



## **WHAT'S NEXT FOR COMMODITY MARKETS?**

### **INFORMAL INTERACTIVE DIALOGUE ON COMMODITY MARKETS**

*Date:* Thursday, 31 March 2022

*Time:* 10:00am - 6:00pm

*Venue:* Trusteeship Council Chamber, United Nations Headquarters, New York

### **Concept Note**

#### **Background**

Commodity dependence remains a major challenge for sustainable development and the achievement of the Sustainable Development Goals (SDGs). Commodity dependence is associated with numerous challenges and negative socio-economic outcomes ranging from lower human and social development, slow productivity growth, income volatility, macroeconomic instability, Dutch disease, and political instability.

At the same time, the number of commodity-dependent developing countries (CDDCs) increased from 81 in 2008-2009 to 87 in 2018-19.<sup>1</sup> With a share of 83 per cent, commodity dependence is particularly prevalent among Least Developed Countries (LDCs). It is therefore crucial for CDDCs to identify pathways away from commodity dependence and towards a more diversified production and export structure.

The United Nations General Assembly (UNGA), in its resolution 76/194, invited the President of the General Assembly to hold a one-day informal interactive dialogue of the Assembly during the first half of 2022, “to review world commodity trends and prospects, and possible strategies for economic and export diversification, as well as value addition for sustainable development, particularly in commodity-dependent developing countries, with the aim of sharing experiences and lessons learned”.

#### **Objective**

The event will take the form of an informal interactive dialogue on 31 March 2022, and will consist of an opening segment, followed by presentations on COVID-19 and trends in commodity markets, two interactive panels and a closing segment.

The panelists will include renowned experts, high-level government officials and representatives from the private sector, non-governmental organizations and international financial institutions, among others. In addition to Member States and Observers of the General Assembly, the meeting will be open to the United Nations system and relevant stakeholders.

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<sup>1</sup> UNCTAD. 2021. State of Commodity Dependence. Geneva: United Nations.

This one-day event will:

1. Review recent trends and prospects in global commodities markets in the context of the COVID-19 pandemic and the recovery process,
2. Discuss strategies for economic structural transformation and economic and export diversification, with a specific focus on energy access as an enabler,
3. Discuss the role of technology in economic and export diversification.

### **Presentation: Commodity trends and prospects in the context of the COVID-19 pandemic**

Commodities play an important role in the economies of many developing countries, with about two-thirds of developing countries deriving at least 60 percent of their export revenues from the commodity sector. As a result, in these countries, commodity price movements significantly impact economic growth, macroeconomic stability, poverty, food security, and the path to socially, economically, and environmentally sustainable growth.

The global crises triggered by the COVID-19 pandemic and its unprecedented negative health, economic, social, and humanitarian impacts are reversing vital gains made in human development and the sustainable development goals. The COVID-19 pandemic led to a dramatic deceleration of global economic activity in 2020, as well as a sharp contraction of commodity markets. As a result, the countries dependent on commodities exports or on a limited number of economic activities have been particularly hard hit, as the pandemic has led to severe commodity price variations, which have in turn deepened the challenges faced by commodity-dependent countries.

The UNCTAD commodity price index declined by 35.7 per cent during the early phase of the pandemic, from January 2020 to April 2020. This drop in the index was largely driven by decreasing fuel prices as well as declining prices of minerals, ores, and non-precious metals. Food prices and agricultural raw material prices also decreased, but more moderately. Research carried out by UNCTAD showed that commodity exporters experienced important revenue losses due to slowing economic activity resulting from the pandemic.<sup>2</sup> This exacerbated an already difficult macroeconomic environment in commodity economies. Net-food importers, on the other hand, suffered from breakdowns in international logistics as well as export bans and quotas imposed by some of the largest food exporters. At the same time, the pandemic also led to reversal of development achievements including in many CDDCs. For instance, it is estimated that the pandemic has pushed an additional 97 million people into extreme poverty<sup>3</sup>, increased income inequalities,<sup>4</sup> and reversed gains in education and food security threatening to weigh on future growth and development prospects, risking a decade of developmental loss.

The sharp decline in most commodity prices in the first four to five months of 2020, was followed by upwards trend through December 2021. While all UNCTAD commodity price sub-indices except for the precious metals index showed significant year-on-year growth rates during this period, the fuel and food price indices showed the steepest increases. These rising prices may provide a boost for CDDCs in their efforts to rebuild their economies after the shock of the COVID-19 pandemic, as revenues from commodity production and exports remain a critical source of income for CDDCs.

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<sup>2</sup> Ali, S., Fugazza, M. and Vickers, B. 2020. COVID-19 and Commodities: Assessing the Impact on Exports from Commonwealth Countries. UNCTAD Research Paper No. 52, October 2020.

<sup>3</sup> Lakner, C., Yonzan, N., Mahler, D.G., Aguilar, R.A.C. and Wu, H., 2021. Updated estimates of the impact of COVID-19 on global poverty: Looking back at 2020 and the outlook for 2021. World Bank Data Blog.

<sup>4</sup> World Bank. 2022. Global Economic Prospects, January 2022. Washington, DC: World Bank

The presentation will provide information on recent developments in commodity markets and their implications for food security, growth, and sustainable development in commodity-dependent developing countries. This will set the stage for the two panel discussions.

### **Panel 1: Threat of crises – renewed impetus for diversification**

Economic diversification is a key element of economic development in which a country moves to a more diverse production and trade structure. Lack of economic diversification is often associated with increased vulnerability to external shocks such as the COVID-19 pandemic that can undermine prospects for longer-term economic growth. The world's poorest countries, many of which are often small or geographically remote, landlocked and/or heavily dependent on primary agriculture or minerals, tend to have the most concentrated economic structures. This creates challenges in terms of exposure to sector-specific shocks, such as weather-related events in agriculture or sudden price shocks for minerals.

While structural transformation to strengthen non-commodity sectors and to diversify export and import portfolios is an essential policy objective in CDDCs, the current crisis and the turmoil in commodity markets will further limit fiscal and policy space for these countries. The already high level of external debt, and the raising of new debt to overcome current fiscal constraints, limit the abilities of these countries to pursue active social and industrial policies after the crisis.

However, while economic diversification is important, no single strategy exists that can promote an orderly process of structural change able to enhance the resilience of CDDCs to external shocks. Experiences from countries that have successfully diversified suggest that a conducive environment for diversification and value addition is one that provides a range of enablers that support and facilitate private sector investment and entrepreneurship. This includes the availability of crucial infrastructure such as affordable and reliable energy, transportation and ICT, a solid human capital base, and functioning institutions.

Ultimately, the success of diversification efforts depends on the mix, sequencing, and timing of investments, policy reforms and institution building, and on their consistency with the underlying assets and related comparative advantages of any given country. Investments in skills, infrastructure, institutions, and governance quality (i.e., enhancing the transparency, accountability, and predictability of government decision-making) increase the likelihood of success of diversification but are in turn affected by the extent of diversification.

Going forward it is important that the design of policies and strategies in commodity sectors in CDDCs considers the challenges emanating from climate change, as well as the impacts of the evolving global climate policy regime. In the absence of appropriate policy responses, these developments will have severe impacts on economic growth and development in CDDCs that are dependent on fossil fuels exports.

This session will look at various strategies, and associated challenges in achieving economic and export diversification, including through sharing of country experiences. It will also discuss how energy can be harnessed for CDDC's economic diversification and structural transformation. Access to affordable, reliable, sustainable, and modern energy (SDG7) is arguably the single most important factor that makes diversification possible. All enablers of diversification, including technology, human capital

formation, Information and Communication Technologies (ICTs), and others, require a well-functioning energy system. Currently, many CDDCs do not have the basic energy infrastructure needed to deploy other enablers of diversification.

## **Panel 2: Overcoming dependence through technology and innovation**

Technology and innovation play a central role in the process of economic transformation and diversification, through increasing productivity, and allowing for development of more complex products. CDDCs could use technology and innovation to escape from the commodity dependence trap.

In agriculture, technology and innovation could be driving forces towards achieving zero hunger (SDG 2). For non-agricultural commodities, technology, especially digital technology, and other recent technological developments, can be harnessed to increase the benefits from the commodity sector, increase productivity and contribute to economic structural transformation (SDG 8 and 9). In addition, digital technologies increase commodity market transparency, help streamline supply chains and enhance trade facilitation.

However, commodity dependence is strongly associated with low levels of technological development.<sup>5</sup> Challenges include overcoming the technological divide and ensuring that technology is accessible and scalable, to benefit all participants.

In this regard, it is important that Governments strengthen the basis for successful, technology-based economic transformation process. This includes hard infrastructure, such as reliable electricity and Internet connection, and soft infrastructure such as rules and regulations governing innovation and technology adoption, creation and strengthening of institutions of research and development, as well as macroeconomic stability.

The session will debate opportunities and challenges deriving from technological progress and innovation in commodity markets and trade. It will also discuss potential solutions to bridging the technological divide, including technology transfer, capacity building, and the need for improved global partnership and cooperation.

## **Outcome**

The outcome of the interactive dialogue will be a President's summary to be circulated to all Member States and Observers, the UN System, and other stakeholders.

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<sup>5</sup> UNCTAD. 2021. Commodities and Development Report 2021. Geneva: United Nations

## PROVISIONAL PROGRAMME

10:00-10:20 (20 mins)	<b>OPENING SEGMENT</b> <ul style="list-style-type: none"> <li>• H.E. Mr. Abdulla Shahid, President of the 76th Session of the United Nations General Assembly</li> <li>• Ms. Rebeca Grynspan, Secretary General of UNCTAD</li> <li>• Mr. Gerd Müller, Director General of UNIDO</li> </ul>
10:20-11:00 (40 mins)	<b>PRESENTATION by FAO and UNCTAD on Commodity trends and prospects in the context of the COVID-19 pandemic, followed by discussion</b> <ul style="list-style-type: none"> <li>• <u>Moderator:</u> H.E. Ms Agnes Maria Chimbiri, Permanent Representative of Malawi to the United Nations in New York</li> <li>• Mr. Boubaker Ben Belhassen, Director, Trade and Markets Division, FAO, on “Agricultural commodity markets”</li> <li>• Mr. Janvier Nkurunziza, Officer-in-Charge, Commodities Branch, UNCTAD on “Non-agriculture commodities”</li> </ul>
11:00-12:30 (90 mins)	<b>INTERACTIVE PANEL 1</b> <b>Threat of crises – renewed impetus for diversification</b> <ul style="list-style-type: none"> <li>• <u>Moderator:</u> Ms. Usha Rao Monari, Under-Secretary-General and Associate Administrator, UNDP</li> <li>• Mr. René Bautz, Chairman, Global Gas Center, on “Using CDDCs gas resources to increase their access to reliable, less polluting energy”</li> <li>• Ms. Rabia Ferroukhi, Director, Knowledge, Policy and Finance Centre, IRENA, on “Harnessing renewable energy for economic transformation and export diversification”</li> <li>• Mr Roberto Echandi, Former Costa Rican senior government official, on “Building a sustainable and diversified export sector in a commodity-dependent developing country”</li> </ul>
15:00-16:30 (90 mins)	<b>INTERACTIVE PANEL 2</b> <b>Overcoming dependence through technology and innovation</b> <ul style="list-style-type: none"> <li>• <u>Moderator:</u> Ms. Cristina Duarte, Under-Secretary-General and Special Adviser on Africa to the UN SG</li> <li>• Mr. Shenggen Fan, Chair Professor, China Agricultural University, on “Developing technology and innovation systems in developing countries: lessons from China”</li> <li>• Mr. Michael Wurmser, CEO, Norge Mining, on “Deploying technologies in CDDCs to add value to primary commodities on-site”</li> <li>• Ms. Xiaolan Fu, Professor, Oxford University, on “The role of the state in laying the foundations for technology development and adoption in developing countries and CDDCs in particular”</li> </ul>
16:30-17:20 (50 mins)	Reactions from Member States and Observers
17:20-17:30 (10 mins)	<b>CLOSING SEGMENT</b> <ul style="list-style-type: none"> <li>• H.E. Mr. Abdulla Shahid, President of the 76th Session of the United Nations General Assembly</li> </ul>