Check against delivery

Informal interactive dialogue of the General Assembly on commodity markets: What's next for commodity markets?
Opening segment
31 March 2022, 4 p.m. Geneva time

Speech by
Rebeca Grynspan
UNCTAD Secretary-General

Your Excellency, Mr. Abdulla Shahid, President of the United Nations General Assembly,

Dear Gerd Müller, Director General of UNIDO,

Distinguished delegates,

Ladies and gentlemen,

Commodities are omnipresent in our lives: from the bread on our table, the cotton in our shirts and dresses, the steel for our cities, to the lithium in the batteries of our mobile phones and cars.

How much commodities affect us all has been evident from the implications of the war in Ukraine, especially the disruptions caused to food and energy markets, quickly leading to upward spiraling prices.

Paradoxically, wealth of primary commodities, has been a blessing for some, but a curse for many others.

Commodity dependent countries tend to perform worse on a wide range of indicators: They record lower human and social development, lower productivity growth, and more macroeconomic and political instability. Concentration on basic commodity exports chains countries to lower echelons of value-added products and makes them vulnerable to the vagaries of commodity markets.

So, your phrase ear President that this is not a sectoral problem, but a development problem is so wide and profound.

Commodity dependence has been a pervasive challenge to development. Today, 66% of developing countries remain commodity dependent. But this figure jumps to 81% for landlocked developing countries and 83% for least developed countries.

And worse, some of these countries depend on the exports of a very narrow range of commodities or even on a single commodity. For example, crude oil represents 91% of the exports from Iraq, copper 74% of exports from Zambia.

And the crisis we have recently endured further aggravate the challenges.

When the coronavirus spread like a domino across the globe, commodity markets contracted sharply. The UNCTAD commodity price index declined by 36% during the early phase of the pandemic, from January to April 2020. This lowered export earnings and government income in many commodities' dependent countries, reducing their fiscal and political space. It also put further pressure on debt servicing, which in many developing countries was already high before the crisis and then spiraled upwards even more.

The impact of the pandemic has been devastating: COVID-19 has taken more than 2.9 million lives, pushed more than 230 million people back into extreme poverty, and cut more than 210 million jobs. Another 265 million people go to bed hungry, with the steepest increase in Africa – the continent which is particularly commodity dependent.

But then commodity prices started increasing again, to multi-year highs. This development points to one of the fundamental challenges of commodity dependence: The volatility of commodity prices. Such volatility undermines development, as development requires long term planning and investment, which in turn needs stable and predictable markets. And windfall gains associated with commodity price volatility have all too often been a source for rent-seeking and corruption.

Instability in commodity markets is precisely what we now experience as a result of the war in Ukraine. Not only has the war brought pain and sorrow to the affected areas, but it has a huge impact on the global economy, generating uncertainty and volatility in international markets, especially in developing countries.

The war's effect on international food and fuel markets is dramatic.

Prices of basic food staples such as wheat, maize, and barley, of which the Russian Federation and Ukraine are key exporters, have risen sharply. This threatens food security in many developing countries and fuels inflation across the world.

Let me give you one example. The wheat price Sub-Index of the International Grains Council reached 358 points on 21 March 2022. This is equivalent to a 62% year-on-year increase. It triggered export restrictions of some grains and hoarding food in some countries, and speculators to buy wheat and corn futures, leading to high volatility in futures markets. For instance, the price of May wheat on the Chicago Board of Trade jumped from 23 February to 8 March (that is just nine trading days) a staggering 54%.

The situation is particularly grim for the poor as they spend a large share of their incomes on food. And we know that food crisis can be a fertile ground for political unrest. Think about the 2007-2008 riots, or the food crisis related to the Arab spring in 2011.

Another concern is the hike in fertilizer prices. This will inevitably constrain access, especially for smallholder farmers, and lower productivity and food supply.

The war has also led to a steep increase in oil and gas prices which impact millions of households and businesses across the world. This could adversely shift investment back into extractive industries and reverse the upward trend on renewables of the past 10 years. It may, however, also accelerate the energy transition through discouraging dependence on oil and gas and encouraging investment in alternative, and cleaner sources of energy.

This brings me to another big challenge: the climate crisis, where developing countries are set to bear the most severe economic consequences.

According to the University of Notre Dame's Global Adaptation Initiative Index, in 2019, the 25 most vulnerable countries to climate change are all commodity dependent developing countries.

Ladies and gentlemen,

I want to end with three proposals of actions or policies to move forward to strengthen resilience and mitigate the adverse impact of the crisis in commodity markets.

First.

Now more than ever, we need policies that foster resilience, and thus promote economic and export diversification.

To diversify into new products and industries, with higher value addition, policies to enhance infrastructure, particularly in electricity, technology, innovation, and human capital are needed.

Innovation and digital technologies can raise productivity of commodity sectors and help move up the value chain. Moreover, technological advancements can bring down trade costs and improve transparency, which is a key factor for commodity exporters to gain direct access to consumer markets. But this requires decisive action as commodity dependence is strongly associated with low levels of technology.

Also, explicit policies are needed to support the creation of linkages between commodity and non-commodity sectors. And policies to enable and foster private sector initiative and investment.

This requires a state capable to coordinate between sectors, between disciplines, between actors, between organization, between territories, between countries

And the recent past has shown that after decades of retrenchment, the State is back in force as an actor of economic policy and as an important institution to face the challenges the world is going through. In the wake of the COVID -19 pandemic, ambitious, far-reaching, and innovative industrial policies are now a reality in every single region of the world, regardless of the political spectrum, marking a new balance between the market and the State. Here, dear Director General of UNIDO, we need to join forces to help countries in this journey.

Second.

We need urgent action to mitigate the spikes in food and fuel prices.

Trade barriers, export restrictions or commodity scramble like we saw with the COVID-19 crisis should be avoided to keep food markets open.

Countries need to provide safety nets to the poorest and most vulnerable people to ensure food security. Diversification of sources has long been a priority for investment in food security. However, global investment in agriculture has remained extremely limited. It is now self-evident that this needs to change.

To relief financial stress in commodity dependent developing countries – and developing countries overall - the Debt Service Suspension Initiative should be reactivated. We also must make best use of the mechanisms of the IMF and the World Bank, such as the Rapid Financing Instrument, the Resilience and Sustainability Trust Fund or the IDA Crisis Response Window Early Response Financing, or the Global Agriculture and Food Security Program. We must capitalize multilateral development banks. And we should support the effort to increase the pledges for the recycling of the Special Drawing Rights.

And third.

We must promote the energy transition so that prosperity is decoupled from greenhouse gas emissions. For many commodity ‘s dependent developing countries, this will be an immense challenge given their dependence on fossil fuel industries. It will require investment into skills and infrastructure in green sectors and policies that support such transition.

But the transition can also come with opportunities for many developing countries. We expect increasing demand for strategic commodities required to support greener energy alternatives, such as cobalt, lithium, and rare earth metals. For instance, Bolivia is now the country with the largest reserve of lithium, a crucial material for battery technology, which some call the “oil of the 21st century”. But we should learn the lessons from the past and avoid that large rents from commodities erode domestic markets and challenge political institutions.

Ladies and Gentlemen,

These are exceptionally challenging times. They require exceptionally strong action.

UNCTAD will remain a trusted partner for providing member States with new data, analysis, and opportunities for multilateral action to support the transformations needed to foster resilience and prosperity in commodity dependent countries, leaving no one behind.

Thank you for your attention.