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Boom in commodities raises hopes -- and some disquiet

UNCTAD XII to consider how poor countries can take advantage record high prices, retain more profits, reduce poverty, diversify economies

Geneva , 2 April 2008 —

The past five years have been, on one level, the best in the past quarter century for commodity-exporting developing countries. Prices for these basic goods have climbed substantially.

Yet rising commodity prices are a double-edge sword. While oil- and mineral-exporting countries have experienced large gains, many low-income developing countries dependent on exports of tropical agricultural products (especially in sub-Sahara Africa) have seen the prices of their exports outpaced by those of their imports (fuels and food), and thus are experiencing significant deterioration of their terms of trade.

The current hike in world prices of nearly all major food and feed commodities is having a ripple effect, contributing to food price inflation and to greater food insecurity, especially in poor countries. In recent months, food riots have broken out in several nations.

A major subject of discussion at UNCTAD XII will be the role that can be played in economic growth by recent record prices for such goods as oil, minerals, metals, and basic agricultural products, things that developing countries can and do offer to world markets. The vast majority of such nations – more than 90 – are dependent on such commodity exports.

UNCTAD's price index for non-fuel commodities recently reached its highest level (in current dollars) since 1960. The index rose by 159% between January 2002 and January 2008; metal and mineral prices have climbed 285% over the same period; and agricultural raw materials prices have increased by 133%. Oil recently has been selling for over US$110 per barrel.

A 23 April roundtable debate at UNCTAD XII on " **the changing face of commodities in the 21st Century** ," along with other discussion during 20-25 April conference, will consider the major question of how far the commodities boom can take developing countries on the path of rising living standards and reduced poverty. Although commodity prices are notoriously cyclical, with booms historically being followed by busts, there is a possibility that this time demand will be sustained as growth in emerging economies such as China and India continues on an expected upward course.

But there is concern that the benefits of the recent economic good times are not being shared equitably by all – for example, despite the best growth and export situation for developing nations in the past 25 years, it is becoming clear that many countries, especially in sub-Saharan Africa, will not be able to reach the United Nations Millennium Development Goal of halving extreme poverty by 2015. If expanding global income in the current very positive situation is not reaching many of the world's poor, what can be done?

There is also concern that the bulk of profits from higher commodity prices do not necessarily end up with governments or citizens in the developing countries that supply the exports. For example, many oil- and mineral-exporting countries in Africa have seen most of the windfall gains from higher prices drained by increased profit remittances by transnational corporations involved the exploitation of natural resources.

Research also shows that higher profits from agricultural exports are not filtering down in many cases to the developing country farmers who grow the crops. The bulk of the profits accumulates at the higher end of the journey from the farm to the supermarket shelf. Most money is earned at the level where goods are processed in appealing ways, attractively packaged, branded, and advertised. Depending on the type of crop, the share of the profits retained by the smallholder farmers who labour to grow the produce has in many cases fallen sharply even as prices have climbed.

Economists at UNCTAD and elsewhere are advocating that developing countries take advantage of windfall income gains from the commodities boom to diversify their economies into manufacturing and higher-level service operations as a way of spreading employment and reducing vulnerability to future commodity price declines. But few such nations have so far managed such a transition due to internal constraints such as institutional, policy, infrastructural and human capital deficits, and external factors such as trade barriers in the international trading system – market access and entry conditions, lack of regulation of anti-competitive practices in international supply/value chains, and inability to comply with ever-changing trade standards. Thus most continue to rely heavily on primary commodity exports.

UNCTAD XII will have to address all of these issues and provides an opportunity for the international community to agree on appropriate policy responses designed to harness development gains from the current boom in commodity prices and to address long-standing commodity trade and development problems.

For further details on the global commodity situation and policy issues, including recommendations on appropriate policy responses by the international community, see the note prepared by the UNCTAD secretariat: " The changing face of commodities in the twenty-first century => https://web.archive.org/web/20100514235339/http://www.unctad.org/en/docs/td428_en.pdf " (TD/428).

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