



BREAKING THE CHAINS OF COMMODITY DEPENDENCE

15-16 JULY 2016

Kenyatta International Convention Centre, Nairobi

Co-organized with the Food and Agriculture Organization of the United Nations and the Secretariat of the Commonwealth

The Global Commodities Forum (GCF) is a multistakeholder platform for building consensus on solutions to development issues in the production and trade of commodities. The GCF's development focus differentiates it from the commercial and market orientations of other commodities fora. Moreover, the GCF is a free, public event, with the majority of its budget used to sponsor participants from developing countries.

With this model, the GCF assembles 300-400 high-level representatives annually from a variety of stakeholder groups. For example, 32 per cent of participants at the 2015 Forum were from governments, 23 per cent from the private sector, 15 per cent from civil society and the balance from academia and the press.

RATIONALE FOR THIS FORUM

UNCTAD will organize the seventh annual GCF on 15-16 July 2016 in Nairobi, Kenya, as a pre-event to the Fourteenth Session of the United Nations Conference on Trade and Development (UNCTAD14). The theme of the seventh GCF is "*Breaking the chains of commodity dependence*", which responds to fundamental shifts underway on international markets, resulting from three intertwined shocks, namely: (i) a growth slowdown and capital exodus from emerging economies; (ii) a generalized crash in commodities prices; and (iii) a steady appreciation in value of the US dollar (USD).

The 2016 GCF will discuss the current situation in emerging economies by way of introduction, and then focus on its implications for commodity-dependent developing countries (CDDCs) and on their commodity-led development strategies, reliant as they are on exports to emerging economies.

Emerging economies have been the world economy's growth engines during the globalization period underway for the last 30 years, and especially for the last decade. In general, this growth model depends, on one hand, on capital from advanced economies, invested in industrial activities in emerging economies. On the other hand, CDDCs supply emerging economies with raw commodities, for transformation into final goods. China is the predominant example of this model, with its rapid industrial expansion and economic catch-up consuming vast quantities of both capital and commodities, especially from 2009 to 2014.





A few years ago, this globalized growth model was booming: GDP in emerging economies grew by an average of 5.5 per cent per year from 2004 to 2011, peaking at 6.3 per cent in 2011.

Concurrently, a price supercycle took hold on commodities markets, with, for example, UNCTAD's non-oil commodities price index rising 171 per cent from January 2004 to April 2011, and its minerals, ores and metals sub-index rising 234 per cent over the same period. Favourable international monetary conditions contributed to these booms, underlined by the US dollar depreciating from 2004-2011 by approximately 11 per cent against the currencies of the so-called BRICS group, comprising five of the largest emerging economies, including losing 42 per cent of its value against the Brazilian real and 21 per cent against the Chinese yuan.

Through their commodity exports to emerging economies, the 96 CDDCs shared in this boom, generating an average annual GDP growth rate of 5 per cent from 2004 to 2011. In most of these countries, growth was accompanied by increased government revenues, improved current account balances and growing foreign exchange reserves.

As of mid-2011, the concurrent booms began to slow and then unravel. In emerging economies, growth fell to 4.6 per cent in 2014 and is expected to reach only 4 per cent in 2015. This growth slowdown was accompanied by dramatic net capital outflows from these economies, culminating in a projected USD 540 billion of outflows in 2015. On commodities markets, by October 2015, UNCTAD's non-oil commodities price index had fallen 39 per cent from its February 2011 peak. These trends were underlined by a strengthening US dollar, which, for example, appreciated by approximately 85 per cent against the BRICS currencies since the 2011 peak, this despite its depreciation of 2 per cent against the Chinese yuan.

Looking forward, the global economy appears to be entering an extended period of low growth. With the engine of commodity-based trade between emerging economies and CDDCs stalling, current trends in capital flows suggest a rebalancing of the global growth model towards advanced economies, and to the USA in particular. The US economy has recovered from its 2008-2011 recession and is projected to grow at 2.6 per cent in 2015 and 2.8 per cent in 2016. But, for CDDCs, US growth is unlikely to be high enough, or contain a sufficiently large industrial component, to replace lost commodities demand from emerging economies.

For CDDCs, commodities prices, and therefore export earnings, are unlikely to recover for the foreseeable future. Demand is not the problem, per se: the slowdown in emerging economies has stalled the growth of commodities demand, but overall consumption has not contracted significantly. By contrast, supply has grown rapidly since 2011, outpacing demand and creating a supply overhang for most commodity groups. Some producers have responded with production cuts, but these have so far been insufficient, as many governments and companies continue to resist the deep, across-the-board production cuts necessary for the market to return to balance. For example, despite crude oil stockpiles in OECD countries reaching an unprecedented 3 billion barrels by the end of 2015, there remained a global production surplus of 1.45 million barrels per day.

CDDCs face a difficult immediate future, confronted by crashing prices and a supply glut on commodities markets, with few immediate prospects for a rally. In most cases, confronted by painful real-economy contractions in their commodities sectors and falling revenues, CDDC governments must redouble their diversification policies, at the same time as they tighten their macroeconomic belts to prevent currency and balance-of-payments shocks.

In this context, CDDCs must devise new growth strategies and even contemplate diversifying away from a commodity-led development model. Indeed, CDDCs will need to adjust their commodities strategies to have a reasonable chance of achieving their national development objectives, as well as their Sustainable Development Goals (SDGs) related to growth, employment and poverty reduction.



The 2016 Global Commodities Forum will assemble high-level representatives from major stakeholder groups in the commodities value chain to: elaborate the questions introduced in this note, debate new strategies for policy makers in CDDCs and strive for consensus on the way forward for the commodity-led development model.

OVERALL OBJECTIVES

Sessions at the 2016 GCF will contribute to the following overall objectives:

- Increased understanding among policy makers about the factors in the boom-to-bust trajectory of commodities markets from 2011-2015.
- A road map for policy makers in CDDCs to undertake necessary adjustments to their commodities sectors and to their monetary and fiscal policies, to align them with a rebalanced global economy.
- Identification of opportunities for CDDCs to develop new export markets and to restructure and diversify their economies.
- An outlook on the availability of investment and debt financing for commodities production and trade in developing countries.

FUNDING

The first three editions of the GCF were funded mainly by a large grant from the Common Fund for Commodities (CFC). The GCF has also received generous financial support from: the governments of Switzerland, China and France; Gaznat; Afrexim Bank and Audit Control and Expertise (ACE).

If your organization has a stake in the responsible and inclusive development of the commodity value chain, please consider supporting the GCF. We invite you to contact us at the coordinates below.

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