THE PRESIDENT
OF THE
GENERAL ASSEMBLY

3 July 2019

Excellency,

It is my honour to submit the Summary of the "Informal Interactive Dialogue on Commodity Markets" which was convened on 15 May 2019 in the Trusteeship Council Chamber in accordance with paragraph 27 of the General Assembly Resolution A/RES/72/205, entitled "Commodities". The aforementioned resolution mandates the President of the General Assembly to hold "a one-off one-day informal interactive dialogue of the General Assembly on commodity markets during the first half of 2019 to review world commodity trends and prospects, particularly in commodity-dependent countries".

The Summary delineates the central messages and conclusions of the two interactive panels held throughout the Dialogue and highlights the main findings of the report by the United Nations Conference on Trade and Development on "State of Commodity Dependence 2019".

Please accept, Excellency, the assurances of my highest consideration.

María Fernanda Espinosa Garcés

All Permanent Representatives and
Permanent Observers to the United Nations
New York

INFORMAL INTERACTIVE DIALOGUE ON COMMODITY MARKETS

SUMMARY

UNITED NATIONS HEADQUARTERS, NEW YORK

New York, 15 May 2019

H.E. Ms. María Fernanda Espinosa Garcés, President of the 73rd Session of the General Assembly, in collaboration with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Conference on Trade and Development (UNCTAD) convened the Informal Interactive Dialogue on Commodity Markets, on 15 May 2019, as mandated by the United Nations General Assembly (UNGA) resolution A/RES/72/205 of 20 December 2017.

The Dialogue included an opening segment, two interactive panels followed by a Plenary Segment (See Annex 1: Informal Interactive Dialogue on Commodity Markets Programme).

In conjunction with the event, UNCTAD launched its report *State of Commodity Dependence 2019*. Published biennially, the report contains statistical profiles for 189 countries based on 30 indicators describing the extent of each country's export and import commodity dependence, as well as key structural and socioeconomic variables that are related to the commodity dependence phenomenon.

(https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2439)

The following are highlights of the meeting:

- Reviewed world commodity trends and prospects, particularly in commodity-dependent countries;
- Focused on the long-term price trends of commodities prices, the concentration of producing countries at the low-value entry level of the value chain and their impact on the capacities of

many developing countries to effectively implement the 2030 Agenda for Sustainable Development;

- Provided a platform to discuss the challenges faced by commodity-dependent developing countries and possible solutions;
- Generated recommendations on improving micro- and macro-economic conditions to enable developing countries to overcome the commodity dependence challenge.

Panellists shared experiences on world commodity market trends and prospects, particularly in commodity-dependent countries and focussed on the long-term commodity price trends, the concentration of producing countries at the low-value entry level of the value chain and the related implications for implementing the 2030 Agenda for Sustainable Development.

Opening segment

Ms. Maria Fernanda Espinosa Garcés, President of the UN General Assembly (PGA) highlighted the consequence of commodity markets volatility. She noted that developing countries have plenty of natural resources and depend on commodities, however they are the furthest behind and most vulnerable to commodity price shocks. The PGA stressed that fluctuations in the international prices of agricultural, energy, mineral and metal products inevitably affect the economic, social and environmental conditions of the countries that depend on them, with direct and immediate effects on people. She emphasized that we must support economic diversification toward sectors of more added value or services and emphasized the importance of developing infrastructure and promoting technologies, research and innovation. The PGA called on the international community to integrally support stimulating investments to create added value and facilitate diversification of production in the countries that depend on commodities.

Mr. José Graziano da Silva, Director-General of FAO noted that agricultural commodity production and exports are estimated to provide incomes and jobs for more than a billion people worldwide. Two-thirds of developing countries rely on primary commodity exports for more than 60 percent of their export earnings. He highlighted the effect of declining commodity prices, frequent and excessive price fluctuations which affect economic growth, social development and food security, including the capacity of countries to implement the 2030 Agenda for Sustainable Development. Noting that trade contributes to global food security, he called for an urgent need to regulate the trade of unhealthy food with a view to promoting healthy diets at national and international levels. Current trade rules only cover food safety issues.

Ms. Pamela Cooke Hamilton, Director, Division on International Trade and Commodities, UNCTAD noted that, the commodity sector is important in both developed and developing economies. The USA, Canada and Australia, amongst others, are also important commodity producers and exporters, like many developing countries. Some 60 percent of the developing countries are commodity dependent, which means that they derive at least 60 percent of their export earnings from primary commodity exports. Over 80 percent of all least developed countries (LDCs) are commodity dependent countries. High commodity dependence is strongly associated with slow economic growth and low human development. The impact of commodity price cycles on economic performance is immediate through a number of channels, including negative terms of trade.

Plenary Segment

Member States representatives highlighted a number of issues, including the following:

- It is of utmost urgency to address the effects and impacts of extreme commodity price volatility in developing countries, as they significantly affect developing countries' economies and the implementation and success of their long-term development plans.
- Revenues from commodity production and exports remain critical for developing countries, in particular in the context of the implementation of the 2030 Agenda, given that mobilization of resources to developing countries is needed in order to achieve the Sustainable Development Goals. This also requires the continuous reform of agricultural trade rules within the given mandate of the WTO.
- It is necessary to continue efforts to diversify economies, as well as to improve the regulation, efficiency, responsiveness, functioning and transparency of financial and commodity markets.
- Technical assistance and capacity-building aimed at improving the commodity export competitiveness of producers are particularly important for developing countries and the donor community needed to provide the necessary commodity-specific financial and technical assistance.
- The LLDC countries are highly dependent on exports of commodities. Around 80% of the exports of LLDCs come from primary commodities. LLDCs are highly vulnerable to commodity price fluctuations and downward price trends, which can significantly impact on export revenues, economic growth, poverty, food security and sustainable development.
- Reliance on commodities limits the ability of LLDCs to join especially the higher ends of regional and global chains. The LLDCs need international support to increase trade potential and create more export opportunities in non-commodity markets. Special attention should be given to providing technical and capacity building assistance towards identifying those specific sectors with potential for export, diversification and value-addition.

- Most African economies still rely heavily on commodity production and exports, with minimal value addition and with even fewer linkages to other sectors of the economy. Countries of Africa require the support and assistance of the international community to build capacities and enhance the technical expertise and address barriers, in order to participate actively in the global value chain, as well as to pursue risk management and diversification strategies to address challenges associated with price volatility.

Panel 1: Commodity Prices and Development

Commodities continue to play an important role in the economies of many developing countries, with commodity price movements significantly impacting economic growth, poverty, food security and the path to a socially, economically and environmentally sustainable growth. The commodity price surges of 2008 and 2012 gave way to lower global prices, and prices (in real terms) are generally expected to remain at lower levels in the short to medium term.

Ms. Raziye Bilge Koçyiğit Grba, Deputy Permanent Representative of Turkey noted that many developing countries face steep challenges in commodity markets, as there remains structural barriers such as limited access to financial services and weak infrastructure. She stressed the importance of providing support to commodity-dependent countries, including through technical assistance to increase capacity to detect and avert trade mispricing. She shared the experience of Turkey in diversification of its economy and improvement in the functioning of commodity markets.

Mr. Rob Vos, Director of Markets, Trade and Institutions Division at the International Food Policy Research Institute (IFPRI), noted that most of the least-developed countries are classified as such because of their vulnerability to external economic shocks. He emphasized that the concern for commodity-dependent countries is not so much about the level of commodity prices, it is rather about price volatility. The volatility in export earnings is causing uncertainty in markets and pro-cyclical spending behavior by governments, investors and farmers alike. Both undermine investments in strengthening productive capacity and diversification away from primary commodity production. Focusing on countries dependent on agricultural exports, he recommended actions on three fronts: (i) at the macro-level, introduce counter-cyclical budget, possibly complemented by commodity-price linked fiscal stabilization and savings funds; (ii) at the meso level, promote integration of food value chains, climate-resilient crop diversification, and development of non-farm activities; and (iii) at the micro-level, strengthen the resilience and risk-coping mechanism for farmers and other food sector actors (including through education, social protection and agricultural insurance). Reducing commodity-dependence, Vos emphasized, would require acting on all three fronts with lasting commitment.

Mr. Fredrik Alfer, Deputy Permanent Representative of Sweden to FAO in Rome and Chairperson of the FAO Committee on Commidity Problems, stressed that commodity-dependent countries need to embark on a transformation process by diversifying both vertically and horizontally, boosting productivity of smallholders and enhancing their integration into regional and international markets and commodity value chains. They need to boost investment in the commodity sector and implement pro-poor social protection schemes. However, low-income countries would need assistance in terms of technology and knowledge transfer as well as resources. He also stressed the importance of action at the international level, including enhancing market ransparency, delivering on the necessary agricultural trade reforms and developing stronger and more inclusive partnerships. Finally, he called to learn from the 'success stories' of commodity-dependent developing countries that transformed the challenge of commodity dependence into more inclusive growth and development.

Mr. Mario Cimoli, Deputy Executive Secretary of the Economic Commission for Latin America and the Caribbean, shared the regional perspective of Latin America and the Caribbean (LAC) and its rich history of commodities and natural resources. He underscored the importance of volatility and procyclical movement such as exchange rates which can have an impact on specialized commodity models, given the difficulty in predicting long-term effects of commodity prices due to the vulnerability of the market. The LAC region is a prominent exporter of agricultural commodities, however its performance is poor in processed products, due to lack of investments along the supply chain. Public policy and investments are needed that will allow the expansion of the value chain by transforming primary commodities into premium products.

Messages from Panel 1

Diversification

- Diversifying, adding value and expanding the linkages between the commodity sector and the manufacturing and services sectors can promote employment and income generation and lead to inclusive growth and development. Such linkages can be both forward (downstream) and backward (upstream). Using the example of Costa Rica, policies and fiscal incentives promoted diversification not only of the national economy but also of agriculture away from traditional exports, such as bananas and coffee, towards a greater variety of agricultural exports. Shared examples showed how diversification impacts development, namely from Turkey's experience, where women benefitted significantly.

Good governance

- In commodity-dependent developing countries, the strong link between economic performance and international commodity markets exposes national economies to fiscal uncertainty. Revenue stabilization funds and countercyclical policies can help to smooth government expenditures and avoid macroeconomic shocks. Such measures serve as stabilizing mechanisms, by accumulating revenues at times of high export prices and contributing to government spending during periods of low prices. Also as part of governance, properly functioning global commodity markets and open, rules-based and equitable trade are essential in underpinning a stable environment conducive to investment and growth. National institutions dealing with the management of the commodities sector need the technical capacity to implement policies that promote long-term national interests. Policy consistency and a long-term commitment by decisions-makers are central to the creation of the favorable environment needed for commodity-dependent developing countries to achieve economic diversification and structural transformation.

Sustainable productivity growth

- Improving productivity in the agricultural commodity sector in commodity-dependent developing countries can increase export revenues and support interventions to promote growth and structural transformation. It can particularly contribute to inclusive growth in countries that depend on exports. Increased access to inputs, technology and other services allow smallholder farmers to raise their productivity and intensify production. Investments in research and development and infrastructure, as well as reforms to improve the competitiveness of agriculture, can contribute to boosting employment, small farmers' incomes, food security and rural development.

Climate Change

- Climate change, with increasingly adverse impacts on agriculture in many regions and countries, was highlighted as a key factor throughout the panel discussion. Climate change increases the vulnerability of commodity-dependent developing countries, with potential large consequences. A coherent set of policy actions at the global, national, and local level are needed in order to effectively address climate change related shocks.

Launch of the 2019 UNCTAD Report on the Status of Commodity Dependence

Ms. Pamela Coke-Hamilton, Director of the Division on International Trade and Commodities, UNCTAD moderated the session and explained that the report contains statistical profiles for 189 countries and an analytical chapter presenting the evolution of commodity dependence over the past 20 years as well as providing successful and unsuccessful examples of countries breaking the chain of commodity dependence.

Ms. Yanchun Zhang, Head of the Commodities Branch of UNCTAD, presented the main report findings. Three major improvements of the report were identified as: (1) an expanded country coverage, representing both developed and developing countries (in previous editions only data on developing countries were presented; (2) a longer time-period for the presentation of results, from 1995 to 2017; and (3) the inclusion of an analytical chapter. The report specifically analysed the state of export dependence (merchandise exports, commodity exports, 3-leading commodity exports and main trading partners), the state of import dependence (food and fuel imports, main trading partners), and key socioeconomic indicators (GDP per capita, Human Development Index, Gini Index, and other structural indicators). Out of 189 countries, 102 are commodity-dependent. In terms of geographic distribution, most of the countries are located in the developing world – 42 in Sub-Saharan Africa, 17 in Latin America and the Caribbean, 17 in East Asia and Pacific, 13 in the Middle East and North Africa, 12 in Europe and Central Asia, and 2 in South Asia. The four main messages from the report were:

- Commodity dependence is almost exclusively a developing-country phenomenon;
- Commodity dependence is persistent;
- Commodity-dependent developing countries (CDDCs) are vulnerable to commodity price shocks; and
- CDDCs which successfully diversified production and exports have experimented faster growth of income and of gdp per capita.

Mr. Fredrik Alfer, Chairperson of the FAO Committee on Commodity Problems, highighted that primary commodity prices have shown to be highly volatile which increases uncertainty and makes national economies of commodity-dependent developing countries particularly vulnerable. Furthermore, an important food security *dimension* is also at stake while analyzing commodity dependence, as the majority of the LDCs are both commodity export-dependent and net food importers. At the micro-level, the triple effect of commodity-dependent developing countries, negative price shocks and increased volatility can directly impact the livelihoods of those in poor husehoolds who are heavily engaged in agricultural activities. This could lead to chronic hunger, malnutrition, and serious and persistent long-term negative impacts on health. However, as emphasized by the report's findings, some countries have been able to increase their earnings and diversify their exports. This demonstrates that it is possible to move away from commodity-dependence as long as the right policies are put in place. He announced that he will bring this topic to the next session of the FAO on commodities in September 2019.

Panel 2: Moving Up the Commodity Value Chain

Even though many CDDCs are stuck at the very entry of value chains, it is possible to move downstream. Value addition must be complemented by horizontal diversification in order to reduce dependence on just one sector.

Ms. Pamela Coke-Hamilton, Director of the Division on International Trade and Commodities, UNCTAD stressed the value of incorporating both vertical diversification (by adding value to primary commodities) and horizontal diversification (by producing and then exporting more products), and emphasized the importance of value adding as key strategies for CDDCs. Horizontal diversification increases the number of goods produced and exported, while vertical diversification serves as a solution for getting commodity producers out of the lower value entry level of the value chain. Value addition allows for the creation of products that are substantially different from underlying primary commodities. Ms. Coke-Hamilton further highlighted that these strategies need to be complementary rather than isolated from each other.

Five lessons learned from past experiences were presented:

- Countries must have a clear and realistic diversification strategy with institutions that will make it happen, which is necessary for embedding change;
- The type of diversification that is pursued must be carefully thought through and must favor value addition as well as horizontal diversification;
- There must be an emphasis on human capital in order to carry out the changes;
- It must be a sustained effort on the part of the country; and
- It has to be underscored by macroeconomic stability.

H.E. Ms. Athaliah Lesiba Molokomme, Permanent Representative of Botswana to the United Nations in Geneva presented Botswana as a model of success for other CDDCs, being a country that has been able to reach an upper-middle-income status in the last 30 years. Specifically, H.E. Ms. Molokomme used the example of Botswana's diamond industry and its experience with merging horizontal and vertical diversification, and attempts toward value addition. The Ambassador especially brought attention to the need for the following: good governance examplified in a sound regulatory framework, political stability, democracy, and the observance of the Rule of Law; visionary leadership; public-private partnerships; accountability; prudent management of the economy; and a legislative system that regulates licensing. Still, she underlined that the country still faces a number of challenges that must be overcome, like the need for sources of growth outside of commodity-dependence in order to realize transformational development.

Mr. Róger Madrigal-López, Chief Economist of the Economic Division to the Central Bank of Costa Rica, stated that, although Costa Rica was an example of a CDDC for a long time, the country has moved towards integrated horizontal and vertical diversification, as well as improving the added value and the diversification of commodities that the country offers. Mr. Madrigal-López said that much of this is the result of successful policy making, namely due to the contribution of three independent government agencies: the Department of Foreign Trade, the Costa Rican Investment Promotion Agency and the Export Promotion Agency. In addition, he noted that investment in modern technology, in services and service delivery, and in productive capacity that emphasizes export diversification are necessary for achieving success. Lastly, Mr. Madrigal-López stressed that investment in human capital, such as in health and education, as well as an outward-oriented strategy based on trade liberalization, openness to foreign investment, Special Economic Zones, and active promotion of exports and FDI have set Costa Rica apart as an example of a successful commodity-dependent country that has succeeded in diversifying away from the commodity sector.

Mr. Pedro Conceição, Director of the Human Development Report of UNDP, noted that commodity dependence is largely associated with developing countries and that usually the dominant exported commodity remains the same over time. He also highlighted the following challenges, which hinder countries from moving up the value chain:

- *Lack of complementary inputs*: although most countries in the tropics have an abundance of cocoa, they are not major chocolate producers as they do not produce significant quantities of milk to produce milk chocolate;
- *Economies of Scale*: some countries lack the capacity to invest in capital-intensive processes that benefit from economies of scale e.g refining crude oil into petroleum products benefits from economies of scale; countries that are not able to invest in refineries have to import their own refined oil far from the extraction source at higher prices; and
- *Impact of Technological Change*: although the cost of production is typically low in commodity dependent countries which had opened pathways for industrialization and diversification in the past, technological change (such as automation) and reshoring are now narrowing such pathways. Recommendations for moving up the value chain include: increasing investments in agriculture/agricultural productivity and developing ancillary activities such as finance, business services, marketing, design, branding, legal services, etc.

Mr. Mahmoud Moheieldin, Senior Vice President for the 2030 Development Agenda, United Nations Relations and Partnerships of the World Bank, observed that there is an acceleration in the 'breaking up of production across borders as a result of information technology, transportation and communication'. As a consequence, there is dissonance in the benefits that accrue to countries as a result of global value chains. For many countries, participating in global value chains does not necessarily result in growth and development. This phenomenon (the impact of value capture by some countries) has been the fundamental question of the World Development Report 2020 (WDR 2020). Key findings of this report are as follows:

- There has been a transition from export-led growth to trade-led growth. Consequently, the paradigms that helped many countries grow in the 1970s, 1980s and 1990s should now change. There is a need for countries to open up to trade at large (which includes import of inputs) and avoid the sole pursuit of exports;
- Removing barriers to trade could help ensure that domestic firms have a variety of cheaper, higher quality intermediaries and technological understanding;
- Joining global value chains does not guarantee significant value capture, it is always a good step towards producing high quality goods and services. This was underscored in the WDR 2020 which focused on firms in Mexico, Ethiopia and Vietnam; and
- Involvement in local manufacturing and its contribution to GDP growth has a positive impact on women's participation and on the environment. In conclusion, he observed that automation, machine learning and artificial intelligence could help enhance South/North trade and stimulate investments in human capital (such as investments in education, skills and health). Political stability, good governance and low trade costs were also identified as key determinants of value capture from global value chain participation.

Messages from Panel 2:

Importance of Private Public Partnerships (PPPs)

- The state, based on its ownership of natural resources, and the private sector, that tends to control know-how and financial resrouces, need to join forces to achieve value addition, as illustrated in Botswana where 'Debtswana' is half owned by the state and half by De Beers. Such joint ventures must be professionally managed. In order to ensure a long-lasting joint venture, the state must put in place a stable governance structure, including a round legal system at all levels of operations: licensing, prospecting, extracting, and transformation. The joint venture must be beneficial to both parties

Human capital

- Opportunities offered by diversification are best harnessed when a country has a population that is equipped to take advantage of them; an educated and healthy population is more capable of identifying and seizing opportunities when they arise. This calls for increasing investments in health and education.Strong human capital generates an ecosystem where new technologies needed for diversification are easily adopted or adapted, or even created.

- There is often a mismatch between the skills needed by the industry and those available in the market; this calls for an overhaul of the training system in many CDDCs.

Economic structure

- Even in countries considered to have successfully diversified their economies, there are weak links between high-tech, high-value sectors with the rest of the economy. This needs to be addressed in order to avoid the creation of enclave sectors that are so common in many CDDCs, particularly those dependent on mining and fossil fuel sectors. Rather than a sectoral issue, diversification must be conceived as part and parcel of a country's overall development strategy. A country must consider how capital and labour complement each other, whether it enjoys economies of scale, or whether all complementary inputs are available, and under which conditions, in order to come up with a new product through value addition. Moving up to the most valuable segments of the value chain implies that a country is prepared to offer competitively high-end services, such as branding, financial services, legal services, etc.

The role of technology

- The Fourth Industrial Revolution affects the way business is conducted as it makes borders less relevant. If CDDCs are able to take advantage of this new paradigm, they have an opportunity to become more engaged in value chains. Their participation will depend on the quality of their human capital, including the level of women's economic inclusion. Some countries or sections of society might lose out or at least be bypassed by the positive externalities of this technological revolution. Compensatory mechanisms aimed at minimizing the damage should be put in place.

Annex 1

PROGRAMME

10:00 - 10:40	**OPENING SEGMENT** • H.E. Maria Fernanda Espinosa Garcés, President of the General Assembly of the United Nations • Mr. José Graziano da Silva, Director-General of FAO (Video-message) • Ms. Pamela Coke-Hamilton, Director of the Division on International Trade and Commodities of UNCTAD
10:40 - 11:40	**INTERACTIVE PANEL 1** **Commodity Prices and Development** Panellists: Moderator: Ms. Carla Mucavi, Director of the FAO Liaison Office with the United Nations ▪ Mrs. Raziye Bilge Koçyiğit Grba, Deputy Permanent Representative of Turkey ▪ Mr. Rob Vos, Director of Markets, Trade and Institutions Division, IFPRI ▪ Mr. Fredrik Alfer, Chair Committee for Commodity Problems ▪ Mr. Mario Cimoli, Deputy Executive Secretary of the Economic Commission for Latin America and the Caribbean
11:40 - 12:30	**PLENARY SEGMENT**
12:30 – 13:00	LAUNCH OF UNCTAD REPORT ON THE STATE OF COMMODITY DEPENDENCE (Simultaneous launch in New York and Geneva) Moderator: Ms. Coke-Hamilton, Director, Division on International Trade and Commodities, UNCTAD Speaker: • Ms. Yanchun Zhang, Head, Commodities Branch, Division on International Trade and Commodities, UNCTAD – presenting the main report findings • Mr Ayodele Odusola, Chief Economist, UNDP African Bureau – short remarks • Mr. Fredrik Alfer, Chairperson of the FAO Committee on Commodity Problems – short remarks
15:00 - 16:00	**INTERACTIVE PANEL 2** **Moving up the commodity value chain** Panellists: Moderator: Ms. Coke-Hamilton, Director, Division on International Trade and Commodities, UNCTAD ▪ Dr. Athaliah Lesiba Molokomme, Permanent representative of Botswana to the United Nations in Geneva ▪ Mr. Róger Madrigal-López, Chief Economist of the Economic Division to the Central Bank of Costa Rica ▪ Mr. Pedro Conceição Director, Director of Strategic Policy – Burau for Policy and Programme Support, UNDP, New York ▪ Mr. Mahmoud Mohieldin , Senior Vice President for the 2030 Development Agenda, United Nations Relations, and Partnerships of World Bank
16:00 - 17:00	**PLENARY SEGMENT**
17:00 - 17:30	**CLOSING REMARKS** ▪ H.E. Maria Fernanda Espinosa Garcés, President of the General Assembly of the United Nations