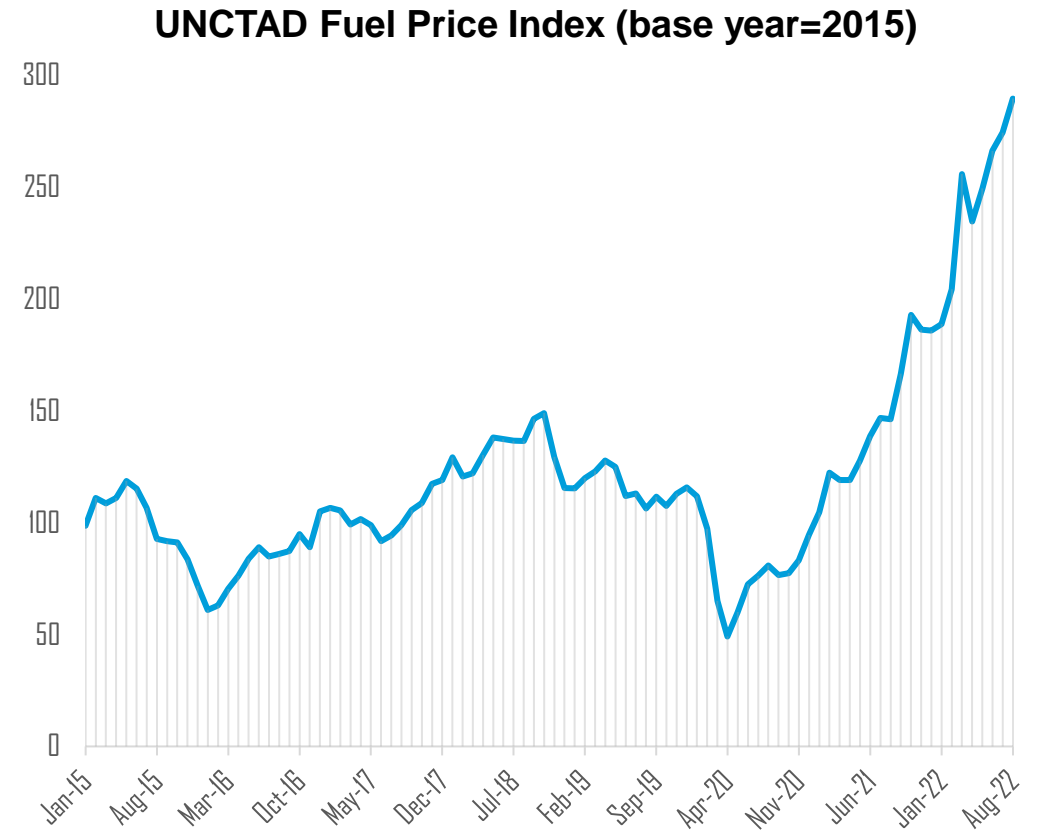


Base metals prices declined after peaking in early 2022



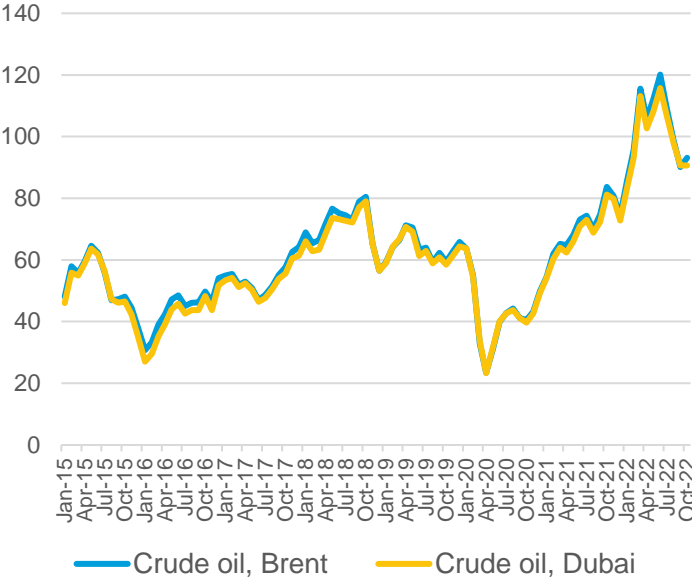
Energy prices: Record levels

- In 2021, the UNCTAD fuel price index continued its upward trend, stemming from limited supply amid a rebound in demand
- This has since been exacerbated by geopolitical tensions associated with the war in Ukraine
- In August 2022, the UNCTAD fuel price index stood at 289.5 points, corresponding to a 98% year-on-year increase

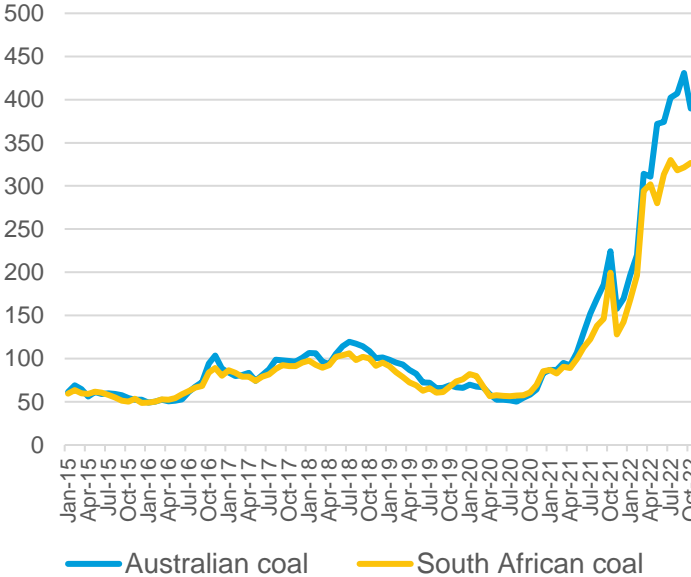


Energy prices remain high and volatile

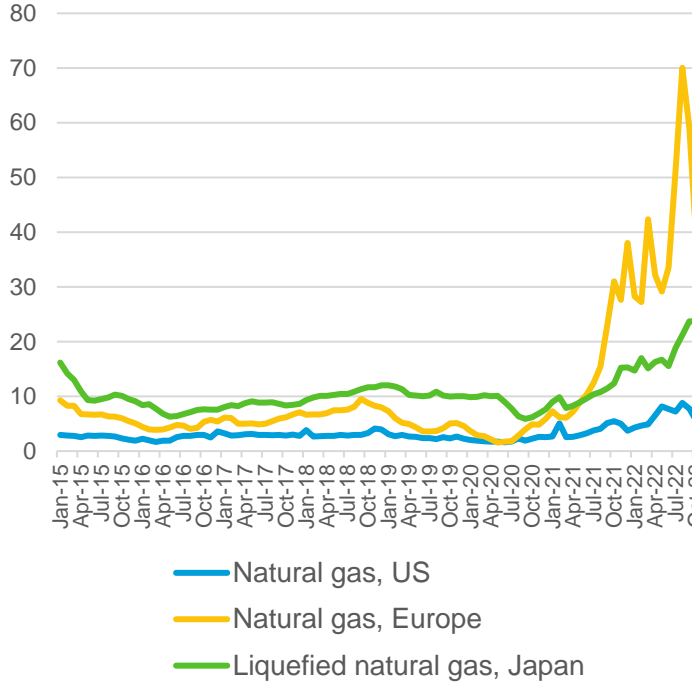
Crude oil (\$/bbl)



Coal \$(/mt)



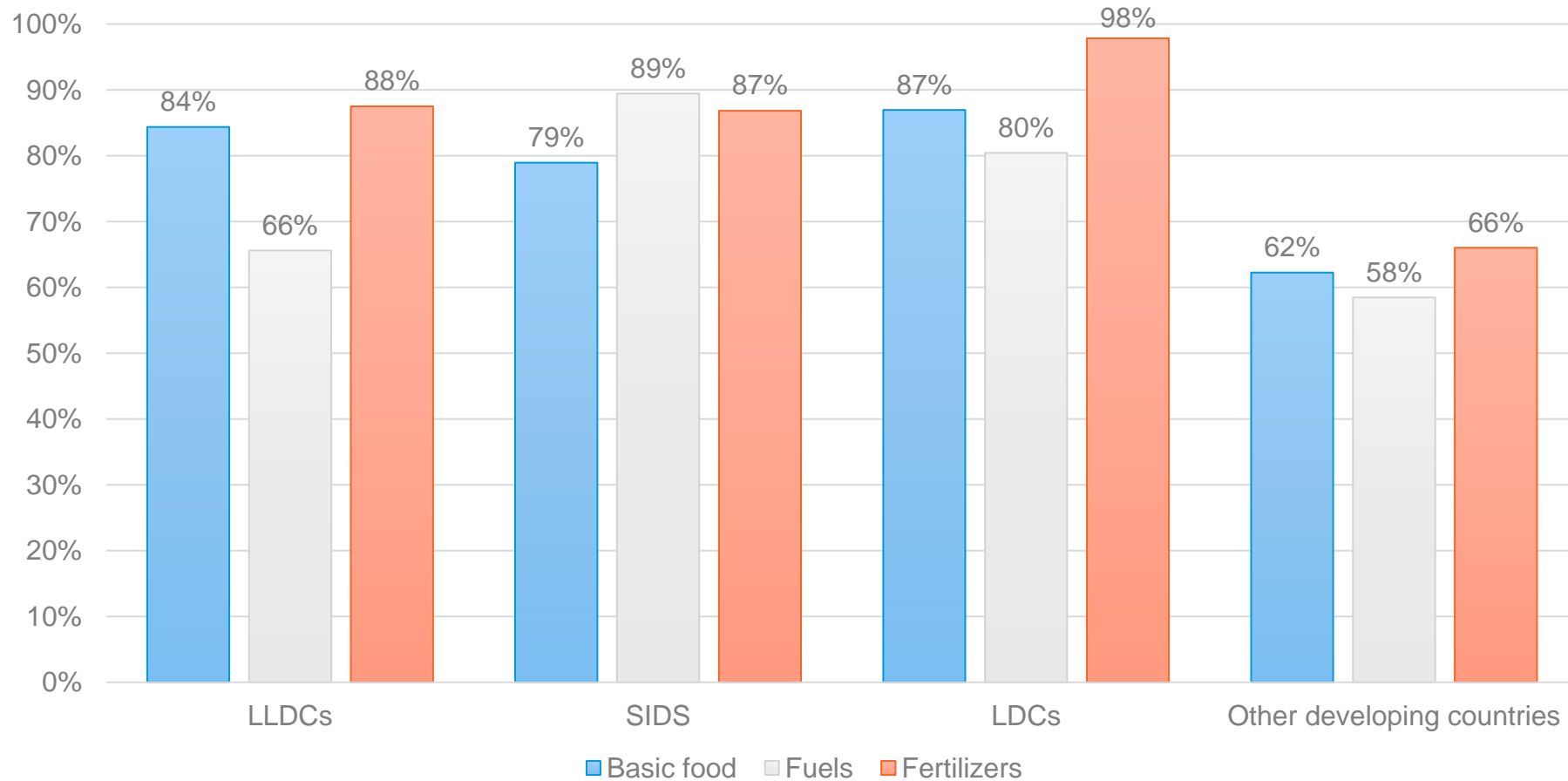
Natural gas (\$/mmbtu)



**What does this mean for
net importers of basic commodities?**

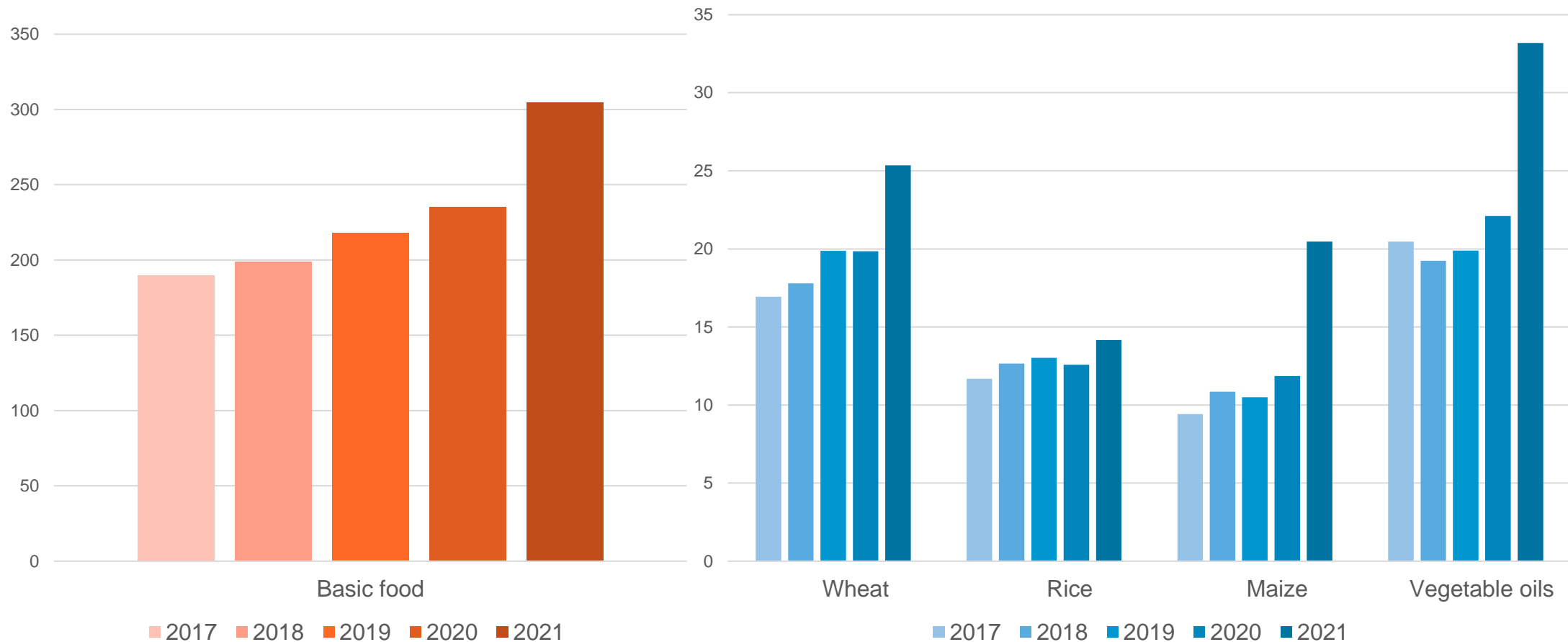


Share of net importers of basic commodities



Food import bills are rising

Net imports of net food-importing developing countries (billion \$)



Impacts on net importers of basic commodities

- Rising import bills cause inflationary pressure and threaten food and energy security
- Food price hikes disproportionately affect the poorest countries and populations as they spend a larger shares of their incomes on food
- Currency depreciation aggravates situation for some developing countries

Commodity dependence

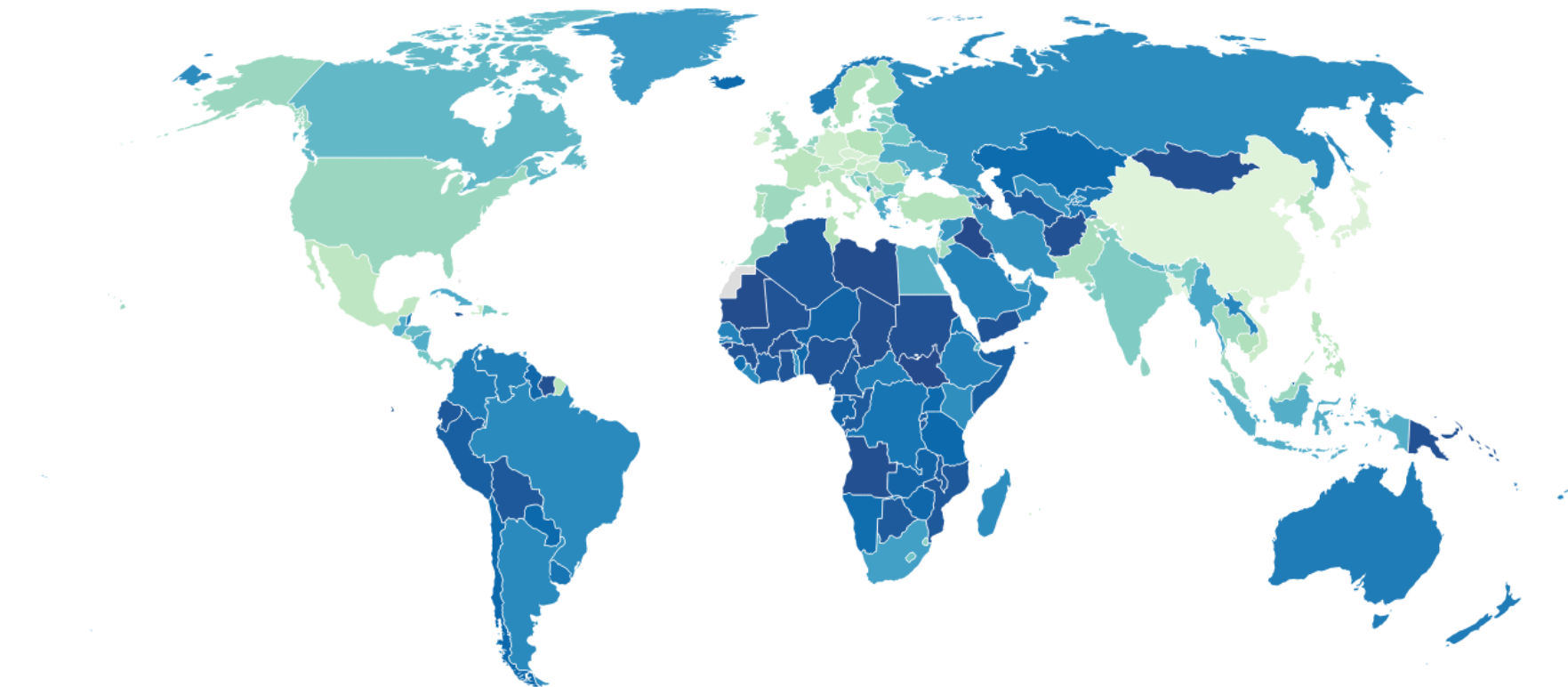
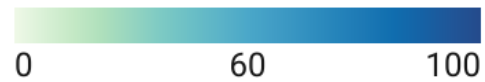


The commodity dependence trap

- Commodity dependence remains a major challenge for the achievement of the SDGs.
- Commodity dependence is associated with numerous challenges and negative socio-economic outcomes
 - lower human and social development
 - slow productivity growth
 - income volatility
 - macroeconomic instability
 - Dutch disease
 - political instability

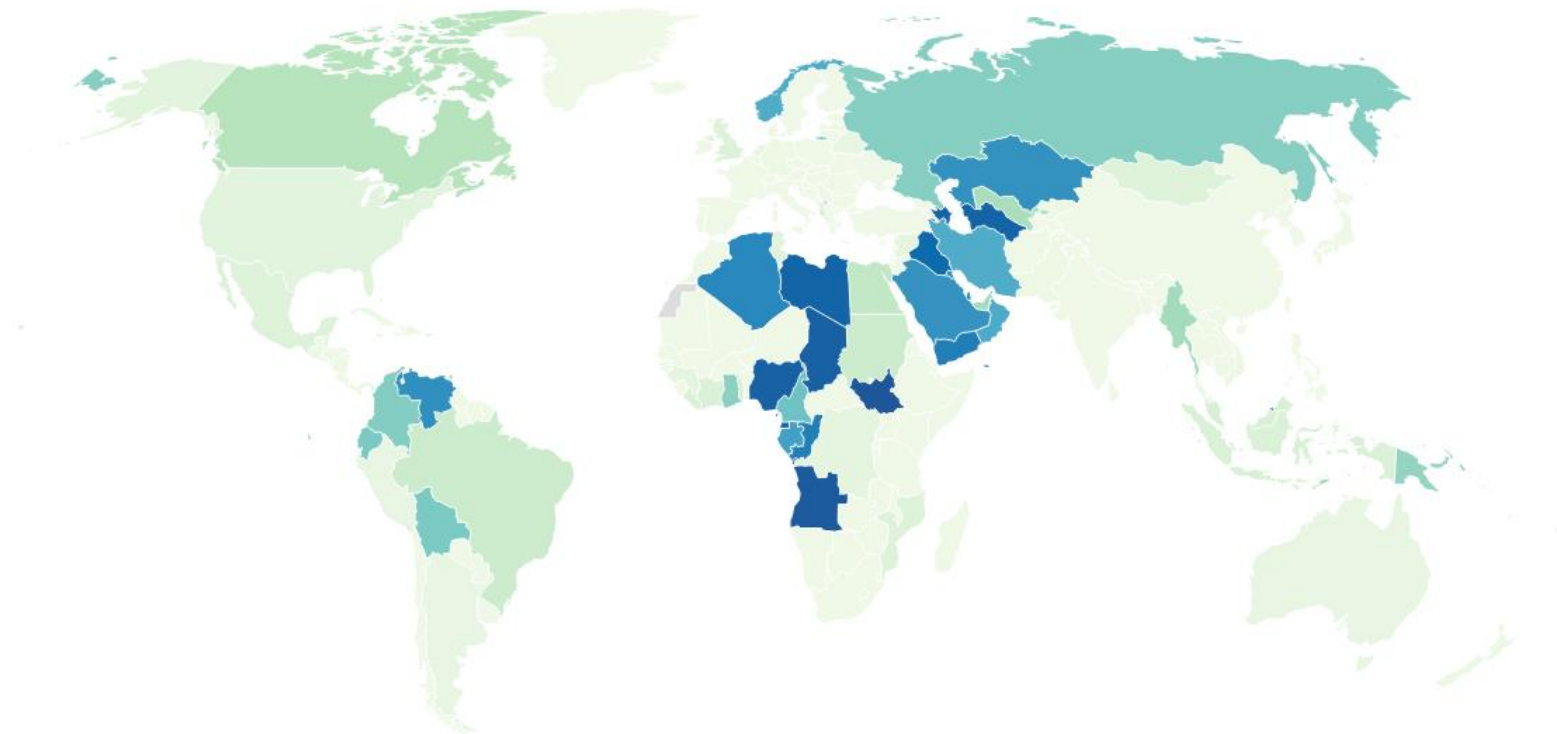
State of commodity dependence

Share of commodities in total merchandise exports (% , 2019-21)



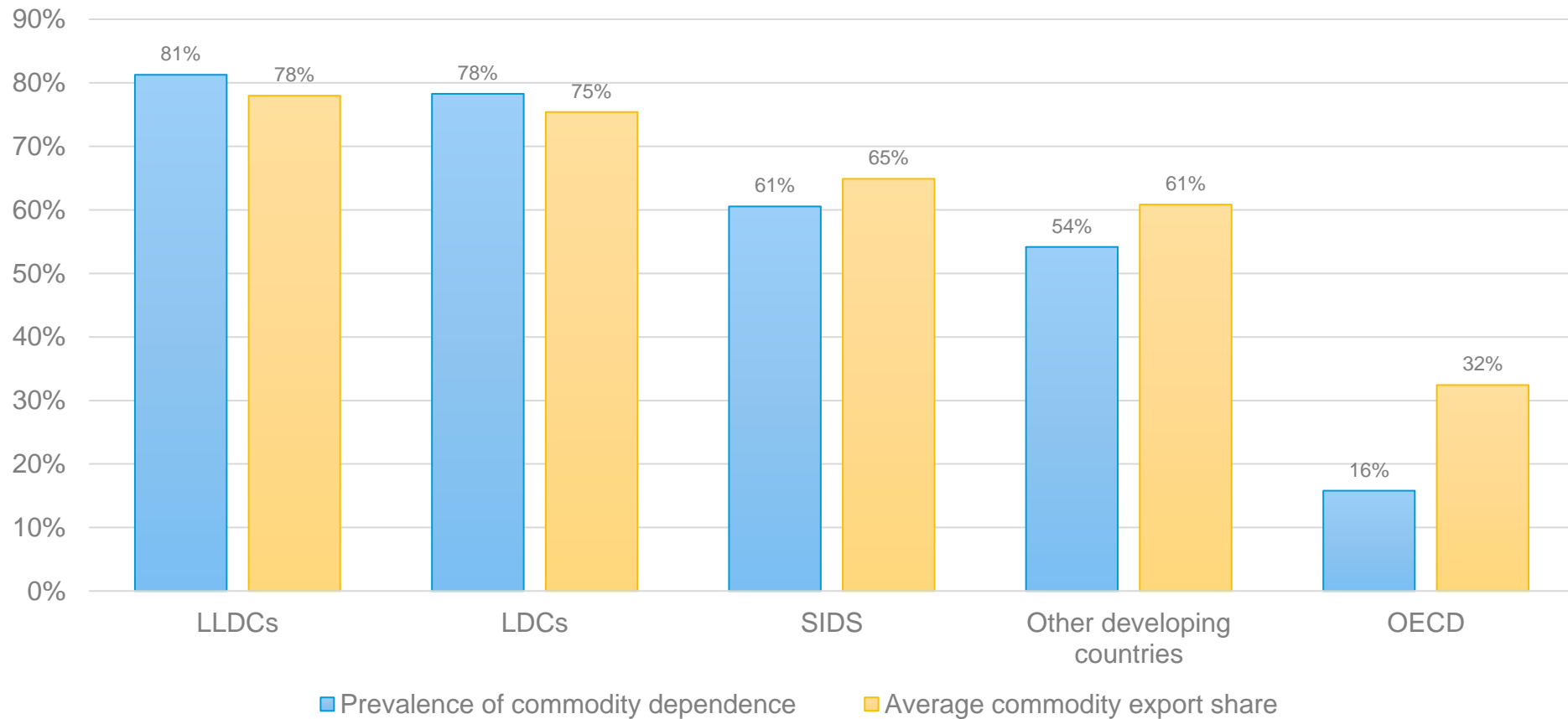
Oil and gas dependence

Share of oil and gas in total exports (2018-20)



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State of commodity dependence



Why diversify?

Diversification is not an end in itself. Rather, it is a means to

- Lower vulnerability to external shocks (resilience)
- Achieve structural transformation (productivity gains)
- Drive economic growth and development (higher real incomes)
- Generate more and better jobs (employment)

Learning from past success

- There is no blueprint
- However, countries that have successfully diversified have relied on a combination of
 - » horizontal enablers
 - » targeted measures

Enablers of diversification



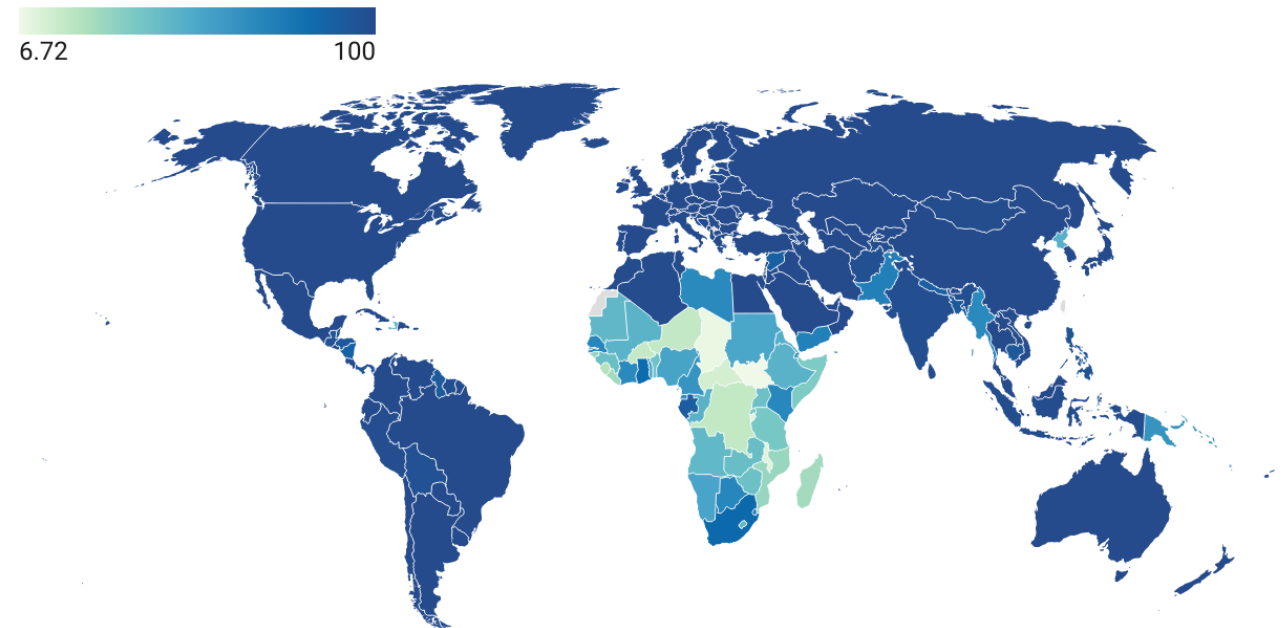
Transparent and predictable business and investment climate

- Clear rules and regulations, simple procedures, no red tape
- Political and social stability
- Rule of law
- Low level of corruption
 - » ensure low cost of doing business

Infrastructure

- Transportation and logistics
- Information and communications technology
- Access to energy
 - » investments in infrastructure
 - » regional cooperation to improve connectivity (e.g. ACFTA)

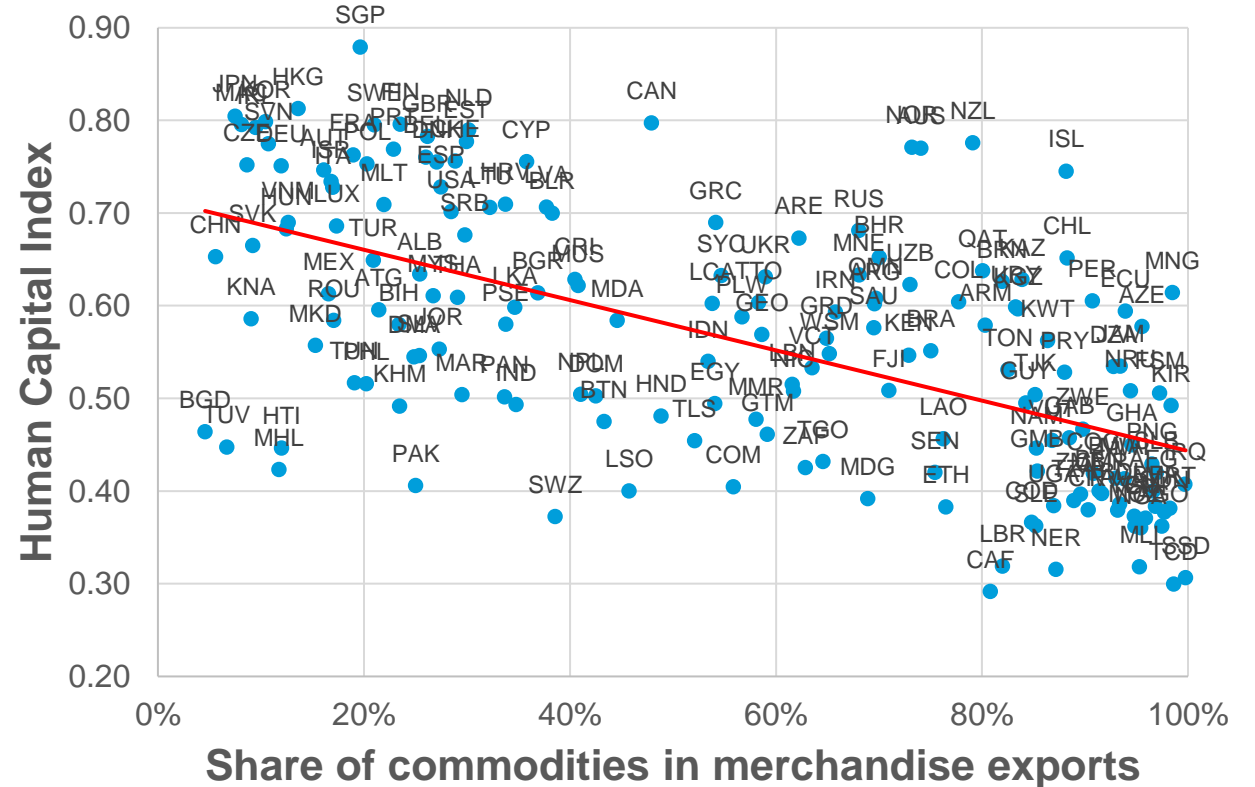
Access to electricity (% of population), 2019



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Human capital

- Human capital enables upgrading into more skill-intensive activities
- Education and skills ensure access to new employment opportunities
 - » investments in education
 - » ensure skills match labour market needs



Market access

- Market access conditions are a key factor in successful diversification
- Tariff escalation and tariff peaks are challenges for commodity-dependent developing countries
- Non-tariff measures (NTMs) are widespread e.g. in agri-food sector
 - » include market access analysis in diversification strategies
 - » address tariff escalation and tariff peaks in WTO
 - » strengthen domestic quality infrastructure
 - » build capacity to reduce trade costs

Competitive input markets

- Higher value-added goods require inputs of intermediary goods and services
- Lack of competition on input markets can compromise competitiveness of exporters
 - » strengthen competition policy
 - » facilitate access to inputs through trade policy

Special Economic Zones

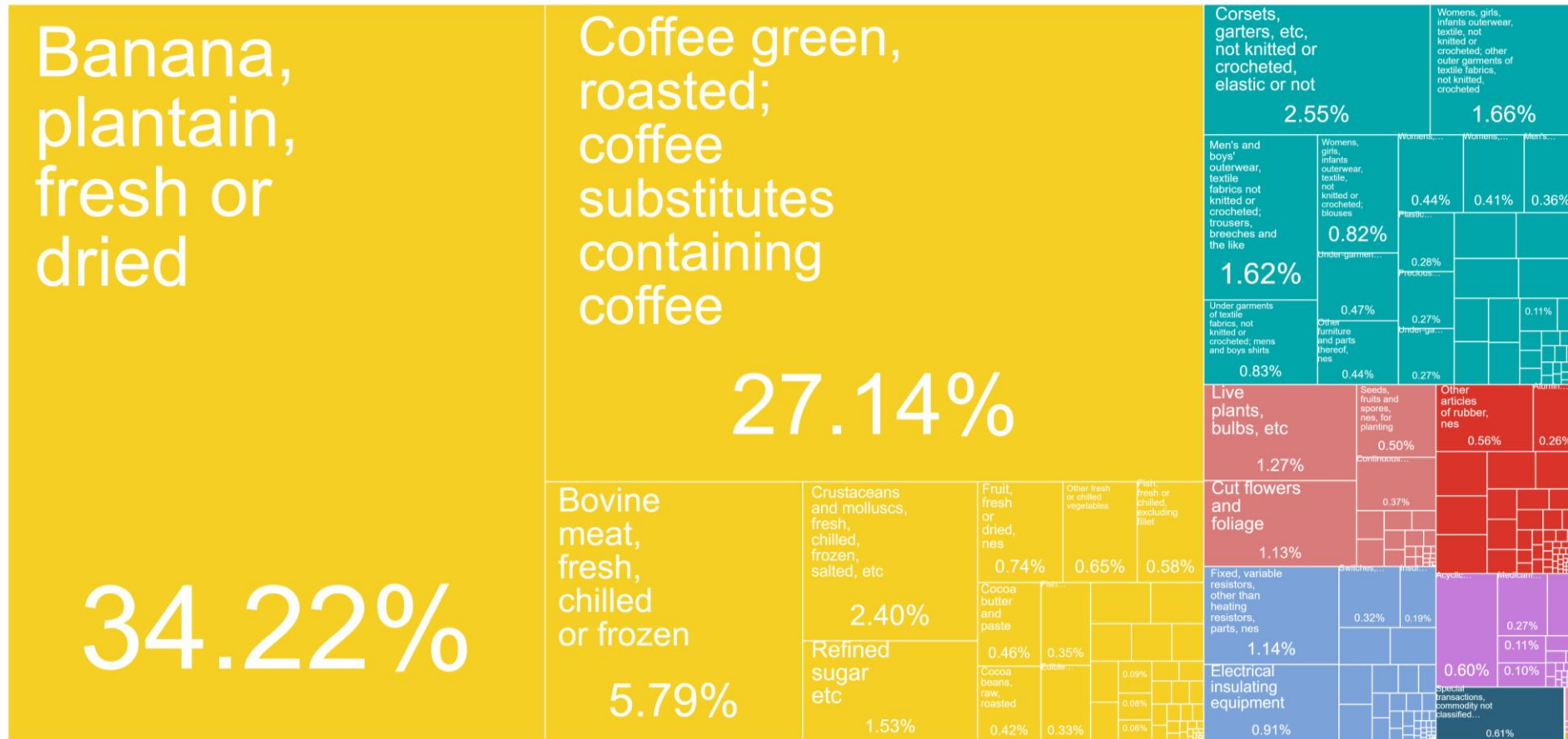
- Promote investment, exports, growth, industrialization, innovation
 - Build productive capacity, generate employment
 - Integrate in GVCs
 - Support SMEs
 - Some have underperformed in sustainable development
- » Strengthen linkages and spillovers

Example: Costa Rica



Diversification in Costa Rica 1/3

Merchandise exports in 1985

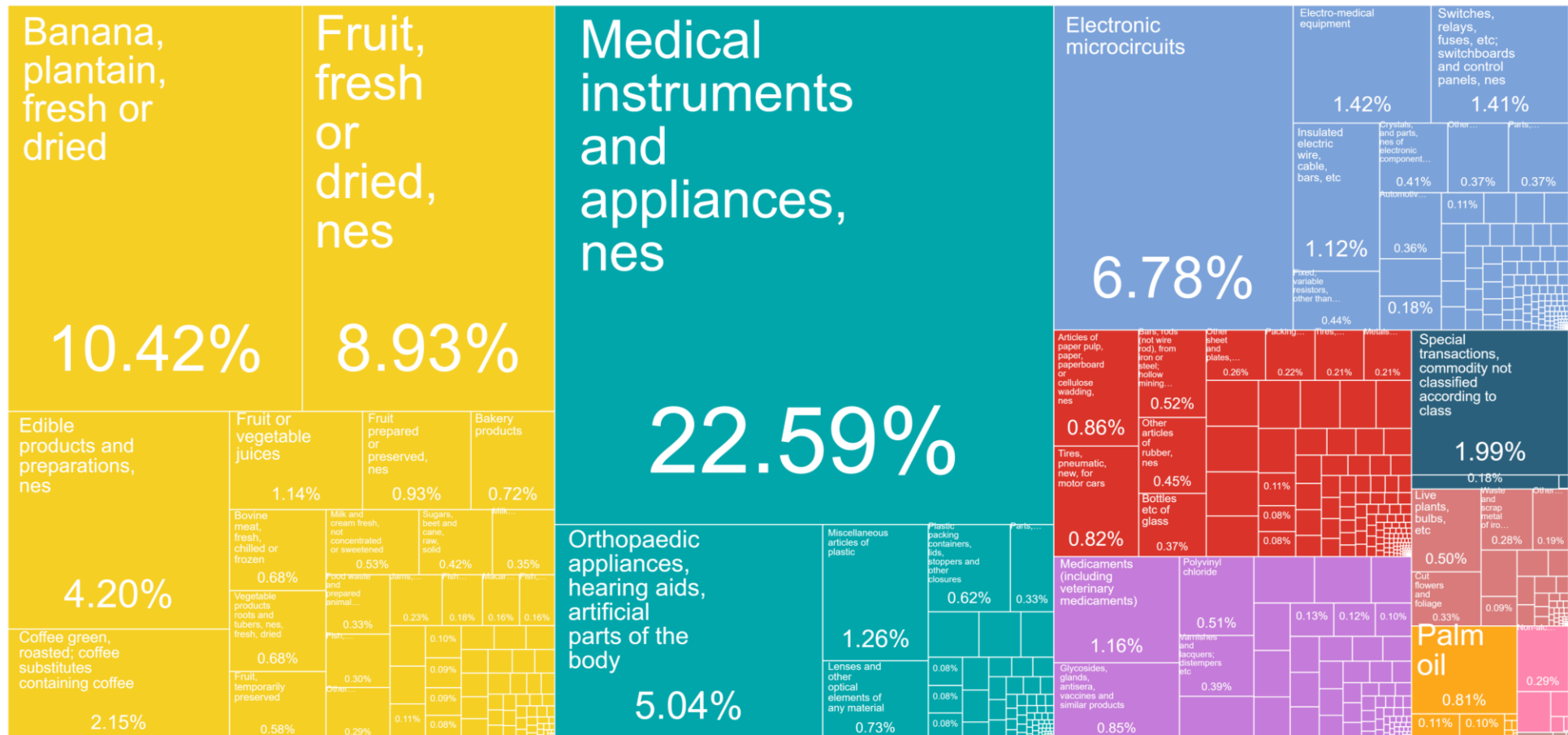


Diversification in Costa Rica 2/3

- Conducive business and investment climate
 - Political and social stability
 - Investment promotion (CINDE - Costa Rican Investment Promotion Agency)
 - Export promotion (PROCOMER - Export Promotion Agency of Costa Rica)
- Investments in human capital
 - Education
 - Technical skills development
- Market access
 - Free Trade Agreements with e.g. United States, Mexico, Canada and Chile
- Free Trade Zones to attract FDI and promote priority export sectors
- Promotion of non-traditional exports in agriculture and eco-tourism

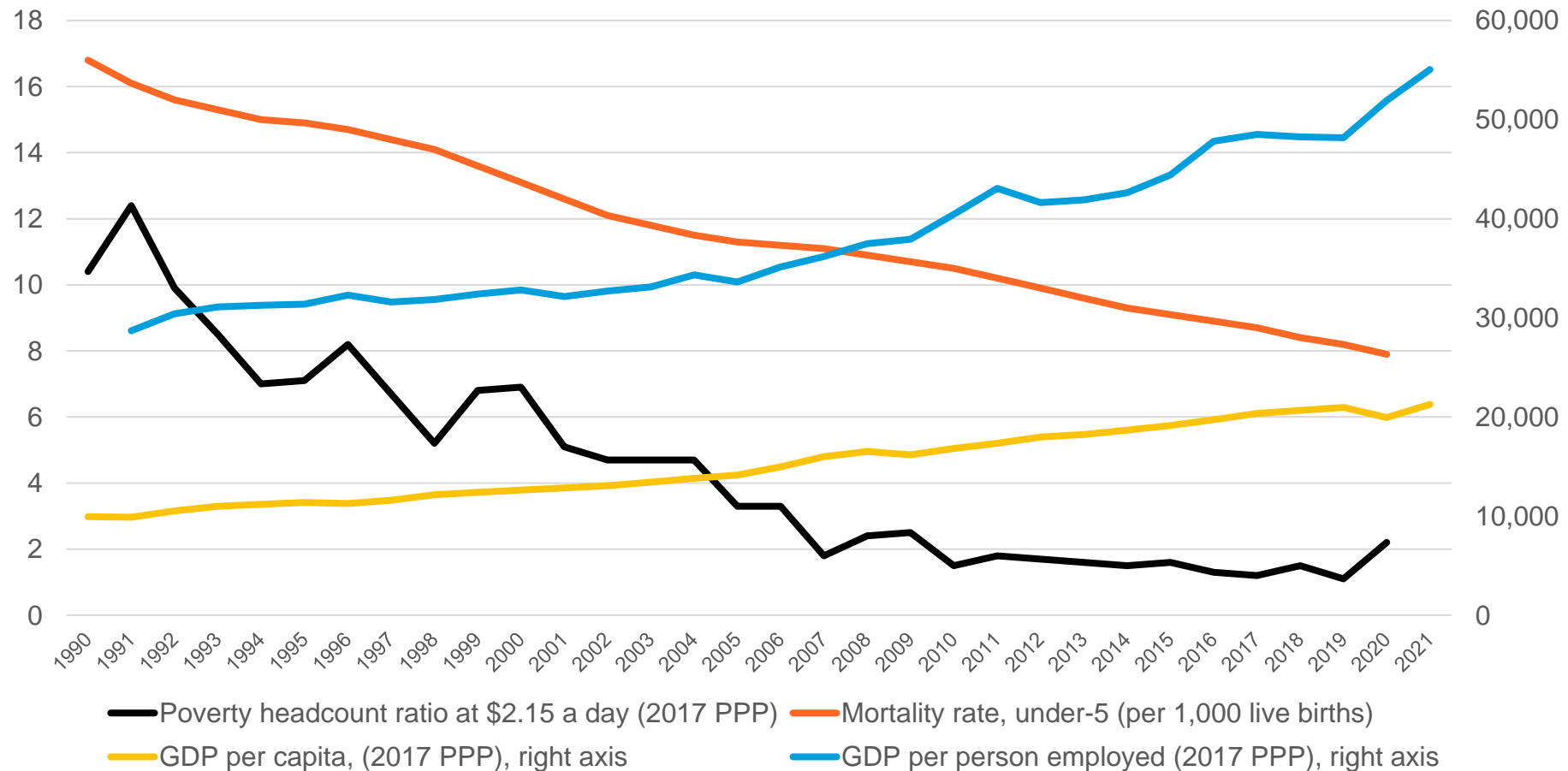
Diversification in Costa Rica 3/3

Merchandise exports in 2020



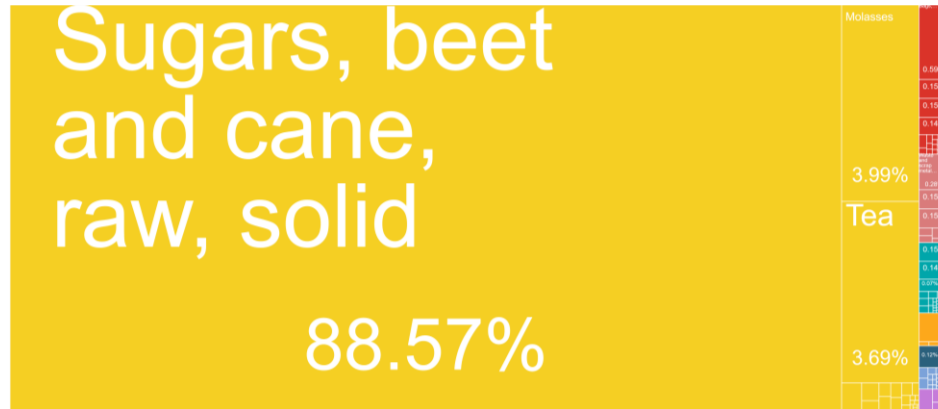
Source: <https://atlas.cid.harvard.edu/explore>

Diversification went hand-in-hand with broad-based development progress

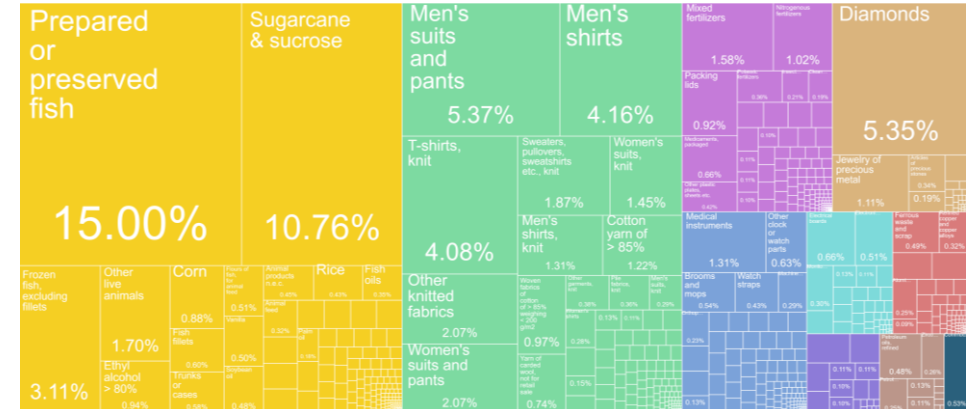


More successful examples

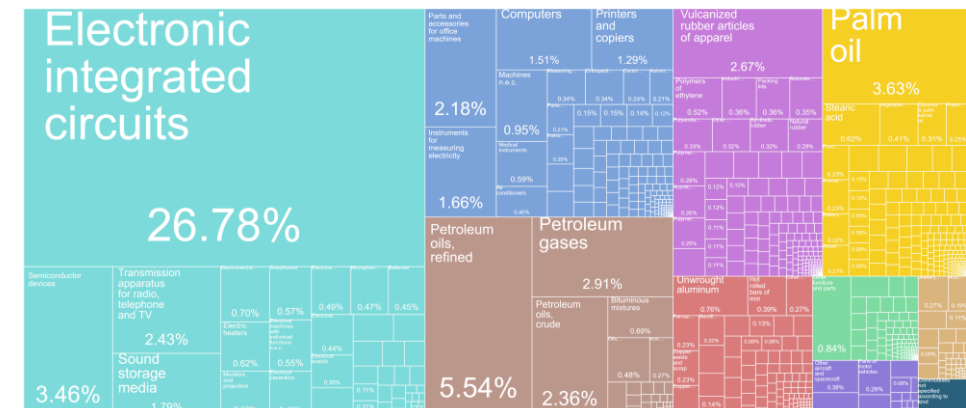
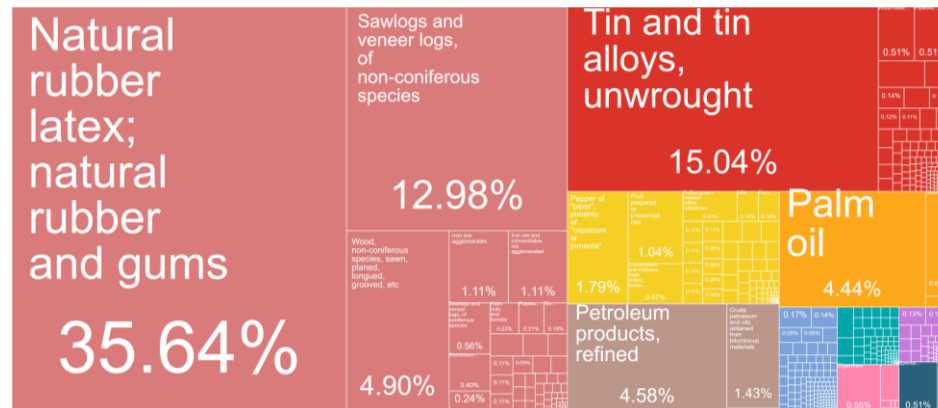
Merchandise exports in 1970



Merchandise exports in 2020



Malaysia



Source: <https://atlas.cid.harvard.edu/explore>

Summary



Summary

- Recent shocks to the global economy had major impacts on commodity markets
- This laid bare the fragility of commodity-dependent developing countries and net food-importing developing countries
- Volatility and high uncertainty on commodity markets are a reminder of the need to build resilient economies

Thank you!

