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Macroeconomic policy questions: commodities

World commodity trends and prospects

Report of the Secretary-General

Summary

The present report, prepared by the secretariat of the United Nations Conference on Trade and Development pursuant to General Assembly resolution 70/191, highlights recent trends in and prospects for world commodity markets and analyses their main drivers. It shows that 2016 marked the end of a five-year downward trend in commodity prices, which increased significantly during that year. However, falling commodity prices in the first four months of 2017 make it seem questionable whether there has been a real trend reversal. While the price increases of 2016 were good news for commodity-dependent developing countries, commodity prices overall remain significantly below their peak values in 2011. As highlighted in an interactive dialogue on trends in and perspectives on commodities markets organized by the United Nations in 2016, diversification is a key component of the strategy of commodity-dependent developing countries to reduce their vulnerability to commodity price volatility and shocks and achieve the Sustainable Development Goals of the 2030 Agenda for Sustainable Development.

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I. Introduction

1. The present report on world commodity trends and prospects was prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) pursuant to General Assembly resolution 70/191. The report analyses recent developments in commodity markets, focusing on price trends and their determinants. The three major commodity groups covered in the report are: (a) agricultural commodities, including food, tropical beverages, vegetable oilseeds and oils, and agricultural raw materials; (b) minerals, ores and metals; and (c) energy, including oil, gas and coal.

2. The report also summarizes discussions and lessons learned from an interactive dialogue on trends and perspectives in commodities markets that was held on 16 May 2016 at United Nations Headquarters in New York. In addition, the report highlights the importance of diversification and the key challenges to diversification in commodity-dependent developing countries.

II. Market developments in major commodity groups

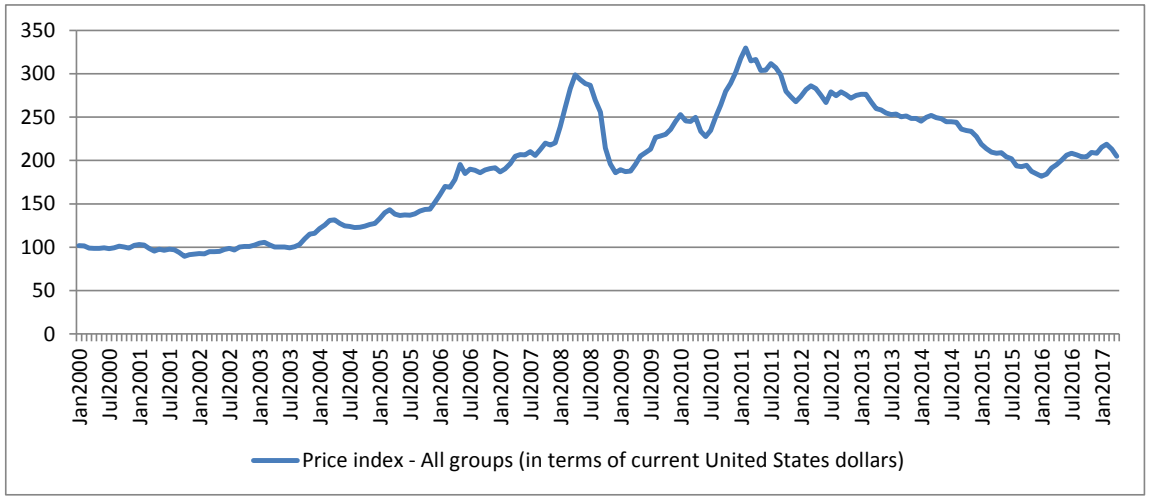
A. General overview

3. After reaching the bottom of a five-year slump at the beginning of 2016, commodity prices trended upward until early 2017. The UNCTAD non-oil nominal commodity price index[1] reached 218.8 points in February 2017, which constituted an increase of 20.4 per cent from its January 2016 value of 181.8 points (see figure I). However, the latest data available for the present report show that commodity prices are again receding; the UNCTAD non-oil nominal commodity price index stood at 205.2 points in April 2017. Overall, commodity prices are still significantly lower than they were at the peak of the last commodity boom (see figure I).

4. The recovery of commodity prices in 2016 was mainly driven by supply constraints and output uncertainties, which particularly affected metals and agricultural commodity prices. El Niño-related adverse weather conditions caused output shortfalls in agricultural commodities such as palm oil, rice and coffee. The supply of minerals, ores and metals was hampered by the constriction of copper, nickel and zinc mine production. After supply conditions for several agricultural commodities and metals eased, the upward trend in commodity prices appears to have come to a halt in 2017.

[1] The UNCTAD non-oil nominal commodity price index covers the following subgroups of commodities: all food (food, tropical beverages, vegetable oilseeds and oils), agricultural raw materials and minerals, ores and metals.

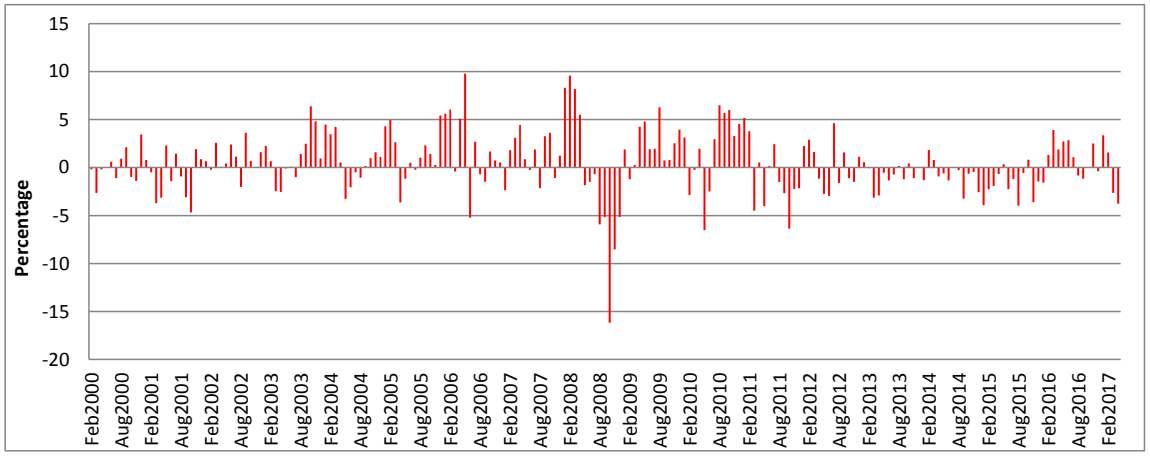
Figure I
UNCTAD non-oil price commodity price index (January 2000-April 2017)
(2000=100)



Source: UNCTAD secretariat, based on data from UNCTADstat.

5. Commodity price fluctuations have been moderate over the past 5 years (see figure II). The last time the UNCTAD non-oil nominal commodity price index recorded a monthly swing of more than 5 per cent was in October 2011. However, individual commodities have experienced substantial price fluctuations. The following section reviews market developments in major commodities groups.

Figure II
Monthly fluctuations in the UNCTAD non-oil nominal commodity price index (February 2000-April 2017)
(2000=100)



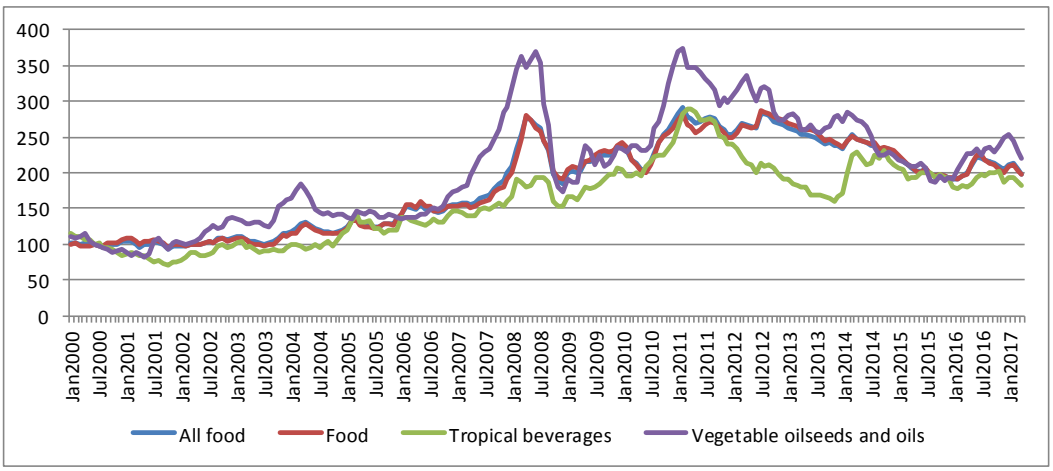
Source: UNCTAD secretariat, based on data from UNCTADstat.

B. Agricultural and food commodities

6. In January 2016, the UNCTAD food price index reached its lowest value in seven years, at 191.1 points. For the following six months, the index trended upward mainly owing to El Niño-related adverse weather conditions that caused output

shortfalls and uncertainties. Since mid-2016, food prices have been declining, with brief upward swings in January and February 2017. All subindices of the UNCTAD food price index saw marked losses between January and April 2017, with the index for vegetable oilseeds and oils experiencing the sharpest drop, of 13.6 per cent (see figure III).

Figure III
Price indices of selected commodity groups, January 2000-April 2017
(2000=100)



Source: UNCTAD secretariat, based on data from UNCTADstat.

7. Prices for grains have been generally trending downward since 2012, mainly owing to strong production and increasing stocks (see figure IV). The 2016/17 season marked a record for production of wheat and maize, leading to the largest ever recorded global supply of grains. As a consequence, the price of wheat (Hard Red Winter No. 2), at $191 per ton in April 2017, was down 4.5 per cent year on year and down 21.7 per cent relative to its level in April 2015. The price of maize (Yellow Maize No. 3) reached its lowest level in more than seven years, at $158 per ton in April 2017.

8. Going forward, grain markets are expected to remain fairly stable, subject to favourable weather conditions. The International Grains Council projects that wheat and maize production for the 2017/18 season will reach 736 and 1,026 million tons, respectively, slightly below their levels for the 2016/17 season.[2] Strong demand forecasts are projected to lead to a moderate reduction of stocks, which could generate a mild increase in grain prices.

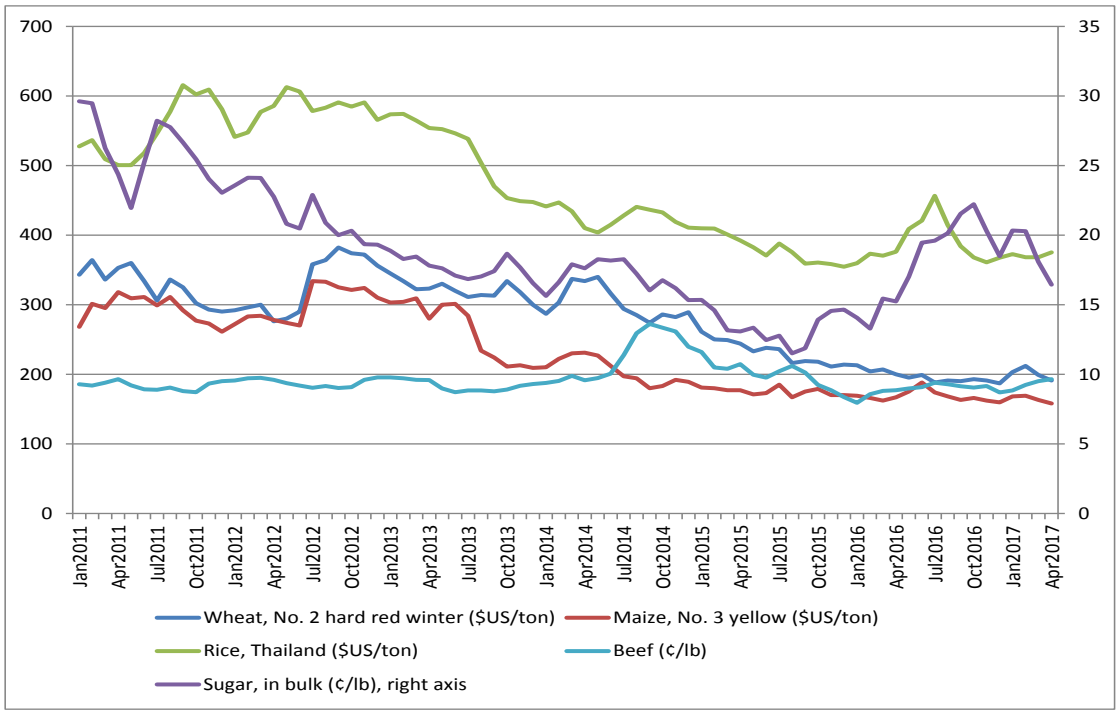
9. Rice markets saw a price rally during the first half of 2016. The price of Thai rice increased by 26.9 per cent between January and July 2016 owing to El Niño-related production losses in major producer countries such as India, Thailand and Viet Nam. Thereafter, forecasts of increases in world production led to a downward adjustment in prices. On a year-on-year basis, the price of Thai rice remained stable at $375 per ton in April 2017, compared with $376 per ton in April 2016. The market outlook for rice remains calm, with production and demand forecasts showing no major changes for the current season.

10. The sugar market experienced turmoil during the first three quarters of 2016, when a widening gap between supply and demand led to a drawdown of stocks to

[2] See International Grains Council grain market report No. 476 (27 April 2017).

historically low levels. Between January and October 2016, the price of sugar (the International Sugar Agreement average daily price) climbed by 58.1 per cent, from 14.05 cents per pound to 22.22 cents per pound. The price hike triggered an expansion of supply, which eventually brought the price of sugar down to 16.44 cents per pound in April 2017. Going forward, forecasts of rising global supply suggest that price increases are not to be expected for the upcoming season. At present, the only upside risk for the price of sugar is the potential for production shortfalls caused if El Niño conditions should occur in 2017.

Figure IV
Nominal prices of selected food and agricultural commodities, January 2011-April 2017
(2000=100)



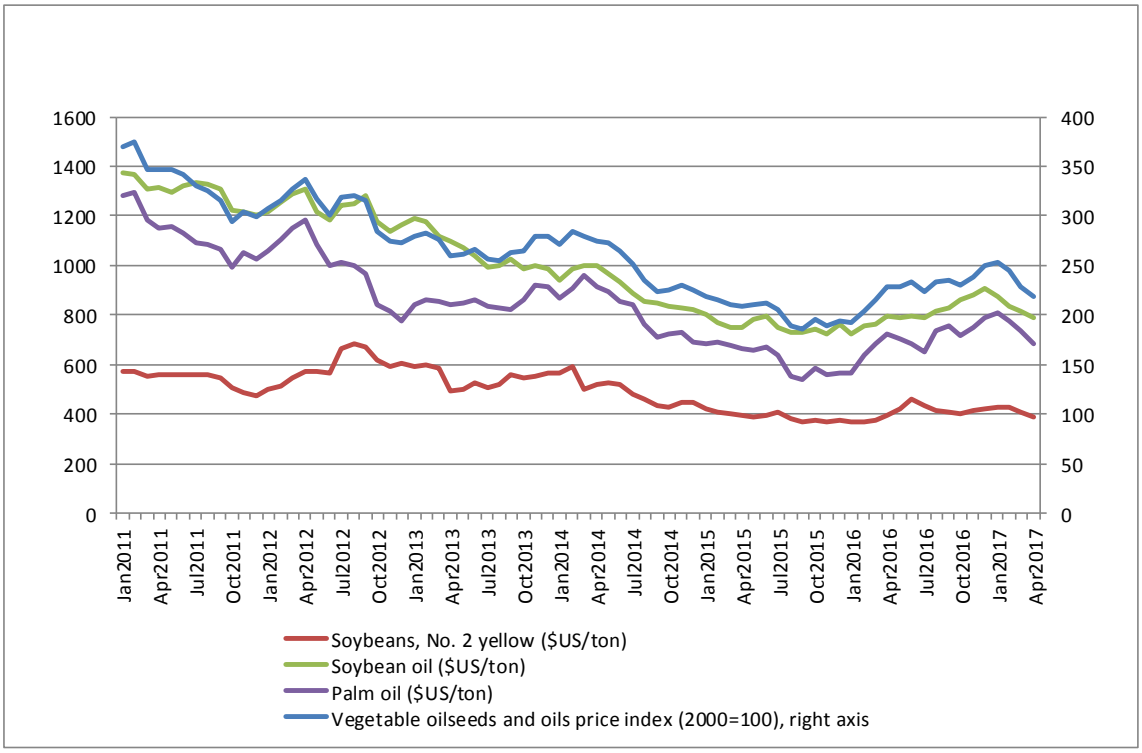
Source: UNCTAD secretariat, based on data from UNCTADstat.

11. The price of frozen beef from Australia and New Zealand reached an all-time high in September 2014, at 272 cents per pound, owing to tight supply conditions. Thereafter, rising supply and weakening demand triggered a downward trend that lasted until January 2016, when the price of beef was down to 159 cents per pound, which constitutes a 41.6 per cent drop over the course of 16 months. In 2016, beef markets showed less volatility, with a moderate upward price trend during the first half of the year, followed by a mild downward trend during the second half of 2016. Strong demand caused a 9.0 per cent increase in the price of beef, from 177 cents per pound in January 2017 to 193 cents per pound in April 2017. Going forward, a moderate upward price trend seems likely based on supply and demand projections.

12. The UNCTAD vegetable oilseeds and oils price index showed a downward trend between August 2011 and September 2015, losing 42.7 per cent of its value during that period (see figure V). In 2016, the trend reversed somewhat, owing to shortfalls in the production of oilseeds such as soybeans in South America and palm oil in South-East Asia as a result of adverse weather conditions caused by El Niño. Projections of a record production of soybeans for the 2016/17 growing season led to a decline in the prices of vegetable oilseeds and oils during the first quarter of

2017. In April 2017, the vegetable oilseeds and oils price index averaged 219 points, up 17.5 per cent from September 2015. Although forecasts for 2017/18 show increasing demand, they also show rising total oilseed production; prices are therefore expected to remain fairly stable.

Figure V
Price index and prices of selected commodities in vegetable oilseeds and oils markets, January 2011-April 2017



Source: UNCTAD secretariat, based on data from UNCTADstat.

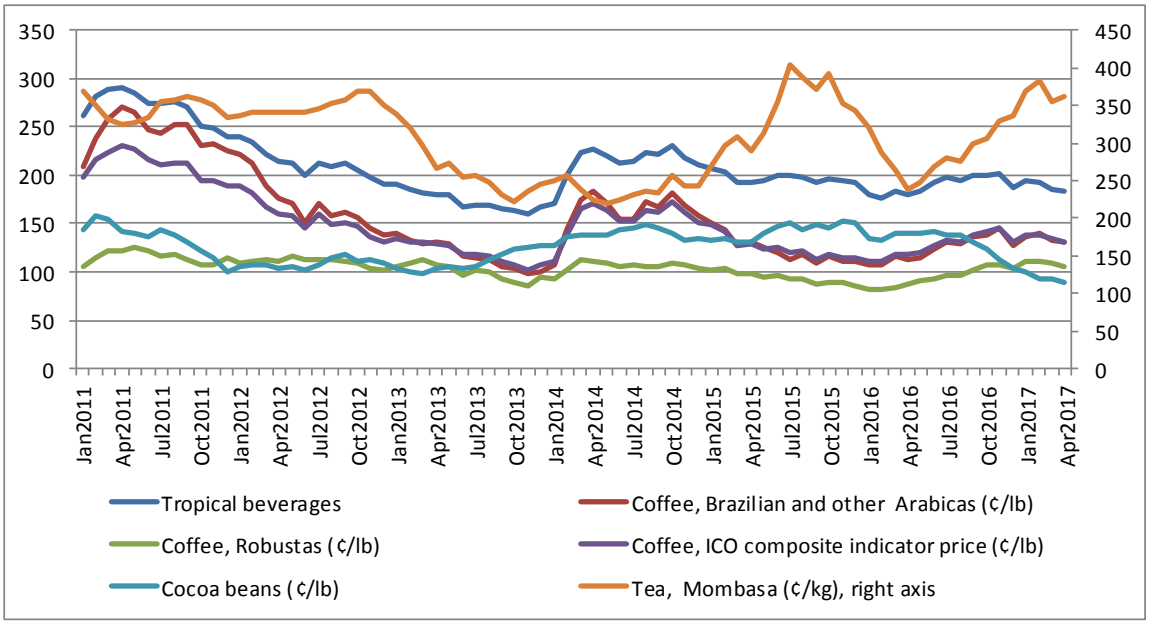
13. The price index for tropical beverages has been fairly stable since early 2015, averaging 183 points in April 2017, an increase of 1.3 per cent on a year-on-year basis (see figure VI). However, the stability of the composite index masks substantial fluctuations in the markets of individual tropical beverages. Fuelled by droughts in Brazil and a strong Brazilian real, the International Coffee Organization composite indicator price showed a steep increase of 31.4 per cent, from 111 cents per pound in January 2016 to 145 cents per pound in November 2016. Thereafter, the price rally reversed in line with a reversal of the underlying drivers as weather prospects and supply forecasts for major producing countries improved and the Brazilian real depreciated. In April 2017, the International Coffee Organization composite indicator price averaged 130 cents per pound, up 10.6 per cent on a year-on-year basis, but down 10.6 per cent from November 2016. Forecasts of healthy production during the 2017/18 growing season indicate that price increases are unlikely over the medium term, unless unfavourable weather conditions have an impact on harvests.

14. Prices of cocoa beans started to trend downward in July 2016 amid predictions of increasing production in West Africa and a supply surplus forecast for the 2016/17 season. In April 2017, the price of cocoa beans averaged 89 cents per pound, its lowest level in almost a decade and down 41.6 per cent from 152 cents per pound in November 2015. The negative price trend was fuelled by expectations

of significant production increases in Côte d'Ivoire and Ghana and a record supply surplus. Looking ahead, strong production is not likely to be outpaced by growing demand; therefore, prices for cocoa beans are expected to remain low.

15. The markets for tea were characterized by a high degree of variability over the past two years. In July 2015, the price of Mombasa black tea reached an all-time average high of 403 cents per kilogram. Thereafter, the price plummeted to 238 cents per kilogram in April 2016, a drop of 41 per cent in nine months. That trend was mainly driven by surplus supply. After another trend reversal in mid-2016, the price of Mombasa black tea averaged 362 cents per kilogram in April 2017, up 52.1 per cent from April 2016. The price of tea is expected to remain volatile as weather-related risks in main growing regions make it difficult to forecast the supply.

Figure VI
Price trends in selected tropical beverage commodities, January 2011-April 2017



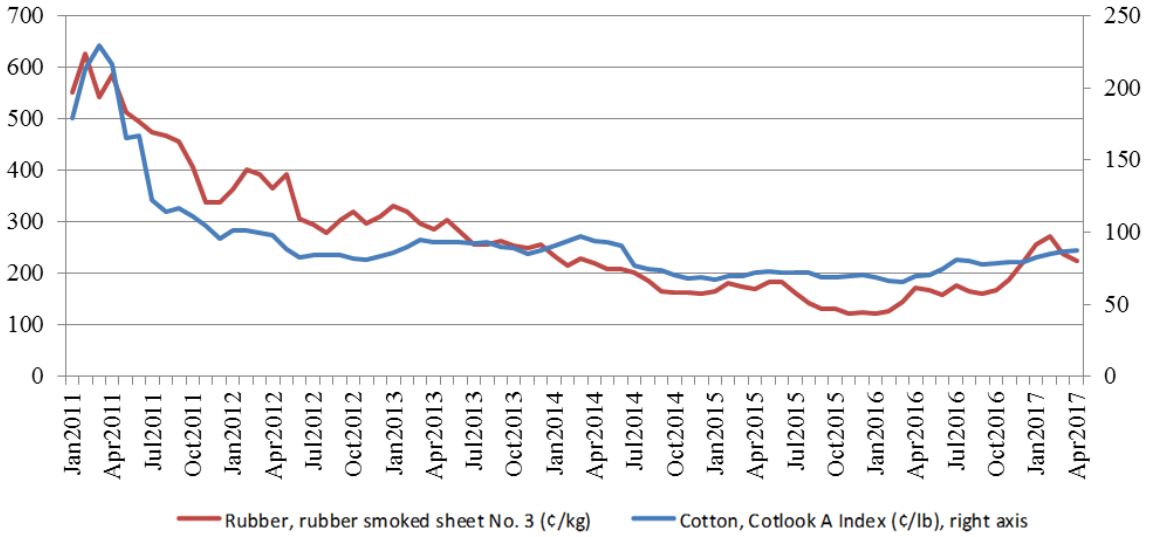
Source: UNCTAD secretariat, based on data from UNCTADstat.

16. Prices of agricultural raw materials followed a steep downward trend from the peak of the commodity boom period, in 2011, to 2015 (see figure VII). For instance, the price of rubber (ribbed smoked sheet No. 3) plummeted from 626 cents per kilogram in February 2011 to 165 cents per kilogram in January 2015, a decrease of 73.6 per cent. After rubber prices declined further during the second half of 2015, major producers, including Indonesia, Malaysia and Thailand, put in place an export quota scheme in March 2016. The quota induced a trend reversal and a 54.2 per cent price increase, from 145 cents per kilogram in March 2016 to 223 cents per kilogram in April 2017. Going forward, since growth in global rubber demand is expected to outpace production increases, the continuation of the upward price trend seems likely.

17. The price of cotton (Cotlook A Index) declined by 70.7 per cent, from 230 cents per pound in March 2011 to 67 cents per pound in January 2015. Thereafter, prices remained essentially flat through March 2016, when an upward trend set in. In April 2017, the price of Cotlook A Index stood at 87 cents per pound, which constitutes a 25.6 per cent increase on a year-on-year basis. The market outlook for cotton tentatively predicts an increase in production and a continuation of stockpile

auctions by the Government of China, which will likely moderate the upward price trend in 2017.

Figure VII
Price trends of selected commodities in agricultural raw materials markets, January 2011-April 2017



Source: UNCTAD secretariat, based on data from UNCTADstat.

C. Minerals, ores and metals

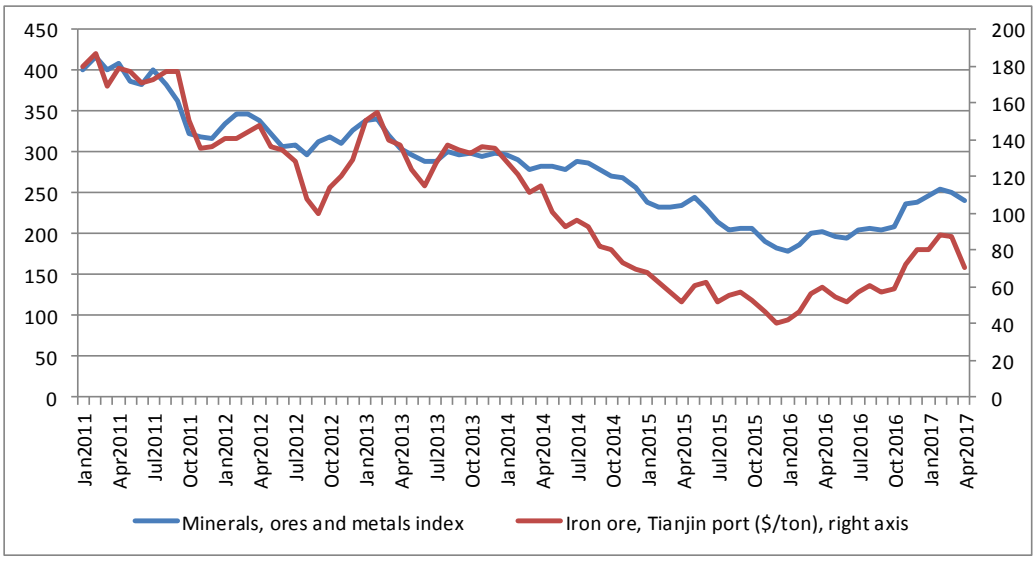
18. The prices of minerals, ores and metals trended downward for almost five years following their peak in early 2011. Between February 2011 and January 2016, the UNCTAD minerals, ores and metals price index fell from 418 points to 178 points, which corresponds to a loss of 57.3 per cent.[3] The downward trend was broken in 2016, with the price index reaching 239 points in December 2016. This price rally was mainly driven by supply cuts and uncertainties, in particular in the markets for nickel, copper and zinc. On a year-on-year basis, the UNCTAD minerals, ores and metals price index gained 37.8 per cent in January 2017. That upward trend came to a halt at the end of the first quarter of 2017, and the UNCTAD minerals, ores and metals price index fell 5.5 per cent, from 254 points in February 2017 to 240 points in April 2017 (see figure VIII). The main driver of that downward movement was a sharp decline in iron ore prices due to expectations of lower iron ore demand from China.

19. The price of iron ore is strongly driven by Chinese consumption, as the country imports more than two thirds of total seaborne iron ore. In particular, steel production in China is an important indicator of the demand for iron ore. As growth in steel production in China slowed in 2014 and turned negative in 2015, the price of imported iron ore at the port of Tianjin lost 70.3 per cent of its value, falling from $136 per dry ton in December 2013 to $40 per dry ton in December 2015 (see figure VIII). Thereafter, prices for iron ore picked up and almost doubled between January and December 2016, based on recuperating demand from China and the

[3] The UNCTAD minerals, ores and metals price index covers copper, aluminium, iron ore, nickel, lead, zinc, tin, phosphate rock, manganese ore and tungsten ore. Gold and silver are not included in the price index.

reduction of output from high-cost mines. In April 2017, weakening demand for steel in China and concerns regarding oversupply caused a drop in iron ore prices to $71 per dry ton. Going forward, favourable supply conditions make substantial price increases unlikely in the near future.

Figure VIII
Minerals, ores and metals price index (2000=100) and the nominal price of iron ore, January 2011-April 2017



Source: UNCTAD secretariat, based on data from UNCTADstat.

20. The price of copper at the London Metal Exchange reached its highest level ever, recorded in February 2011 at $9,867 per ton. Thereafter, an extended downward trend reduced the copper price to just over half of its peak level, to $4,458 per ton in January 2016 (see figure IX). Between June 2016 and December 2016, copper prices rallied 21.9 per cent despite strong supply growth based on expanded operations in existing mines and new mine production in Peru and Mexico. The price increase was attributed to several factors, including a pick-up in Chinese demand and increased speculation following the 2016 presidential election in the United States of America. With the supply forecast of the International Copper Study Group showing a reduction of 1 per cent for 2017, a further increase in copper prices seems likely.

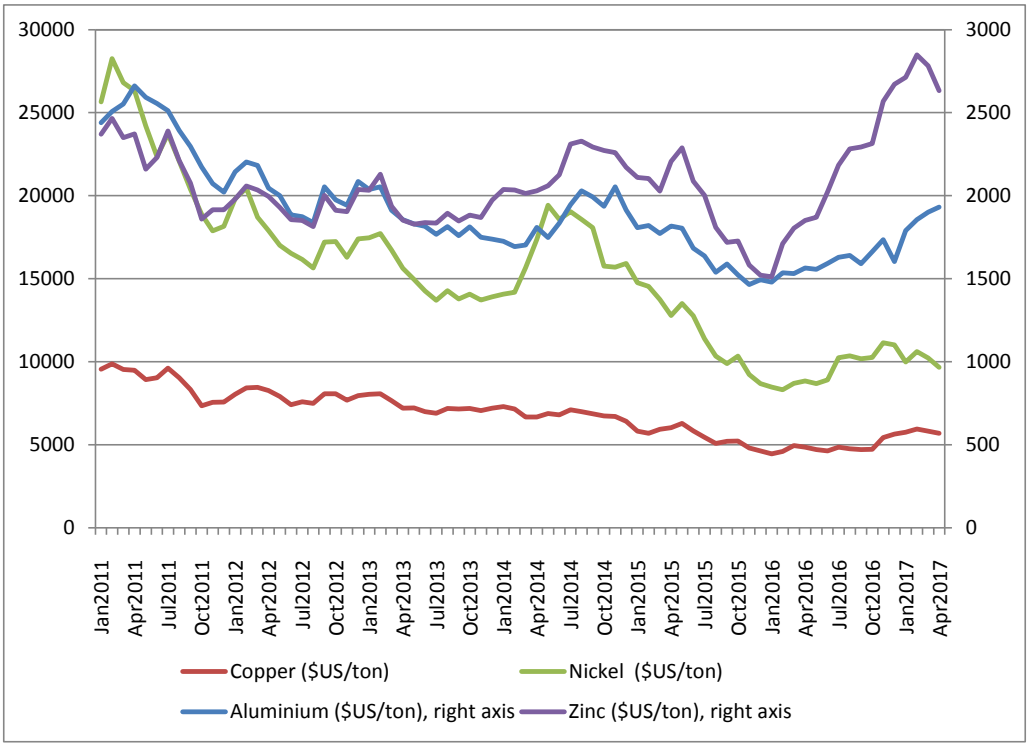
21. Aluminium prices fluctuated around a downward trend in 2015 owing to strong growth in supply and low growth in demand. Between January and December 2015, the price of aluminium on the London Metal Exchange declined by 17.4 per cent, from $1,808 per ton to $1,494 per ton (see figure IX). Thereafter, aluminium prices increased amid higher-than-expected demand growth and supply cuts in late 2015. In April 2017, the price of aluminium on the London Metal Exchange averaged $1,931 per ton. Looking ahead, since the recent price increase can be expected to stimulate supply, a further strong price increase seems unlikely.

22. The price of nickel showed a brief deviation from its general downward trend in early 2014, when Indonesia implemented a ban on exports of unprocessed ore. After the Philippines increased its nickel exports, in particular to China, nickel prices resumed a downward trend that persisted until early 2016 (see figure IX). As a consequence, the price of nickel on the London Metal Exchange fell 56.4 per cent, from $19,047 per ton in July 2014 to $8,306 per ton in February 2016. Thereafter,

mine shutdowns in the Philippines owing to environmental concerns drove the nickel price up to $11,010 per ton in December 2016, before it receded to $9,665 per ton in April 2017. With the easing by Indonesia of its export ban on unprocessed nickel, supply conditions have improved and a moderate price decrease seems probable going forward.

23. Zinc markets have been characterized by a high degree of volatility over the past two years. Between May 2015 and January 2016, the price of zinc on the London Metal Exchange dropped 34.0 per cent, from $2,289 per ton to $1,512 per ton (see figure IX). Weak demand and a supply surplus were the main reasons for the price fall in 2015. Thereafter, mine closures and production cutbacks led to a supply deficit that triggered a trend reversal, with the price of zinc rallying 88.4 per cent between January 2016 and February 2017, when it reached $2,848 per ton, its highest level since October 2007. However, between February and April 2017, the price of zinc decreased by 7.6 per cent. Since the zinc supply deficit of 2016 was mainly due to the restraining of output by key producers, it seems likely that high zinc prices will at some point induce an increase in supply; therefore, significant price increases do not seem likely going forward.

Figure IX
Nominal prices for selected minerals, ores and metals, January 2011-April 2017

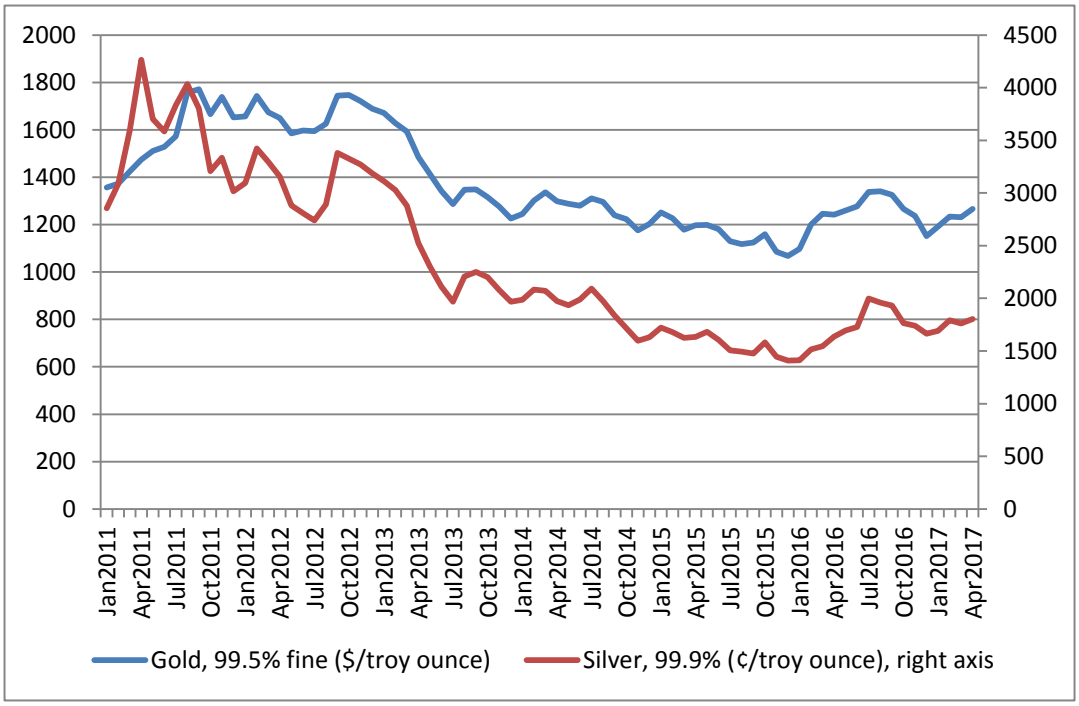


Source: UNCTAD secretariat, based on data from UNCTADstat.

24. Prices of precious metals increased significantly during the first half of 2016 (see figure X). From January 2016 to July 2016, gold prices increased by 21.9 per cent, from $1,097 per troy ounce to $1,337 per troy ounce. During the same period, the price of silver increased by 41.7 per cent, from 1,411 cents per troy ounce to 1,999 cents per troy ounce. Geopolitical and macroeconomic uncertainty resulting from several factors, including the decision by the United Kingdom of Great Britain and Northern Ireland to leave the European Union and low interest rates in major economies, seem to have stimulated investments in gold and silver and thus

strengthened the prices of precious metals during that period. Gold and silver prices decreased in the last quarter of 2016 amid the raising of the policy rate in the United States by the Federal Reserve Board and a strengthening of the United States dollar. In April 2017, the prices of gold and silver averaged $1,266 per troy ounce and 1,803 cents per troy ounce, respectively. Going forward, further increases in the United States policy rate remain a key downside risk to the price of precious metals, while upside risks include geopolitical conditions and a potentially weaker dollar.

Figure X
Nominal prices of gold and silver, January 2011-April 2017



Source: UNCTAD secretariat, based on data from UNCTADstat.

D. Energy

Crude oil

25. Crude oil prices have been characterized by a high degree of variability over the past decade. Between January 2007 and May 2017, the average spot price of Brent crude oil[4] fluctuated between $133.9 per barrel and $30.8 per barrel (see figure XI). The bottom price during that period, $30.8 per barrel, was recorded in January 2016 and constituted the lowest value since December 2003. Between June 2014 and January 2015, the oil price plummeted by 56.7 per cent, from $107.0 per barrel to $48.4 per barrel. Since then, oil prices overall have remained at depressed levels.

26. The main driver of the oil price collapse in late 2014 was an oversupply that had its roots in the massive increase in shale oil production in North America, leading to increases in production in countries that are not members of the Organization of the Petroleum Exporting Countries (OPEC) and a slowdown of growth in crude oil demand. The build-up of large crude oil inventories

[4] Hereinafter referred to as the "oil price".

compounded the supply-demand imbalance. According to data from the United States Energy Information Administration, global oil production increased from 93.7 million barrels per day in July 2014 to 97.5 million barrels per day in July 2015, with non-OPEC production accounting for 46 per cent of the 3.8-million-barrels-per-day increase in global production. Global consumption only increased by 2.6 million barrels per day during the same period, leading to a substantial increase in inventories.

27. As a reaction to falling prices, OPEC decided at its Ministerial Conference on 30 November 2016 to cut production by 1.2 million barrels per day starting in January 2017, with Saudi Arabia implementing the largest production cut, at 486,000 barrels per day. The OPEC production cuts were the basis of a deal signed shortly thereafter on 9 December 2016 with major non-OPEC oil producers, including the Russian Federation, under which non-OPEC countries agreed to cut production by 558,000 barrels per day. The agreement to curtail production had a short-term impact, with the oil price rising by 20.0 per cent, from $45.3 per barrel in November 2016 to $54.4 per barrel in February 2017, before levelling off at $49.9 per barrel in May 2017.

28. At a meeting on 25 May 2017, OPEC and non-OPEC oil producers decided to extend the production cuts, which had been limited to June 2017 in the original agreement, through March 2018. The impact of that decision will depend both on the degree of compliance with the agreed production cuts and on the extent to which oil producers that are not party to the agreement will step up output. For instance, the United States increased production by 4.7 per cent, from 14.71 million barrels per day in January 2017 to 15.4 million barrels per day in May 2017, which offset almost 40 per cent of the OPEC-led production cuts. While there might be technical and other limitations on further short-term production increases in the United States, the production cut agreed in May 2017 seems unlikely to be substantial enough on its own to drive up the oil price to the levels of early 2014. Moreover, inventories remain at high levels, which makes sharp increases in the oil price seem unlikely. In terms of upside risk, expectations of stronger demand growth could support a stronger oil price going forward.

Natural gas

29. Markets for natural gas have traditionally been regionalized owing to the physical limitations on its transport and the different contractual arrangements prevailing in different regions. That has led to the coexistence of various reference prices that differ markedly at times and occasionally move in opposite directions. For instance, in February 2012, the border price in Germany for 1 million metric British thermal units of Russian natural gas was $12.22, while the price at the Henry Hub terminal in the state of Louisiana in the United States was only $2.53 per million metric British thermal units.

30. The Henry Hub natural gas price, often cited as a global benchmark, reached $1.70 per million metric British thermal units in March 2016 (see figure XI), which was the lowest level in more than 20 years, mainly owing to low consumption resulting from a mild winter. Thereafter, prices at the Henry Hub fluctuated around an upward trend, with an average price of $3.12 per million metric British thermal units in May 2017. The United States Energy Information Administration forecasts that demand for consumption and exports will outpace supply in 2017 and 2018, leading to lower inventory levels. Therefore, further increases in the Henry Hub natural gas price seem likely going forward.

31. Looking ahead, the rapid expansion of liquefied natural gas infrastructure and new technology are likely to lead to a higher degree of global market integration.

Global liquefaction capacity stood at 340 million tonnes per annum in January 2017, almost double its value of 171 million tonnes per annum in 2005.[5] With the construction of liquefaction capacity of over 100 million tonnes per annum on the way in 2017, primarily in Australia and the United States, liquefaction capacity is expected to continue to grow at a rapid pace. In 2015, liquefied natural gas accounted for 32.5 per cent of global trade in natural gas.[6] Over the medium term, increased liquefied natural gas capacity could contribute to a convergence of natural gas prices.

Coal

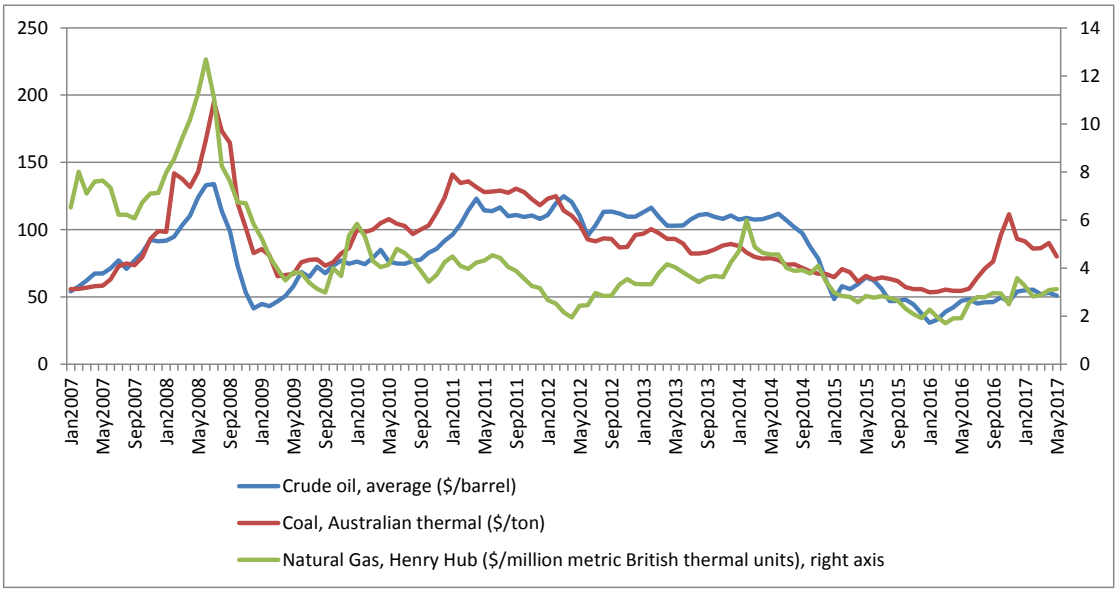
32. Coal continues to be the primary fuel for electricity generation at the global level. In addition, coal is a key source of thermal energy for the steel and cement industries. Since coal is also responsible for 45 per cent of energy-related carbon emissions, reducing its share in the global energy mix remains a key challenge in the context of climate change mitigation. According to forecasts by the International Energy Agency, the share of coal in power generation is on a downward trajectory and is expected to drop from 41 per cent in 2014 to 36 per cent in 2021.

33. Coal prices were fluctuating around a downward trend between early 2014 and mid-2016, which was mainly driven by persistent oversupply and sluggish import demand from China. The reference price, Australian thermal coal, decreased by 36.1 per cent, from $88 per metric ton in January 2014 to $56 per metric ton in June 2016. Thereafter, the coal price experienced a sharp increase, up to $111 per metric ton in November 2016, based on tightened supply from Australia and increased import demand from China, where domestic production had been cut to reduce oversupply and increase the profitability of the coal sector. After supply conditions improved, mainly owing to a partial rollback of Chinese production restrictions, the price of coal receded to $80 per metric ton in May 2017. Looking ahead, in the light of ample supply capacity, further downward movement of the coal price seems likely.

[5] International Gas Union, “2010 world liquefied natural gas report” (2010); and “2017 world liquefied natural gas report” (2017).

[6] British Petroleum, “Statistical Review of World Energy” (2016).

Figure XI
Crude oil (petroleum), coal and natural gas prices, January 2007-May 2017



Source: UNCTAD secretariat, based on data from the international financial statistics issued by the International Monetary Fund.

III. International dialogue on commodities and the challenge of diversification

A. Interactive dialogue on trends and perspectives in commodities markets

34. Pursuant to General Assembly resolution 70/191, an interactive dialogue aimed at reviewing world commodity trends and prospects, in particular in commodity-dependent countries, took place on 16 May 2016 at United Nations Headquarters in New York. The theme of the dialogue was "Trends and prospects in commodities markets and their implications in commodity-dependent developing countries". The President of the General Assembly opened the event, followed by presentations by participants from the International Labour Organization, IMF, UNCTAD, academia and civil society and interventions by representatives of Member States. The main issues that were discussed during the dialogue are summarized below.

35. Revenues from commodity production and exports remain critical for developing countries, in particular in the context of the implementation of the 2030 Agenda for Sustainable Development, given that developing countries need to mobilize resources in order to achieve the Sustainable Development Goals. Commodity prices have been decreasing since 2011, which has put pressure on government budgets in emerging economies and least developed countries. Countries in special situations, such as least developed countries, landlocked developing countries and small island developing States, face particular challenges as lower commodity prices threaten the sustainable growth and the debt positions of such countries.

36. The key factors driving the downward pressure on commodities prices are oversupply, lacklustre global economic conditions and a strong United States dollar

relative to other currencies. The financialization of commodities markets has also increased the volatility of commodity prices. Different primary commodity groups show variations in the factors that are driving the decreasing market prices. The markets for minerals, metals and ores, for example, were particularly affected by fragile economic recovery in developed economies such as Japan and the European Union and slowing growth in China and other emerging economies. The outcome of those driving factors and falling commodity prices present a challenging environment for commodity-dependent developing countries. That is particularly damaging for countries where Governments seem to have poorly anticipated the reversal of upward price trends after a decade-long commodity price boom. For commodity-dependent developing countries, the negative effects of commodity prices result in worsening fiscal positions, increasing debt vulnerability and sovereign risk, deteriorating current account balances and depletion of foreign reserves. For instance, government budget deficits in African countries doubled on average between 2010 and 2015 to 6.9 per cent of gross domestic product (GDP), in part as a result of commodity price decreases and a decline in revenues.

37. A recent assessment by IMF shows that, while commodity-dependent developing countries have seen their growth performance drastically reduced as a result of the marked decrease in commodities prices, the growth prospects of countries that have diversified exports have not changed much. In addition, when countries move towards diversified sources of growth, they achieve more equal societies. As equality is the basis for sustainability, there is also a critical link with the Sustainable Development Goals. IMF predicts that countries with diversified economies will continue to see their GDP grow by an average of 6 per cent per year, while commodity-dependent developing countries will see their growth prospects decline from 6 per cent to 3 per cent, thus making a strong case for economic diversification. Diversification takes time, however, and can be considered a medium-term economic goal. A common reaction of Governments when fiscal situations deteriorate is to cut public spending. That, however, reduces public investment, which has a counterproductive effect on economic growth prospects. Therefore, in the short-term, Governments need to be careful about cutting public expenditures and strive to increase revenue mobilization, which will help to stabilize the ratio of public debt to GDP.

38. Integrated commodity policies to address food security were another key topic discussed during the interactive dialogue. Falling food prices may initially be positive for consumers in developing countries. If developing countries are also exporters of such commodities, however, lower food prices may lead to an imbalance in government income, resulting in an inability to properly fund agricultural development policies, which would have ramifications for food security. The key to food security lies in agricultural development policies that expand the access of small-scale farmers to supply chains and markets in general. That does not imply that the products of small-scale farmers be should be designated for export, but rather, for example, that such rural products should be sold in urban markets nationally. Such inclusion is particularly important for women.

39. The interactive dialogue also addressed social protection and job creation issues. Inclusive and sustained growth cannot be achieved without job creation. That is especially relevant in the light of projections that 600 million new jobs will be required by 2020. Recent economic growth, however, has sometimes been referred to as “jobless growth”, meaning that, although there has been economic growth in developing countries, for example, 6 to 8 per cent growth in the least developed countries since 2000, that has not translated into the creation of more jobs. This phenomenon affects youth in particular. Furthermore, as commodity markets are characterized by high volatility, the gains from windfall revenues during boom

periods have typically been outweighed by the negative impact of falling and low prices. The challenge is therefore to reduce volatility and risk associated with commodity dependence, which would improve long-term growth and development prospects.

40. Overall, the interactive dialogue highlighted the fact that commodity dependence affects most developing countries. Over the medium and long terms, diversification into higher value-added products and services, as well as the expansion of markets through regional trade agreements, can help reduce commodity dependence. Excessive price volatility requires globally coordinated action, especially for small island developing States and landlocked developing countries, given their structural constraints. Solutions proposed included a call for more price transparency along the lines of the Agricultural Market Information System and the joint organization data initiative for oil and gas data transparency. In order to increase food security, regional food reserves, increased regional trade and regional infrastructure banks to support infrastructure development were proposed. New agricultural development strategies that facilitate diversification into non-farm activities and better integrate small, medium-sized and large farmers into rural-urban, regional and global supply chains are also needed.

B. The challenge of diversification

41. The interactive dialogue on trends and perspectives in commodities markets highlighted the risks and negative impact associated with commodity dependence. In that regard, the volatility of international commodity markets over the past decade underscores the need for structural transformation in commodity-dependent developing countries. Those countries are, by definition, characterized by a high level of concentration of their export earnings. In many cases, commodity-dependent developing countries depend on a narrow range of commodities that are exported to a small number of export markets. That feature poses a number of risks to growth and development in commodity-dependent developing countries.[7] The key sources of those risks are an elevated degree of economic volatility and a higher level of external dependence of affected countries. Since volatility has been shown to be detrimental to economic growth, commodity dependence poses a threat to the long-term development prospects of commodity-dependent developing countries.

42. While there are strategies for commodity-dependent developing countries to manage the potential negative impacts of external variability induced by high export concentration, such as countercyclical fiscal policy, ultimately the only way to overcome commodity dependency in a sustainable way is to diversify a country's export base. A more diversified export structure means more stability of foreign exchange revenues and generally less variability in the rate of economic growth, which is beneficial for long-term income and productivity growth.

43. Export diversification can take different forms. Horizontal diversification consists of expanding the product range in a given sector, while vertical diversification entails a change in the relative shares of sectors in total exports. In addition, a shift from primary commodities towards more sophisticated export products leads to more value added being retained in exporting countries. The production of higher value-added goods also induces the creation of better-paying jobs than those typically available in commodity production. Hence, both

[7] A forthcoming report on commodities and development by the United Nations Conference on Trade and Development will provide a detailed analysis of the transmission channels through which commodity dependence affects various aspects of economic, social and human development.

diversification and moving up the value chain are important elements of the structural transformation that is needed for commodity-dependent developing countries to reach a growth and development path that is sustainable over the long term.

44. There is no one-size-fits-all strategy to export diversification and quality upgrading. Each commodity-dependent developing country faces a unique set of challenges and bottlenecks that need to be addressed in order to initiate a process of structural transformation. Policies that can support diversification generally include measures that are conducive to investment, which is a key driver for the emergence of new products and industries. Such measures include stabilization of the macroeconomic environment, improvement of the business climate, including access to finance, strengthening of human capital and investment in infrastructure. Policies that support the creation of production linkages between commodity and non-commodity sectors can also contribute to diversification.

45. Several organizations of the United Nations system implement projects that support industrial diversification in developing countries. For example, the United Nations Industrial Development Organization is supporting a number of West African countries in strengthening their infrastructure for the assurance of quality and standards in order to promote non-commodity exports. Ensuring that the quality and safety standards required by major destination markets are met addresses an important constraint for many potential export products from developing countries. Furthermore, the World Bank is financing numerous projects that aim at diversifying the exports and income sources of commodity-dependent developing countries. For instance, a project in Mongolia is helping small and medium-sized enterprises in non-minerals sectors to access export markets. Another World Bank-financed project aims at strengthening agribusiness across Zambia.

46. UNCTAD has also been implementing projects that help commodity-dependent developing countries to diversify their economies, improve value addition and transform their commodity sectors into major sources of growth and sustainable development. Currently, technical cooperation activities include two United Nations Development Account projects: the first, funded from the ninth tranche United Nations Development Account, entitled “Strengthening the capacity of the Economic Community of Central African States to enhance domestic production linkages from the mineral resources sector”, assists countries in establishing the conditions necessary for generating enhanced domestic linkages from the mineral sector to the rest of the economy, so that investment in the sector will facilitate the generation of jobs and opportunities for local enterprises; the second, funded from the tenth tranche of the United Nations Development Account, entitled “Promoting cotton by-products in Eastern and Southern Africa”, assists in building the capacity of cotton value chain stakeholders to assess the market situation and prospects for cotton by-products and in improving the capacity of policymakers to formulate evidence-based policies to develop cotton by-products and to devise investment profiles to attract potential investors in those industries.

47. Going forward, a key challenge for commodity-dependent developing countries will be to achieve sustainable and productive diversification, which essentially entails structural transformation towards higher productivity and higher-value-added sectors and activities that can be sustained over the long term. In the context of the 2030 Agenda, it also entails considering the environmental and social aspects of structural transformation, including its contribution to poverty eradication. In addition, strategies for industrial diversification need to focus on the inclusion of women, who face specific gender-related challenges, including with respect to access to land and credit and social norms that limit their economic participation.

C. Conclusions and policy actions

48. The commodity price slump that started in 2011 came to a preliminary end in early 2016, and commodity prices were on a path of recovery until early 2017. However, the most recent price figures cast doubt on whether the commodity price increases of 2016 marked a lasting trend reversal. Rising prices in 2016 provided some relief for commodity-dependent developing countries that had been hit hard by the economic downturn caused by five years of falling prices. However, the volatility and lack of predictability of commodity markets over the past decade, which have experienced both major upswings and downswings in commodity prices, have once again illustrated the fundamental risks associated with commodity dependence. Therefore, pursuing economic and export market diversification could be seen as a forward-looking development strategy that would also help to achieve the 2030 Agenda. Diversification would bring about more resilient economies that are not solely dependent on commodity export revenues.

49. Diversification is not only an insurance mechanism through which commodity-based economies can shield themselves against volatility in global markets, but also a driver of economic growth and development. Governments of commodity-dependent developing countries can support the process of diversification through policies that foster a stable macroeconomic environment conducive to investment and that ensure the creation of the high-quality infrastructure and the workplace skills needed in the private sector for the development of new businesses and industries. In that context, international organizations can assist commodity-dependent developing countries in their diversification efforts by supporting local and national projects, promoting effective policy tools and sharing lessons learned from successful cases of structural transformation. Upgrading capacity-building in commodity-dependent developing countries should be at the centre of that process.