Basics of commodity economy

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The role of commodities in the world economy

- What are "Commodities"? Food, Agricultural raw materials, fuels, ores and metals.
- The changing role of commodities in the economy: share of agriculture and mining in the GDP of developed countries declining.
- The share of the commodity sector is inversely related to income.
- Globally, commodities 20-25% of world GDP, the rest is manufactures.
Structural transformation

° Declining importance in GDP of agriculture and growing importance of industry and services.
° Increased diversification of and value added in commodity trade.
° Growing importance of trade in manufactured goods and services.
° Increased importance of human and non-human capital in production and trade.
° Less dependence on fiscal revenues of trade.
Real world constraints

- Mobile production factors.
- Market imperfections.
  - Market concentration
  - Imperfect knowledge
- Less than full employment.
- Transport costs.
- Barriers to trade: Tariffs, Quotas, Standards and non-tariff measures (WTO).
Institutions and history

• Colonialism
  – Plantation production imposed on colonies
  – Barriers to further processing

• Central planning
  – Emphasis on heavy industry
  – Focus on self-sufficiency
  – Disregard for costs (energy, transport)

• Industrial policy
  – Every country should have one (airline, steel plant, cement factory)
Globalization of commodity markets

• Especially increased after the WW II, globalization of existing and of numerous additional markets for commodities which until then had had no more than a local or regional reach.
• Globalization involves not only trade flows across oceans and between continents, but also, importantly, a convergence of prices across regional markets.
• Growing importance and market power of TNCs.
The main trends in recent years

• The increasing economic weight of the South. From 2004, developing countries have overtaken developed ones in total GDP.

• Chinese growth

• South-South trade
Implications

• The relative economic weight of developing countries is increasing. With their industrial growth, the role of commodities in national economies is declining.

• Since countries at lower income levels use more commodities per unit of GDP this development is particularly important for commodity markets.

• Demand growth is likely to be robust and South-South commodities trade will become even more important.
The drivers: agricultural products

- Population growth continues and is faster in the poorest countries.
- Food consumption per capita will increase.
- The composition of food consumption changes as incomes rise – and this usually implies increased agricultural production.
- Biofuel production has become a significant market for “dual use” products and is beginning to affect production conditions for other products, including through land prices.
Outlook - agricultural products

• On average, demand is likely to increase at medium to high historical rates.

• Growth rates are expected to be higher for meat, dairy products, fruits and vegetables, lower for grains (but the effect of increased biofuel production is difficult to forecast).

• The highest growth rates are expected for “high end” products and in niche markets such as organic food products.
Uncertainties - agricultural products

- Biofuels
- Multilateral trade negotiations
- Productivity growth in developing countries
- Climate change
The drivers: Minerals and metals

- Metals use per unit of GDP is declining or only increasing very slowly in almost all countries; it is often higher in developing countries.
- Metals use per capita is still very low in countries such as China and India, but large populations make them more than significant forces on the market.
- Low per capita use implies very large potential for growth.
Outlook: Minerals and metals

• Demand will continue to be strongly linked to Asian growth and high rates of increase are expected

• Capacity is expected to just keep up with growth in demand in the medium to long term (next 5-8 years)

• A large share of output growth will take place in developing countries (Africa and Latin America)
Uncertainties - Minerals and metals

- Conditions for FDI
- Conservation initiatives for energy and raw materials
South-South trade

- Exports to Asia dominate the picture
- Latin American exports to all destinations are growing rapidly
- Intra-regional trade shows strong growth everywhere, although less so in Africa
- Consensus view: Large growth potential, but how to achieve it?
Reading List

• State of Commodity Dependence 2014, UNCTAD/SUC/2014/7;
• UNCTAD Trade and Development Report, 2015, UNCTAD/TDR/2015;
• UNCTAD Commodities and Development Report 2015, B. Recent developments in commodity markets, UNCTAD/SUC/2014/5;
• В. Кондратьев. Природные ресурсы и экономический рост, МЭиМО, №1, 2016, стр. 41-52.
THANK YOU FOR YOUR ATTENTION!

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