Multi-Year Expert Meeting on Commodities and Development
Room XXVI, Palais des Nations, Geneva

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Opening Statement by the Deputy Secretary-General of UNCTAD

AS PREPARED FOR DELIVERY

Good morning,

Thank you all for coming today.

Commodity markets are anything but predictable. But on top of this, the main challenge for many countries is the downward trend commodity prices that have followed since 2011.

These downward trends can have important implications on the development efforts of many countries. And it is therefore important to find answers to one question: how can our policy responses address these challenges and foster inclusive growth?

This expert meeting is the right place to seek those answers.

In a few minutes, you'll be hearing more detailed assessments of trends in commodities markets and suggested policy responses.

With the time remaining to me, I'd like to leave you with three messages.

First, commodities prices are low, and there should be no assumption that this will change any time soon. Spring may still be a long way off.

We can't say anything with certainty, but what we know from previous cycles is that the busts typically last longer than the booms.

Last year, the slump in commodity markets continued. The UNCTAD *Non-Oil Commodity Price Index* averaged 182 points in January this year – down from 219 points last January. That's a significant 17% decrease.

The reasons were varied: Increased supply stemming from the US shale revolution, flagging Chinese demand, weak recoveries in Japan and in the EU, a strong US dollar lagging recovery of global economic output. Further, large investments in production capacity that were made during the boom years have kept a lid on prices.

In recent months, prices have gone up, but they could easily dip again.

This poses challenges for developing countries that are dependent on commodities. Macroeconomic imbalances are symptoms of this: widening fiscal deficits, eroding currencies, and looming sovereign risk. Where governments inadequately anticipated the reversal of economic fortunes after a decade-long boom, did not build the necessary firewalls, these symptoms are increasingly acute.

The second message I'd like to leave you with is that developing countries must not let a serious crisis go to waste.

For years, many commodity-dependent developing countries lost out on the opportunity to harness the commodity boom. Most of them did not succeed to accelerate structural transformation and to build productive capacities.

While it's true that some countries acted with foresight, for example to establish sovereign wealth funds, not all of these have produced the results anticipated.

What this means is that countries that did not make sufficient reforms during the boom years will have little choice but to implement them now.

This task will not be easy. Borrowing costs for commodity-dependent countries are high – despite the historically low interest rates that prevail in the developed world.

But the current market conditions should be seen as an opportunity to make decisions that have been avoided for too long.

This leads me to my third message: there is a broad consensus, or at least convergence, on the reforms needed in commodity-dependent developing countries. But a consensus in theory is not the same as a consensus in practice.

With shrinking revenues from commodities, governments will have to make hard choices about budget priorities.

But what sound leadership demands may be different from what political expediency requires – especially when a government is under stress.

The list of requirements is long: They need to diversify away from commodities, promote productivity growth and private sector development and cut trade cost. They need to become leaner and more efficient in their administration while protecting social spending. They need to borrow more responsibly and better manage the volatility of markets. And they need to adopt the right accompanying policies to realize trade's potential for sustainable development.

This list is by no means exhaustive. But already, it suggests the magnitude of the challenge ahead.

Thank you again for joining us today to tackle these important issues. We are grateful for your time and look forward to the discussions to follow.

Thank you for your attention.