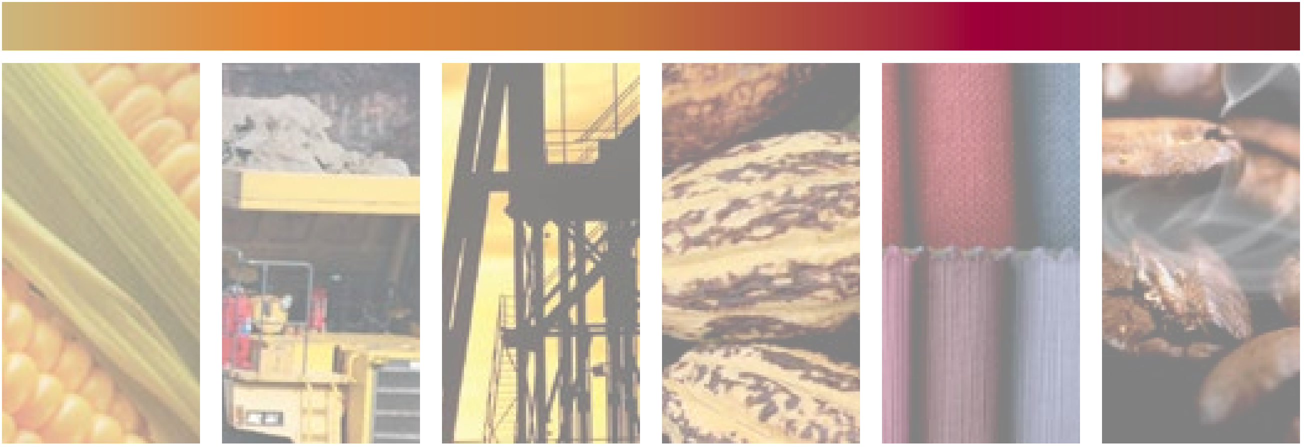
CHAPTER 5:

PERENNIAL PROBLEMS, NEW CHALLENGES AND SOME EVOLVING PERSPECTIVES



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1. PERENNIAL PROBLEMS, NEW CHALLENGES AND SOME EVOLVING PERSPECTIVES

The detrimental effects of commodity dependence on CDDCs are their high degree of exposure to shocks and the persistence of a poverty trap.

Commodities are at the centre of the development process. Their production sustains the livelihoods of billions in the developing world, and they constitute essential inputs for a wide range of human and economic activities. Commodities are also an economically crucial resource for developing countries, providing export revenues and sustaining public expenditure. They continue to account for over half of most developing countries' total merchandise exports in value terms. Therefore, major changes in international commodity markets have a direct impact on the economic performance of these countries and on the well-being of their populations.

Early economic theories, going back to Adam Smith and David Ricardo, predicted that the differences between commodity production and manufacturing would result in a gradual improvement in the terms of trade for commodity producers over time. Similarly, early development economists saw commodity production as the engine of growth and diversification for most developing countries that possessed relatively abundant land and labour endowments.

The overall impact of the commodity price boom has been limited.

These expectations have mostly failed to materialize. Terms of trade for commodity exporters have generally deteriorated over the long term. Moreover, with a few notable exceptions, commodity dependence has been associated with poor economic performance, and in some cases, civil conflicts and political instability. This commodity problem, as it has come to be known, has been attributed to a number of different factors. Falling terms of trade over a long period have been ascribed to structural differences in the labour markets of exporters of primary commodity and manufactures, among other factors that contribute to keeping commodity price increases low relative to those of manufactured products. Historically, commodity markets have also been prone to cycles, with short periods of boom giving way to relatively longer periods of bust. Beyond the medium- to long-term evolution of the terms of trade of these products, and the cyclicality of commodity markets, there are a number of factors associated with the macroeconomic challenges involved in managing windfall commodity revenues, which partly explain the disappointing economic performance of CDDCs. Moreover, the detrimental effects of commodity dependence on development are closely related to economic vulnerability caused by an often excessive reliance of these countries on commodities as the main conduit for participating in world trade, resulting in their high degree of exposure to shocks and the persistence of a poverty trap.

Some developing countries, and especially those that are net fuel and net food exporters, saw their terms of trade improve during the period 2002-2008.

Following decades of largely stagnating or falling prices, most commodities experienced rapidly rising prices from about 2003. This report has sought to establish the different ways in which this price boom affected CDDCs, and has examined these effects with reference to established theories concerning commodities and economic development. Overall, the rise in prices should have translated into increased export earnings for CDDCs (direct impacts). Provided the macroeconomic effects of these inflows were well managed, this windfall revenue should have helped CDDCs meet their development priorities (indirect impacts). However, the empirical evidence reviewed in this report suggests that the overall impact of the commodity price boom has been limited. This necessitates a re-examination of the commodities and development nexus to better reflect the current global context. In particular, how can the link between higher commodity prices, growth in the real sectors, and therefore sustained growth in incomes, be established or restored?

1.1. Main findings

Among developing countries, the direct impacts of rising commodity prices between about 2003 and 2011 varied widely based on the composition of the exports and imports of each country. Some developing countries, and especially those that are net fuel and food exporters, saw their terms of trade improve in the six years leading up to 2008. Several other developing countries, however, suffered a deterioration in their terms of trade. These included many of the poorest countries. Indeed, although they export other primary commodities, CDDCs are often net food and fuel importers. For some of them, the increase in the prices of the tropical agricultural products that make up the bulk of their exports was not sufficient to compensate for the increase in the import costs of food and fuel. The concrete outcome for these countries was a severely worsening trade balance, while their populations had to bear the higher costs of food and fuel.

The causes of the commodity price boom have been as complicated as some of its effects, such as the financialization of commodity markets, growth in developing-country markets of high-value agricultural commodities, supply and demand imbalances and climate change, among others. Among the most widely discussed causes has been the diversion of land and resources from food and animal feedstock production to fuel production, which has had the effect of pushing up food prices. For example, as a proportion of world maize consumption, ethanol use has increased sharply since 2003/04. But this is an immediate factor mainly in the maize (or corn) market, and so tends to have the greatest impact on food prices in those CDDCs where maize is the pre-

dominant staple food. Also, despite concerns raised about the potential impact of Chinese demand for commodities, this report shows that during the period 2005–2010 China's share of world imports was significant for several "hard" (mineral) commodities, but relatively small for most "soft" (agricultural) commodities. The "China effect" was therefore strongest in some of those commodities where prices rose the most, such as iron ore, copper and oil, but negligible in cereals and other arable crops (with the notable exception of soya).

However, the initial period of steadily rising commodity prices, including basic food commodities, placed the food security of poor households under stress and caused severe social unrest in several countries. It has been estimated that the food price crisis of 2008 caused an additional 119 million people to experience hunger, pushing the world total above the billion persons mark. This was followed by severe price volatility for many commodities during the period 2008–2011, over and above the usual volatility of commodity prices, which has posed a tremendous macroeconomic management challenge for all CDDCs. Such volatility makes it difficult for farmers and other suppliers to take optimal production decisions and serves as a disincentive for investment.

Beyond these direct effects, there are a number of indirect effects of the recent commodity price boom on CDDCs. These effects capture the nature and magnitude of the impact that the changes in revenue have had on various economic variables in these countries.

Overall, there is some indication that greater revenues from commodity exports led to moderate income growth, and that the effect was not limited to the agricultural sector; the manufacturing and services sectors also exhibited stronger growth rates. However, the respective shares of these two sectors in overall GDP fell due to a much higher growth rate of the primary sector. Therefore, the commodity price boom does not appear to have promoted economic diversification. Indeed, there is a paradox in expecting income growth from higher commodity prices to stimulate such change unless it is invested in strategic sectors, since diversification would help make economic growth less dependent on the commodities sector. It is therefore a difficult balancing act to prevent a strong commodity sector from building itself up and inhibiting the growth of other sectors. This is the essence of the Dutch disease, which, when combined with bad governance, can become a resource curse – a conundrum for economic development and policymakers.

Nonetheless, the fact that other sectors do not appear to have been negatively affected suggests that countries were able to avoid the Dutch disease effects that can accompany windfall revenues. This conclusion is strengthened by the finding that, overall, there was no evidence of exchange rate appreciation in CDDCs. One of the factors explaining the lack of appreciation pressure, in spite of CDDCs' increased revenues, is that these revenues appear to have been used largely for accumulating currency reserves, and for investing, particularly in foreign assets, notably through SWFs (in the richer countries in this category), as well as to meet external debt obligations. There was evidence of some debt reductions in the poorest countries as well as increased foreign investments after 2002, although part of the reductions in debt could probably be explained by the Multilateral Debt Relief Intiative that succeeded the HIPC debt relief initiative. The channelling of commodity revenues to international financial markets may have reduced pressures on the exchange rate, but this was at the cost of domestic spending and investment. This trade-off is particularly noticeable in the poorest developing countries. For many of them, the commodity price boom translated into only modest income growth and limited social and economic development. Indeed, spending on education even declined in this group of countries over the period 2003–2009. Moreover, for these countries the impact of the commodity boom was mainly evident in the large increases in their import bills, especially for food and fuel. Thus, the increased revenues generated by their exports of primary commodities did not greatly benefit their populations.

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1.2. Severed link between higher export prices and domestic income growth

The tendency for countries to favour the reduction of external debt and accumulation of foreign assets over domestic spending and investment is strongly linked to the finance-driven globalization that has defined the past few decades. As international capital flows increased and developing countries were advised by donors and IFIs to liberalize their capital accounts, the economic stability of these countries began to depend increasingly on their ability to attract capital from abroad. Indeed, even during the commodity price boom the level of export revenues was dwarfed by that of net external financing, so that it was the capital account rather than the current account that determined countries' financial stability. Such financial stability has come to be seen as a prerequisite for growth, and explains why many countries have sought to accumulate foreign reserves at the cost of domestic real-sector investment. This is an aspect of the financialization of the world economy and of current development thinking that was unimaginable to the pioneers of development thought in the middle of the last century.

In the poorest developing countries, the commodity price boom translated into modest income growth as well as limited social and economic development.

Finance-driven globalization does not appear to be associated with a process of industrialization and structural change in CDDs.

It is remarkable that the same logic of financial deregulation and the expansion of the role of finance in the development process also underpins many of the tendencies noted in the international commodity markets over the past decade. Since 2000, with the bursting of the dot-com bubble in the United States, there have been enormous inflows of capital into commodity markets. As noted in this report, this rapid financialization of these markets has contributed to rising prices, and especially to amplifying the volatility of commodity prices since 2003.

Finance-driven globalization does not appear to be associated with a process of industrialization and structural change (UNCTAD, 2011a). Thus there is need for a radical rethinking of the role of commodities in the development process. In the current context, and in the absence of corrective measures, CDDCs, especially the poorest ones, suffer from the high price volatility of commodities, while they are unable to benefit from increased revenues from commodities, as the link between higher export prices and income growth (via growth in the real domestic sector) has been severed. The prevailing theories which suggested that commodities could be an engine of growth for developing countries, provided the adverse macroeconomic effects of windfall revenues could be managed, may not fully apply in this new global context. The conceptualization of the commodities problem needs to be revisited to better take into account the constraints facing CDDCs due to finance-driven globalization.

The excessive influence on commodity markets of trading motivated by financial, not commercial, considerations should be curbed, at least for some key commodities.

1.3. Broad policy perspectives

CDDCs should seek to retain more of the end value of the commodities they produce.

The recent commodity boom and its consequences for CDDCs also suggest a number of broad policy considerations. In the last couple of years, there has been increasing attention, particularly within the framework of the G20, to the issue of how to respond to the commodity problem discussed here. The inter-agency consultation process launched during the French presidency of the G20 in 2011 (and which is continuing under the current Mexican presidency of the Group) to discuss this issue and identify policy directions brought together 10 international organizations, including UNCTAD. This section does not intend to reiterate the conclusions or recommendations that have emerged from this process, nor comment on recent work on the issue (e.g. Farooki and Kaplinsky, 2012). Rather, it identifies some of the policy options that emerge directly from the discussion in sections 1.1 and 1.2 above.

First, the excessive influence on commodity markets of trading motivated by financial, not commercial, considerations should be curbed, at least for some key commodities. This can be achieved through a number of financial market regulations, some of which are already being implemented. These include measures aimed at ensuring greater transparency and stability in futures trading, such as margin requirements and position limits. Other possible measures could be the imposition of price variation ceilings to prevent excessive price fluctuations over a given trading period.

At the national level, developing countries should seek a better balance between using their revenue in a way that improves their financial stability and investing it in the domestic economy for economic and social development. This requires that external debt levels and fiscal balances be kept at a sustainable level to maintain financial stability, while using some revenues for domestic investment, particularly in real sectors, in line with overall social and economic development objectives, and to stimulate domestic demand.

CDDCs should also seek to retain more of the end value of the commodities they produce. For minerals and fuels, this entails, among other things, revising their existing investment and/or mining regimes, including putting in place a more equitable and efficient taxation system for their extractive industries.[1] Many countries have already implemented such reforms following their growing confidence derived from the fact that the extractive sector may have become a "sellers' market", in the sense that power has switched to the sellers' side, which means the sellers can dictate prices and other terms (Kay, 2011; Verma, 2011). The bargaining power of producing countries has therefore increased for the first time since the 1970s, as reflected particularly in the iron ore and copper markets (UNCTAD, 2011b; UNCTAD, 2012a). There are several options open to countries to take advantage of this situation, including the introduction of progressive taxation on profits, differentiated production taxes and export taxes. The policy choice should take into account the administrative and auditing capacities of their authorities.

In the case of agricultural commodities, countries can help by supporting their producers to improve their bargaining power with the international value chains in which they participate. The best way to achieve this is to promote collective action by producers, notably through the establishment of cooperatives, farmers' associations and marketing boards. The development of market-based institutions, such as warehouse receipt systems and physical commodity exchanges, could also enable farmers to get better prices for their produce. Similarly, greater market transparency and the use of risk management strategies could transform small-scale informal agricultural undertakings into more efficient agricultural enterprises with increased profit margins. Countries could also seek to promote local processing of commodities in order to retain more value added, although this latter solution is

becoming more difficult as a result of the increasing complexity and internationalization of value chains. However, as noted by Farooki and Kaplinsky (2012), a critical choice for commodity-exporting countries is not to give in to "manufacturing pessimism" (i.e. allowing commodities to undermine manufacturing), but to shape policies that permit them to make the most of their commodities. It is still important for these types of economies to try to diversify towards manufacturing and services, particularly within the context of "the stepwise deterioration in real non-oil commodity prices with each super cycle, the mean being lower than the previous one" as observed by Erten and Ocampo (2012: 23).[2]

In order to avoid a repeat of the severe food crisis of 2008, poor countries also urgently need to establish some form of food reserve. As outlined in this report, the precise nature of these schemes can vary considerably according to local specificities. A mix of different instruments operating at different levels, such as local food storage backed by regional reserves, offers a good compromise. Alternatively, or in addition, a virtual reserve – a notional commitment to stabilize prices – could perhaps be set up at a regional level, in particular because the costs involved are much smaller relative to physical buffer stock management. This should be combined with strengthened protection for the most vulnerable and food-insecure segments of the population. Food security cannot be left to economic policy alone; it also requires social measures to provide the poorest families with the means to purchase food. Recent experience in several countries shows that this can be achieved relatively rapidly and at low administrative costs through a combination of cash payments along with support for local markets and communities.

2. DEVELOPMENT STRATEGIES AND REFORM OF THE INTERNATIONAL ARCHITECTURE

At the very least, the commodities boom has provided a welcome breathing space for CDDCs. However, whatever may be the future level of commodity export prices, their volatility has greatly increased over the past 10 years. But as stated above, it is not apparent that much diversification to national economies has occurred to reinforce the windfall gains to GDP from higher export prices. It remains to be seen whether the price boom indicates a long-term upturn in commodity prices or is merely the latest in an intermittent series of exceptionally large cyclical upturns, to be followed by years of depressed prices. Perhaps coincidentally, these big cycles have occurred at 30-year intervals, the last big spikes in commodity prices having taken place in the late 1940s and in the 1970s.[3]

The essential development problem facing CDDCs is one of excessive reliance on exports to traditional markets. A country's commodity dependence implies a certain inability to control its destiny because of a reliance on markets for types of goods which are traded on global markets. It often reflects a high degree of economic vulnerability and evidence of limited diversification and structural transformation due to enduring problems of price volatility, and in particular due to non-tariff barriers to trade and to an excessive level of market concentration. Such a situation concerns countries that have nothing to trade except primary commodities, and in most cases tends to be an abiding inheritance from the colonial era. At that time, these countries' economic structures were developed to serve the needs of the colonial powers. This was especially true in Africa, due to this continent's late integration into the global economy and the character of its transformation which was initiated in the late nineteenth century by the European colonial powers. Tentative efforts to remedy this after independence were aborted by the experience of the 1980s debt crisis and structural adjustment in the 1980s and 1990s (UNCTAD, 2007).

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This explains the continuing dependence of so many of the poorest countries on global commodity markets – a dependence that has actually increased under globalization, in two ways:

- Far from resolving the commodities problem for development, globalization has in effect compounded it. It has become an issue not just related to the export side of the poorest countries' trade but also to the import side. CDDCs have developed a growing dependence on imported commodities, especially cereals, fuels and the other inputs required by contemporary intensive agricultural practices. The price boom therefore had severe negative consequences for most developing countries because of the impact of the global price shock on domestic food prices and the profitability of domestic agriculture.
- Due to financial deregulation, it has become increasingly difficult to use higher commodity revenues to generate self-sustaining domestic economic growth and long-term social development, as discussed above.

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The combined food, fuel and financial crises of 2008 therefore marked a turning point in the economic situations of CDDCs, just as much as the more widely discussed financial crisis which has affected the developed countries. The problem has been exacerbated by the financialization of the commodity markets, one aspect of which has been the increasing involvement of new actors, such as finan-

The emergence of new "twists" to the commodity problem requires the direct engagement of all developing countries in its resolution.

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cial players and traders, in commodities markets. This is a consequence of the slow shift in the pricing mechanisms of these markets, from long-term, fixed contracts to methods that create very sharp price fluctuations and therefore attract players who are motivated exclusively by financial gain. To quote the report of the Cannes B20 Business Summit, "In such markets, the importance of financial products grows exponentially, typically reaching gross volumes more than ten times that of the underlying physical markets. Trading volumes on the London Metal Exchange (LME) are between 20 and 30 times greater than physical production."[4] The historically low interest rates since 2009 seem to have added to this process and contributed further to price rises.

Partly because of the importance of the new "twists" to the commodity problem and the associated influences spreading from North to South, there needs to be direct input from representatives of all developing countries, and not only the G20, in resolving this problem. After all, it is the poorest countries that have tended to be the worst affected by both high and volatile commodity prices. And yet, after the crises of 2008, when the commodities issue became an important item on the international agenda, debate on potential policy responses was led by the G20. This group is more inclusive than the G8, as it includes emerging countries, such as Brazil and South Africa, and only India and Indonesia out of the 66 low-income food-deficit countries. However, none of the world's poorest countries, whether the 48 LDCs or the 35 defined by the World Bank as low-income countries, are represented. Future policy on trade in international commodities needs to consider the views of those countries whose economies are the most affected by that trade. This suggests that among the existing global country groupings the G77 should be directly involved, as well as regional organizations from the South. The considerable commodities-related expertise at the United Nations, especially at UNCTAD, FAO and the Common Fund for Commodities, could also provide significant input.

The situation also implies a need for at least some degree of reconfiguration of CDDCs' trade away from the current system based on unimpeded global markets over whose institutions they have little influence. Many countries in East and South-East Asia, the most successful subregions of the developing world, increasingly rely on their own subregions as a source of economic demand and transformation. They have benefited from the impetus provided by the earlier industrial breakthroughs of neighbouring countries – first Japan, then the Republic of Korea and the other newly industrializing economies of the 1980s, and more recently China and other, smaller countries in the region. However, the greatest concentration of CDDCs is in Africa, which do not benefit from any local growth poles of industry and finance such as those of China and Japan. What can be done to substitute for them?

In this new context, it is necessary to rethink development strategies in order to maximize the gains to developing countries from the commodities trade, while drawing lessons from the unfulfilled promise of the commodities and development nexus which experts had forecast over the past 60 years. The following three lines of strategy are recommended for the CDDCs' consideration, together with certain changes in the international architecture that would be required to realize them:

1. Prepare for the possibility of falling commodity prices and a consequent decline in export incomes, government revenues and economic demand.
2. Rely on neighbouring countries' potential ability to generate autonomous economic development away from the pressures imposed by commodity dependence.
3. Harness the income gains from higher commodity prices to facilitate wider economic transformations and a reduced dependence on commodities.

These are discussed in more detail below.

1. Prepare for the possibility of falling commodity prices and a consequent decline in export incomes, government revenues and economic demand.

Whatever may be the general level of commodity prices in the future, volatility itself constitutes a serious danger. It benefits nobody except hoarders and speculators, who make profits on price movements. Developed countries now share an interest in addressing price volatility, as they have experienced higher inflation as a result of the commodity price boom and might themselves seek ways to moderate prices. For example, it was recently suggested that developed countries' central banks might wish to take positions on commodity markets in order to influence price movements, which would assist their task of controlling domestic inflation.[5] While central banks are not recommended here as the best agents for this kind of task, it should be possible to draw on both the public and private sectors, which have considerable experience, accumulated over many decades, in smoothing out prices at critical points along agricultural and mineral supply chains. This can take different forms, such as using physical or virtual stocks, controlling production and trade, and marketing arrangements, depending on the goals sought to be achieved and the possibilities provided by each market and value chain.

The best known model, which lasted from the 1930s until the 1990s, was that of international commodity

agreements (ICA), which were periodically negotiated between the leading exporting and importing countries. Overall, the ICAs were ultimately considered unsuitable, partly because of their one-size-fits-all nature in an area of the economy which is notable for the great diversity of its price formation systems and its patterns of supply and demand. Although many ICAs did achieve considerable success and might still be suitable for certain markets, no such prescriptive model is recommended. Each market and value chain needs its own particular type of arrangement or measures aimed at providing the greatest gains for participants in each case.

The architecture required for this task suggests a central role for international commodity bodies, which can research the kinds of market reforms that will provide the best possible defence against price volatility in each particular case, without giving any initial preference to one type of reform or another. The United Nations can play a wider role in developing innovative thinking in this area and coordinating efforts at reform on individual commodity value chains.

To provide urgent relief in the event of an import price shock, a related reform could be the establishment of a global countercyclical financing facility to support food-insecure countries, particularly LDCs. It should be able to rapidly disburse the funds it would have at its disposal because of the emergency nature of such needs. For the same reason, policy conditionality should be low and there should be significant concessionary elements. This would provide an important complement to an expanded system of food reserves, as recommended below.

2. *Rely on neighbouring countries' potential to enable economic development that is not subject to pressures imposed by commodity dependence.*

Intraregional trade can generate mutual gains for neighbouring countries that are at similar levels of development. This can avoid the problems that arise on global markets, of remoteness from final demand and the difficulties of market entry (as opposed to the formal possibility of market access), due, for example, to technical requirements such as rigid or very high quality standards. The intraregional approach thus helps countries to develop domestic businesses and accumulate capital domestically – in other words genuine, autonomous economic development. Over the past 50 years such mutual trade arrangements among countries at similar levels of development have benefited members, as in the EU, and, more recently, countries in East and South-East Asia. The growth of intraregional trade could enable countries to reduce the impact of global economic shocks such as the importation of food price inflation from commodity markets. It could also help to stimulate strong domestic and regional food and agricultural markets, the existence of which has provided an assured basis for economic activity in developed countries since the middle of the twentieth century.

In general, both public and private investment needs to be increased with the aim of boosting agricultural productivity and correcting the structural causes of food insecurity. The FAO has estimated that over $80 billion a year in additional investment is needed in developing countries to solve the problem of food insecurity by 2050. Most of that will have to be from the private sector, but in many developing countries the initial push is likely to be from the public sector. Public investment can crowd in private sector investment in upstream and downstream activities such as supplying storage, transport and other facilities for food production.

At the same time, it would be useful to reduce reliance on the main globally traded crops (maize, rice and wheat), which have transmitted price shocks even in countries that had broadly secure food supplies. It is advisable to revive the production of other staple foods and to diversify agriculture more generally on nutritional and ecological as well as commercial grounds. It is also necessary to reduce imported inputs for agriculture, such as mineral fertilizers and oil, by adopting agroecological methods which do not use up scarce foreign exchange. In support of this, investment is needed in agricultural technology to raise food production levels in developing countries, including increased public spending on research and development. But the choice of technologies has to be considered carefully to reflect the specificities of each country or region.

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Climate change is a growing constraint in many of the most food-insecure countries, for example in the Horn of Africa and in the Sahel region as well as in low-lying islands and delta regions in the Indian and Pacific Oceans. This is another reason for carefully considering the choice of agricultural technologies. The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD) is an important mechanism which seeks to mitigate or overcome this constraint on agricultural development.[8]

The following institutions and architecture could be considered for this purpose:

- The development of stronger regional economic blocs which adopt harmonized policies and standards, common external tariffs and preferential trade arrangements.
- An increased share in domestic and regional budgets for implementation of agricultural and food policies. The African Union could press harder for its members to allocate 10 per cent of

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Research should focus on developing agroecological methods, especially those that apply to tropical agriculture and food production.

Regional policies for food reserves should help safeguard food security against future price shocks.

The G20 should explore the feasibility of a base metals market information system to encourage information sharing, improve data reliability, and enhance data analysis and market transparency.

their domestic budgets to agriculture – a target that was set in the 2003 Maputo Declaration. Both the continent-wide Comprehensive Africa Agriculture Development Programme (CAADP) and domestic policies would be considerably strengthened if there were matching joint policies at the regional level in Africa – as is already happening in the area of food reserves. A similar goal is desirable in food-insecure CDDCs on other continents, if it does not exist already.

- In support of this, the creation of regionally based agricultural development banks or agencies that would pool the resources of member States to facilitate proactive agricultural policies is recommended. Alternatively, existing regional development banks, including the African Development Bank, could allocate a minimum level of their loan portfolio (5 or 10 per cent) to agricultural development. A global agency should also be set up, either separately or under the auspices of the FAO, to explore and coordinate new approaches in agricultural and food policy based on a revival of traditional cultures and the development of agroecology. It should work closely with farmers' and farm workers' organizations, especially regional ones such as the East African Farmers' Federation and the Network of Farmers' and Agriculture Producers' Organizations of West Africa (ROPPA), as well as global ones, notably the International Federation of Agricultural Producers and the International Union of Food (IUF) secretariat.
- Research should focus on developing agroecological methods, especially those that apply to tropical agriculture and food production. This should be undertaken by leading international institutions such as the International Institute of Tropical Agriculture (IITA), the World Agroforestry Centre and the World Vegetable Centre. The research work should be matched by a revival of agricultural extension, with an emphasis on farmer-to-farmer methods that facilitate the retention and adaptation of traditional knowledge relating to crops, production techniques and pest control – in other words, supporting the revival of long-established tropical methods for tropical agriculture. This will help reduce reliance on imported fuels, mineral fertilizers and agrochemicals.
- Regional policies for food reserves should help safeguard food security against the challenge of any future global food price shocks. The recent initiatives of the ASEAN+3 group and ECOWAS, discussed in chapter 3, provide contrasting models, both of which are well adapted to the specific conditions of their own regions.
- In contrast to agricultural commodities, price movements of energy, minerals, metals and ores tend to be determined by demand, and are closely linked to global industrial and economic activity. UNCTAD (2012b) has proposed, inter alia, that the G20 explore the feasibility of a base metals market information system to encourage information sharing, improve data reliability, and enhance data analysis and market transparency. There are already some intergovernmental commodity bodies, such as the three international study groups on copper, nickel, and lead and zinc, based in Lisbon, that have mandates to increase market transparency by promoting the exchange of information.[9]

In developing this architecture it would be necessary to consider its compatibility with existing international trade disciplines under WTO rules and agreements and elsewhere, including possible reforms of those rules where appropriate.

3. *Utilize the income gains from higher commodity prices to facilitate wider economic transformations and a reduction of dependence on commodities.*

This more traditional approach offers potential in two areas:

- Development of downstream commodity processing and commodity-related industries; and
- Stimulation of wider domestic trade and new economic sectors, including manufacturing.

These goals are necessary for development, whether the commodity boom continues or not. But the extra incomes provided by the boom provide an opportunity to finance such development. Indeed, many countries which have benefited from oil exports in recent decades have attempted similar strategies, with varying degrees of success. As discussed in this report, this process has also proved difficult for CDDCs during the recent boom. Nevertheless, there are several examples of countries, including Botswana, Malaysia, Mauritius, and particularly in recent years, Brazil, which have advanced as a result of commodity exports, and lessons can be drawn from their experiences. The new "architecture" or set of institutions recommended to support this strategy consists of the following:

a. The establishment of economic development agencies alongside regional trade blocs, such as the Caribbean Community (CARICOM), MERCOSUR, SAARC, and others which cover various subregions of Africa (e.g. the African Union, East African Community, ECOWAS and SADC). Economic development strategies could then be pursued hand-in-hand with the development of regional trade, as discussed earlier. The re-

gional agricultural development agencies recommended above could form part of these wider agencies or be separate from them, in view of the special importance of resolving the food and agricultural problems.

b. UNCTAD draws on nearly 50 years of experience in linking economic development with trade and, in particular, the commodities sector. It is therefore well placed to act as the lead global agency to provide guidance and coordination for this process.

c. Revisit commodity-specific mechanisms which can assure exporting countries of a stable and sufficient share of the income earned along commodity value chains. This is a separate issue from the moderation of price volatility, discussed above. Such mechanisms might tie CDDCs to particular commodities in the short term, but with the benefit of ensuring adequate export incomes, which can then be more easily mobilized to plan for economic diversification in the longer term. An example of a country which made good use of such extended support for its main commodity export is Mauritius: It benefited from over 50 years of export guarantees for sugar under the EU-ACP Sugar Protocol and, before it, the former Commonwealth Sugar Agreement.

d. Research and coordination in this area could be undertaken by the respective international commodity bodies, which already collate statistics and undertake other forms of coordination between participants in commodity chains, and have a sound knowledge of the specifics of the individual chains and associated commodity markets.

The proposed new architecture calls for some degree of reconfiguration of CDDCs' trade away from the current system based on unregulated global markets over whose institutions they have little influence. It would require a much stronger role for regional economic blocs, and regionally based agricultural development banks or agencies, which together with other regional institutions could formulate economic development strategies based on: (i) the development of downstream commodity processing and commodity-related industries; and (ii) stimulation of wider domestic trade and new economic sectors, including manufacturing. At the international level, this new architecture envisages a greater and more coordinated role for the G77 (in addition to the G20), regional organizations from the South, and United Nations institutions that have considerable expertise on commodities issues, especially UNCTAD, FAO, and the Common Fund for Commodities, as well as international commodity bodies.

Convincing the national and international community of the need for some of the policy measures discussed so far will not be easy, in particular because of well-known practical difficulties that were encountered in previous attempts to achieve similar goals. However, the persistence of the problems of commodity dependence during the past three decades suggests that markets have not been able, and cannot be expected, to solve the problem alone; and perhaps more than other markets, commodity markets need a helping hand. Commodity cycles and price volatility are inherent aspects of commodity production and trade and will not disappear, no matter how desirable this might be. The commodity problem will continue into the future, in particular considering recent developments in global financial markets. It is now time to get all stakeholders involved in trying to find ways and means of coping with this problem. The problems are practical in nature and the search for solutions should consider all possible avenues, with no ideological preferences or preconceptions of what constitute the "right" methods or outcomes. It is only in this spirit that solutions will be found that could enable the majority of CDDCs to make the most of the cyclical and occasionally highly volatile commodity markets which are so important to their economic growth and to the security of livelihoods for their people.

The proposed new international architecture envisages a greater and more coordinated role for the G77 (in addition to the G20), regional organizations from the South, and UN commodity related institutions.

The persistence of the problems of commodity dependence issues during the past three decades suggests that markets have not been able, and cannot be expected, to solve the problem alone.

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NOTES

1. This is already happening to some extent; for example, Zambia has increased its mining royalty rates for base metals and precious metals from 3 and 5 per cent, respectively, to 6 per cent for both (*Financial Times*, Special Report, 9 February 2012).
2. These authors are aware that manufactures, especially of the low-technology variety, are not immune to worsening terms of trade, but believe that the high price elasticity associated with them more than compensates for any such declining trend.
3. See chapter 2, for a discussion of the two more recent major price upturns.
4. G20 (2011), available at: www.b20.fr/uploads/presse/Final-Report-with-with-appendices-B20-2011.pdf: A55-A56 (accessed March 2012).
5. See *FT Alphaville blog*, 19 March 2012, 'A call for central bank action on commodity prices', at: , http://ftalphaville.ft.com/blog/2012/03/19/929081/a-call-for-central-bank-action-on-commodity-prices/.
6. For a full discussion of this topic, see Lines (2007).
7. The importance of compensatory financing to address African commodity problems, in particular, was acknowledged in General Assembly resolution 46/151, paragraphs 31-32, at the 46th session, 18 December 1991.
8. For information on UN-REDD, see: www.un-redd.org/AboutREDD/tabid/582/Default.aspx.
9. In addition, UNCTAD produces an annual *Iron Ore Market Report and Statistics*.