

**Workshop and Policy Dialogue on AMV and EMDP for
Public Officials and CSOs in ECOWAS**

**Global minerals and metals commodity market :
trends and their implications for Africa**

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Outline

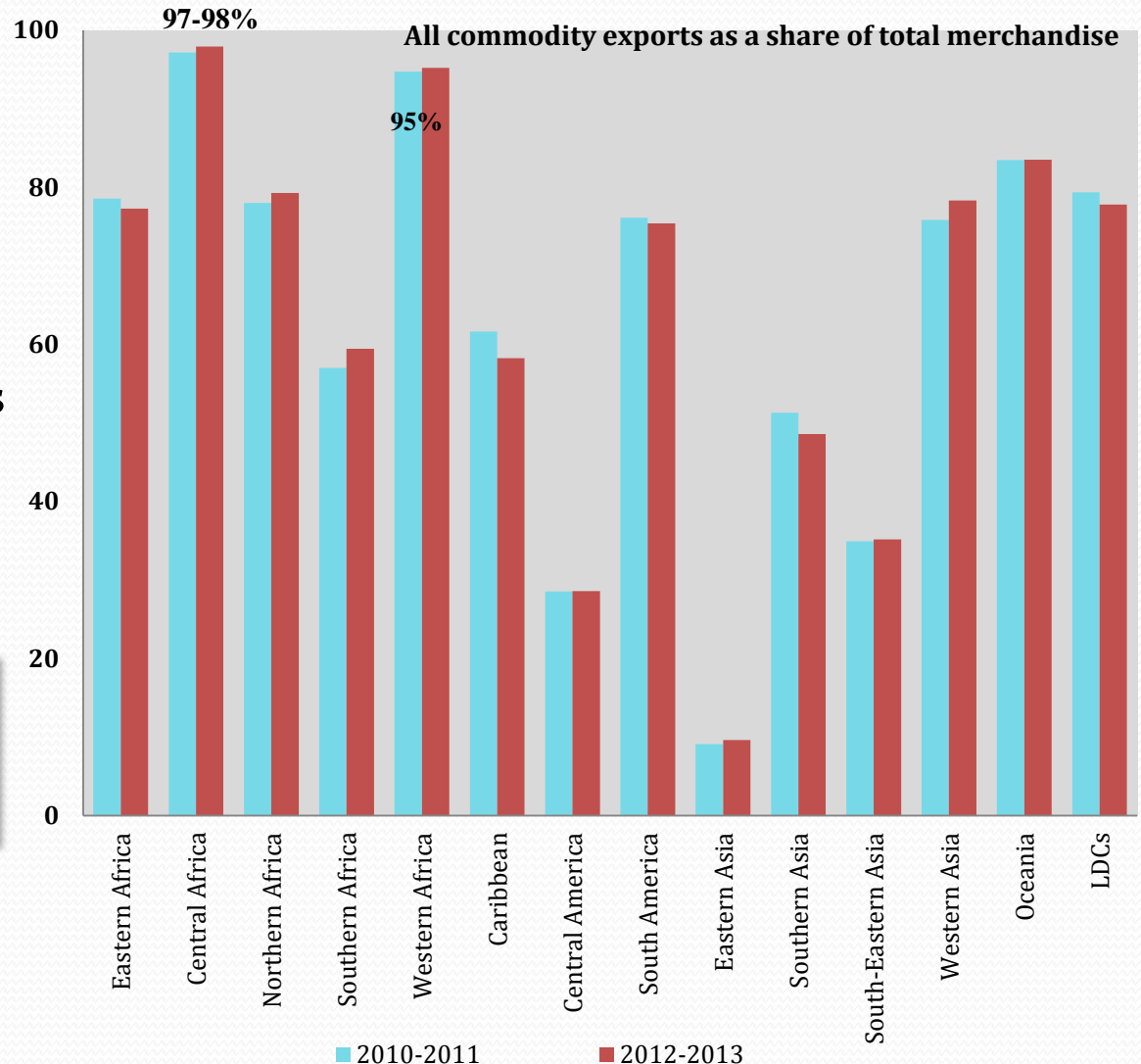
- **Commodity dependence across developing regions;**
- **Historical trends in MOM prices;**
- **The recent boom in MOM prices and economic performance in selected countries ;**
- **Outlook in MOM markets;**
- **Way forward, policy options;**
- **UNCTAD's work on commodity and development in line with AMV, EMDP**

Commodity dependence in selected developing regions

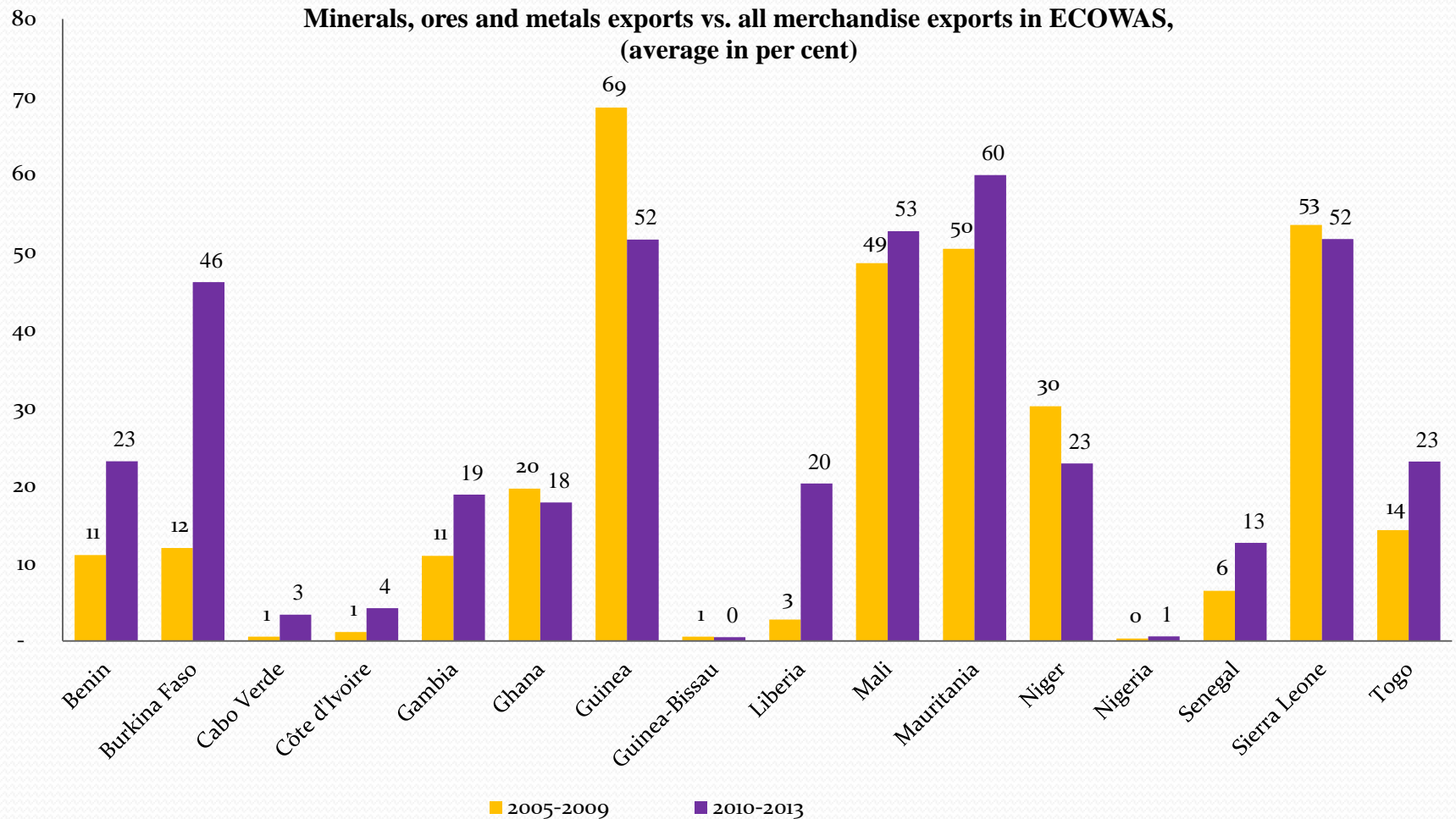
Commodity sector =>

- Government revenues;
- Employment and income for population;
- Foreign exchange revenues across regions.

... In Western and Central Africa, commodity dependence remains strong



Minerals, Ores and Metals (MOM) dependence in West Africa



Source :UNCTADStat

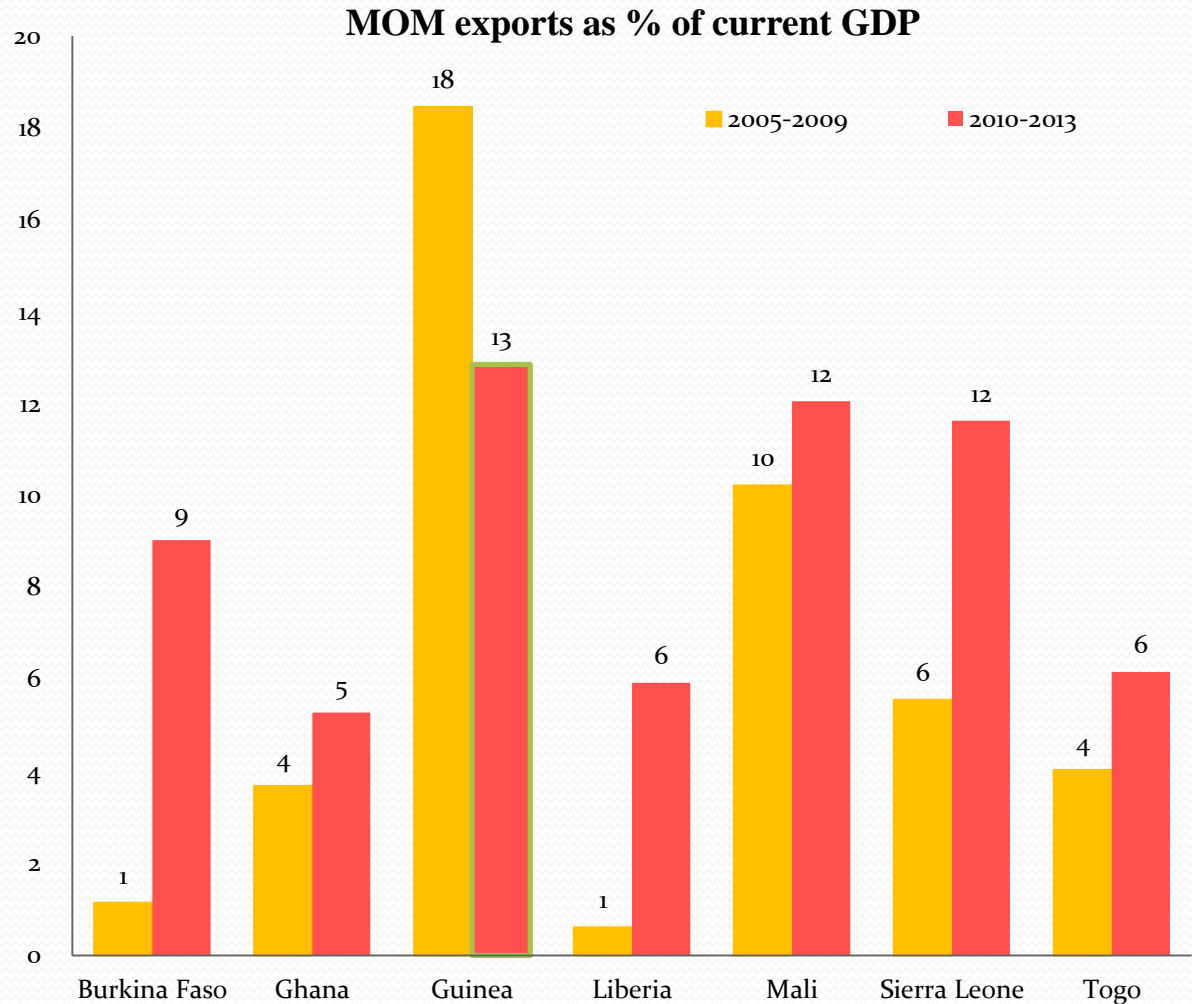
For many West African countries, MOM exports represent a large, if not the largest, share of merchandise exports over the past years

MOM and GDP across selected West African countries

MOM exports : important contribution to GDP

Main factors :

- recent boom in commodities markets; *(the longest and broadest in the history of commodity prices),*
- new mining projects;
- increased production of raw MOM, led by high investments, *etc.*



Historical trends in MOM prices

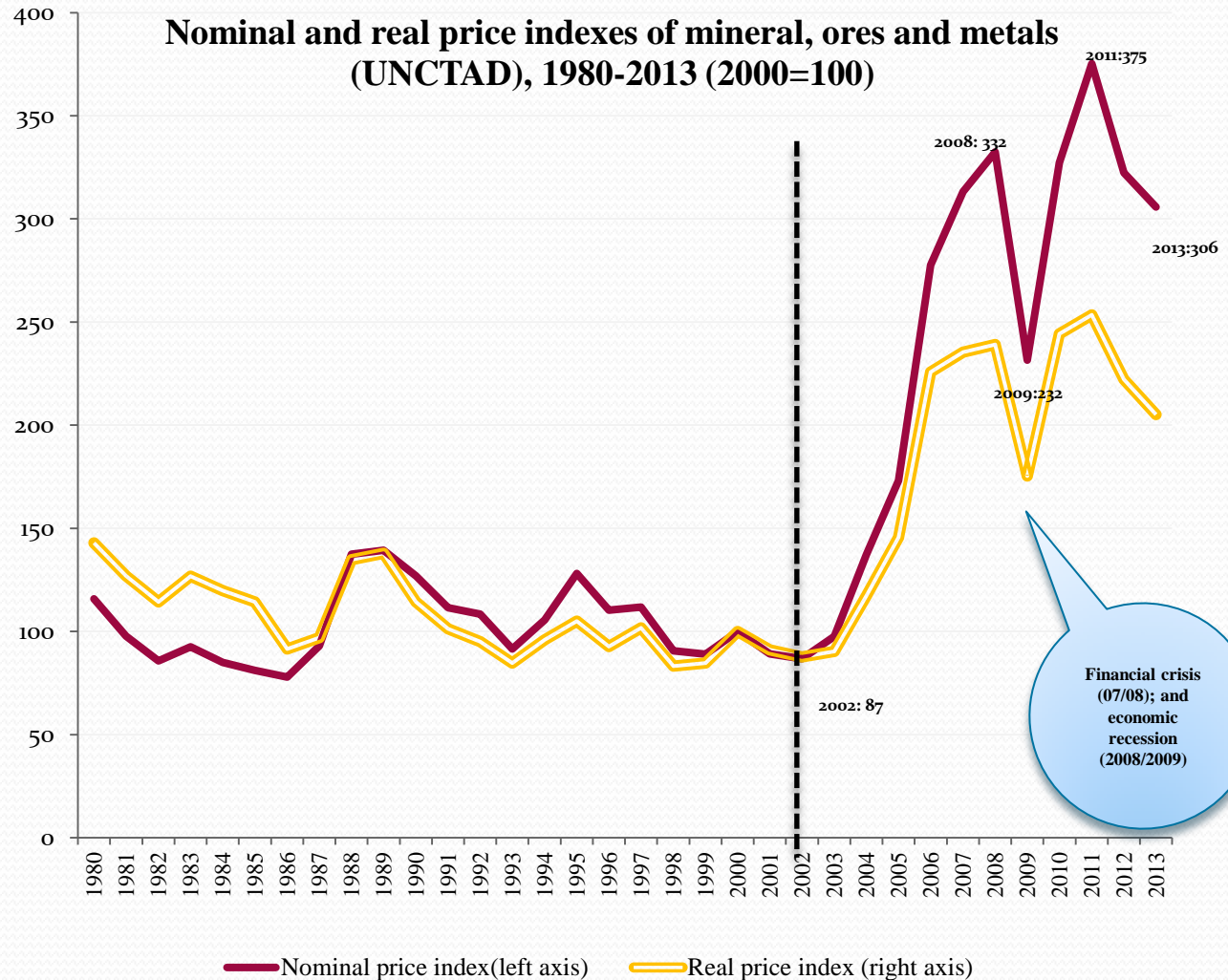
● Nominal terms

- 1980-2002: *indecisive path..(?)*
- 2003-2011
 - *Boom period (peak: 2011)*
 - *Break : financial crisis:2007/08*
- 2011-2013...

Relative easing; but strong prices compared to long term trends;

● Real terms

- 1980...2002: *overall downward trend with short term fluctuations*
- Post-2000 ... *Boom: Strong upward trend*



Historical trends in selected MOM prices

- Aluminium (US\$/t):

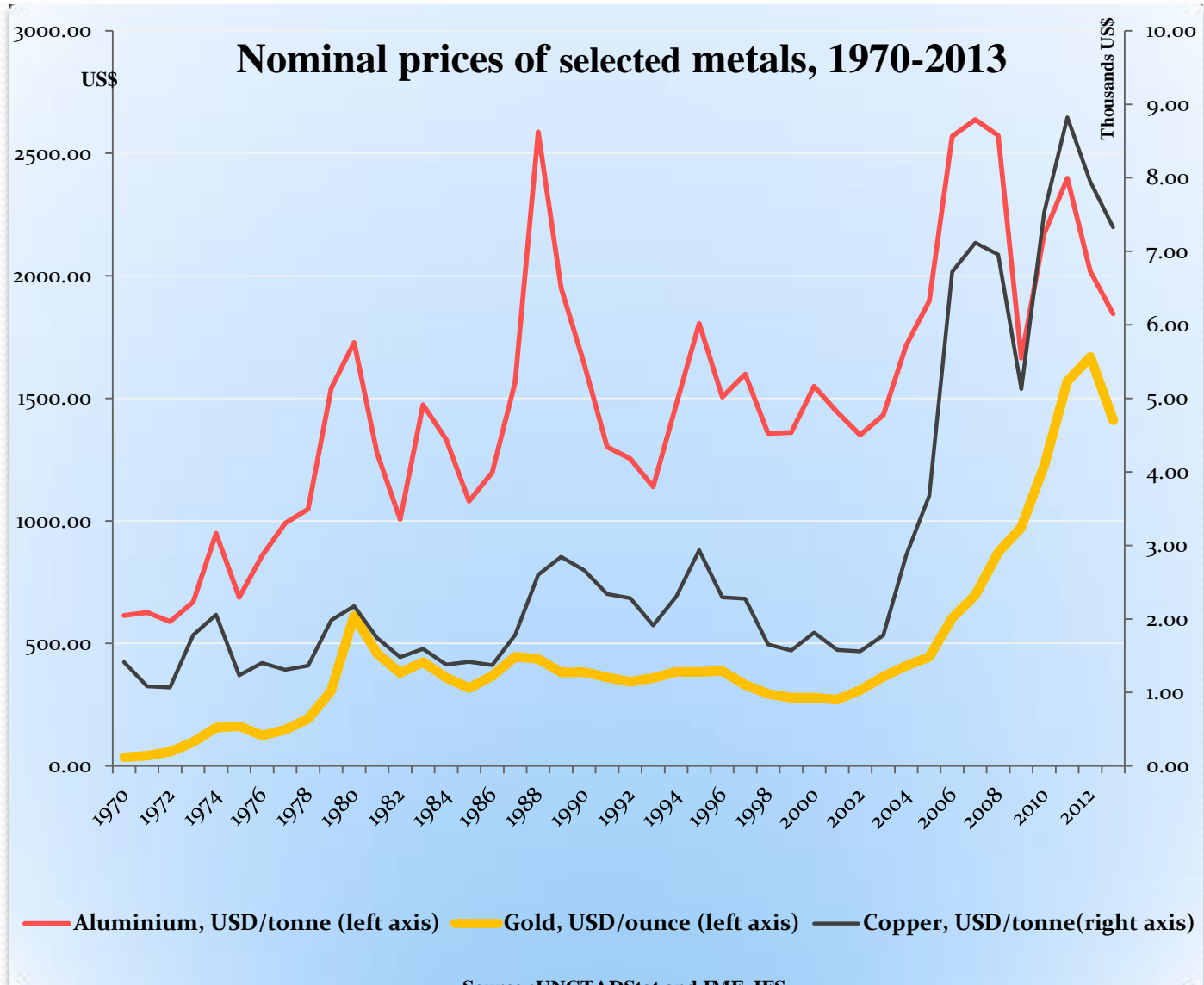
- 2000 : 1549
- 2007 : 2638
(1.7 fold)

- Copper (US\$/t):

- 2000 : 1813
- 2011 : 8822
(5 fold)

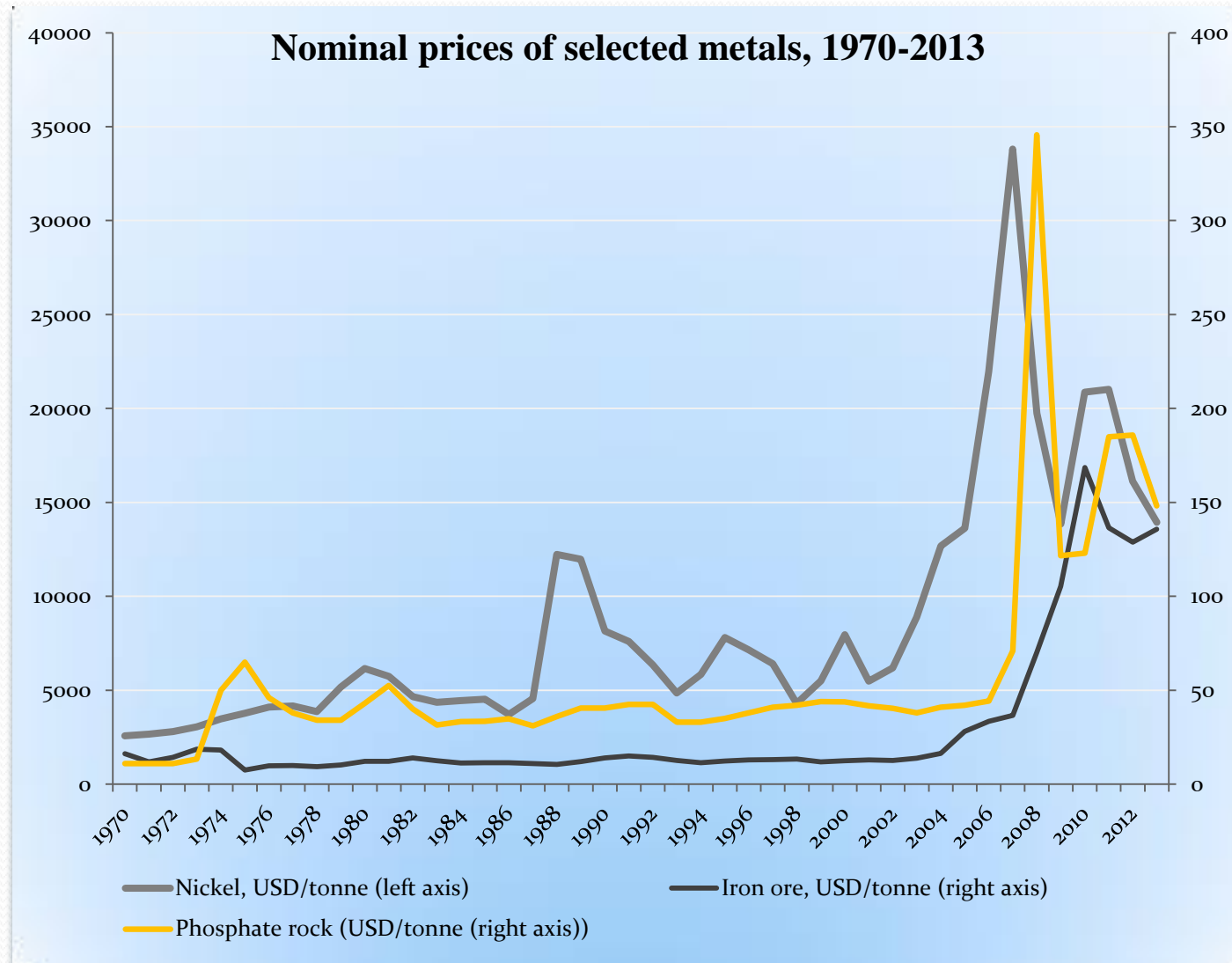
- Gold (US\$/ounce) :

- 2000 : 279
- 2012 : 1669
(6 fold)



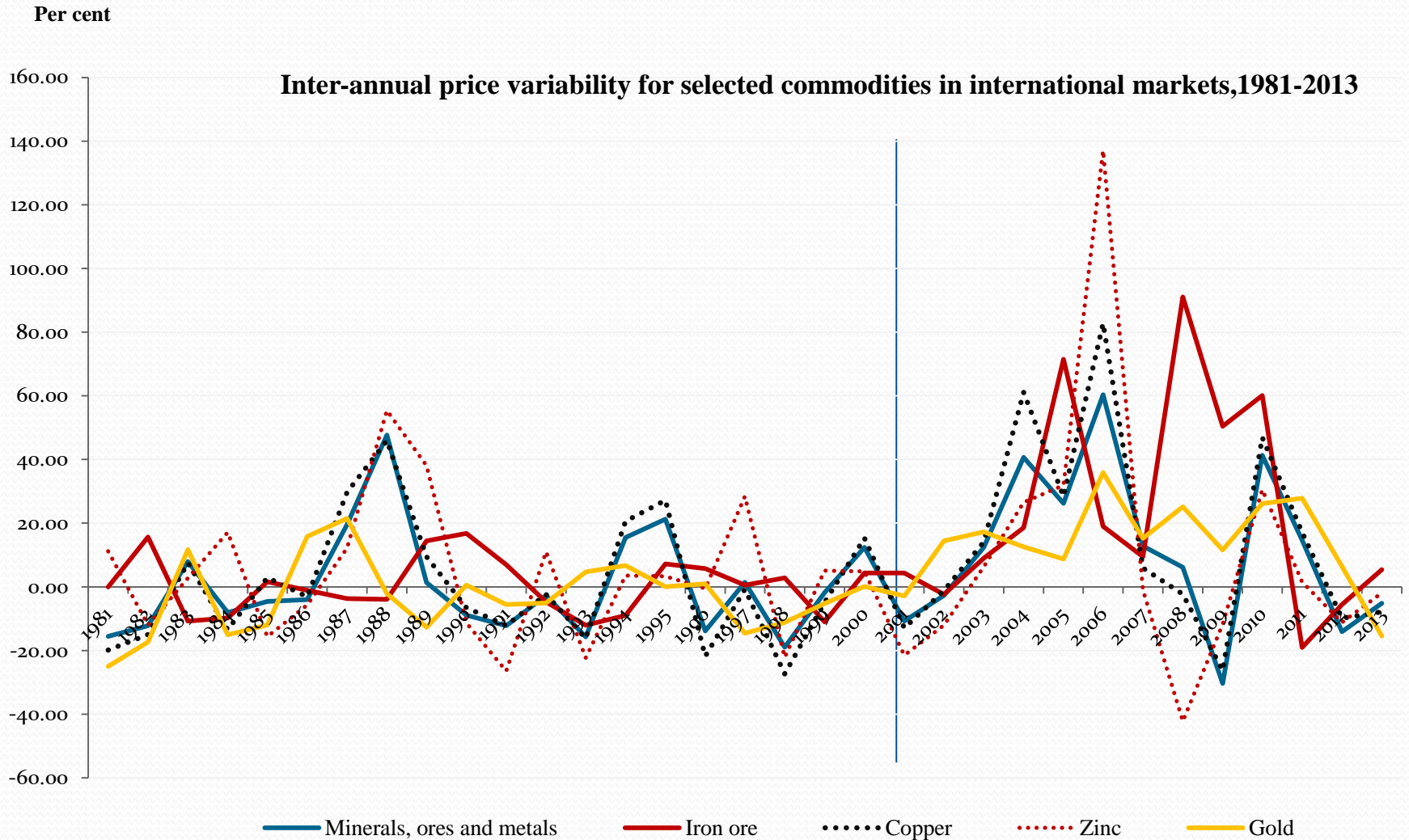
Historical trends in selected MOM prices

- Iron ores (US\$/t):
 - 2000 : 12
 - 2010 : 169 ;
 - 14 fold**
- Nickel (US\$/t):
 - 2000 : 7959
 - 2007 : 33809
 - 4.25 fold**
- Phosphate rock (US\$/t)
 - 2000 : 12
 - 2008 : 346
 - 29 fold**



Not only high prices... but also high price volatility from 2000

High volatility: intrinsic feature of commodity prices



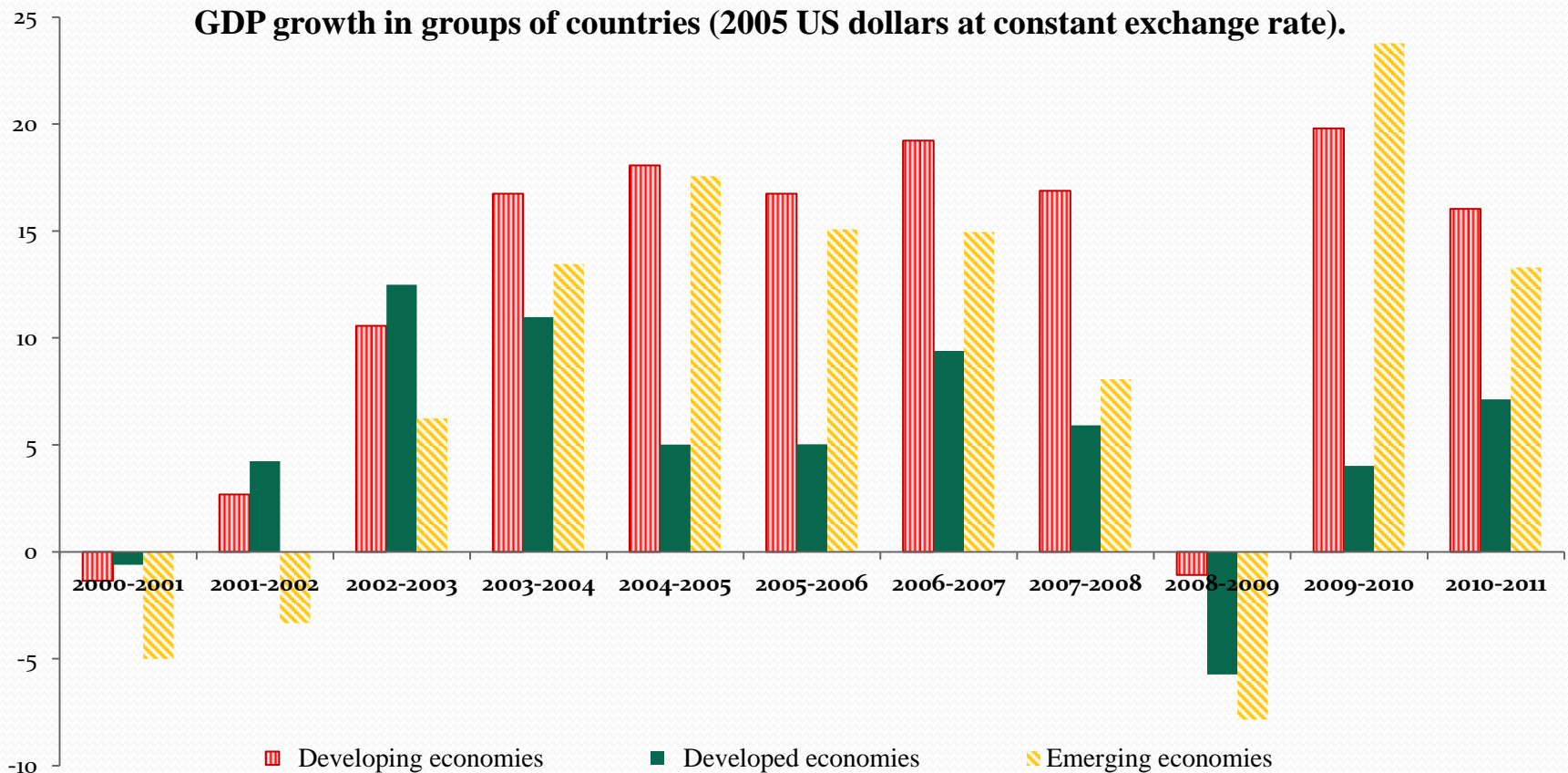
Main drivers of minerals, ores and metals prices

- **Market "fundamentals" :**
 - Demand, led by increased industrial production;
 - Supply factors : supply constraints (due to low investments during 1980s-1990s);
 - **Macroeconomic policy in developed economies :**
 - Expansionary policy in US and other developed economies => low interest rates ==> :
 - i) lowering the cost of holding inventories => higher demand;
 - ii) shifting financial investments away from bond markets to commodity-backed portfolio investments ;
 - **Financialization of commodities (derivative markets);**
 - Increased number of contracts traded on world exchange markets :
 - Share of commodities as a proportion of the global derivatives market :
 - MOM : as collateral for loans;
 - Speculative trading;

=> Upward pressure on volatility in MOM prices
- 

Main drivers of MOM prices ...focus on demand side

Strong global economic growth led by developing economies and the group of emerging economies;

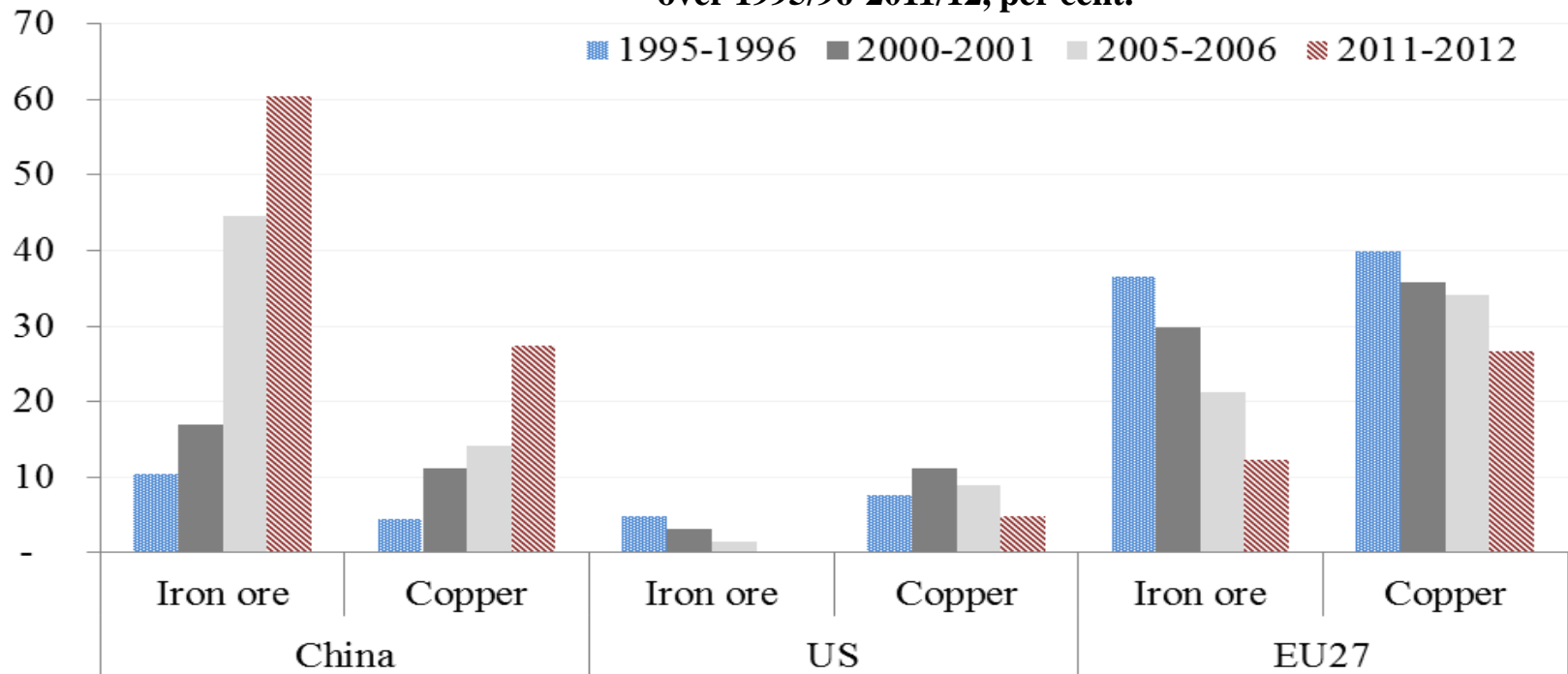


...especially China

Increased importance of China

China accounted for 60 % and 30 % respectively of total imports of iron ore and copper in 2011-2012 from nearly 10% and 5 % in 1995-1996

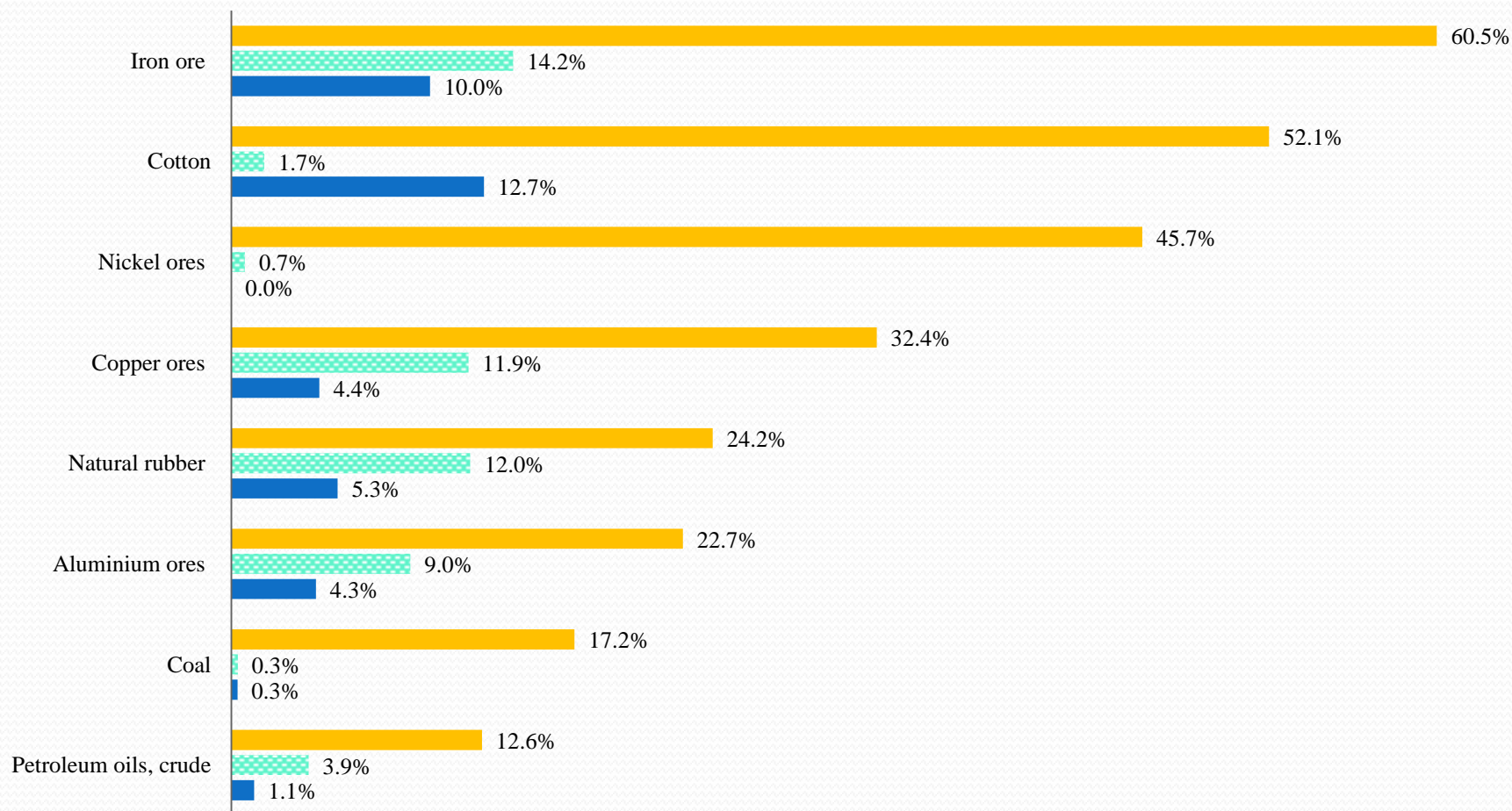
Share in world imports of copper and iron ores for selected countries over 1995/96-2011/12, per cent.



China, leading importer in global commodity markets

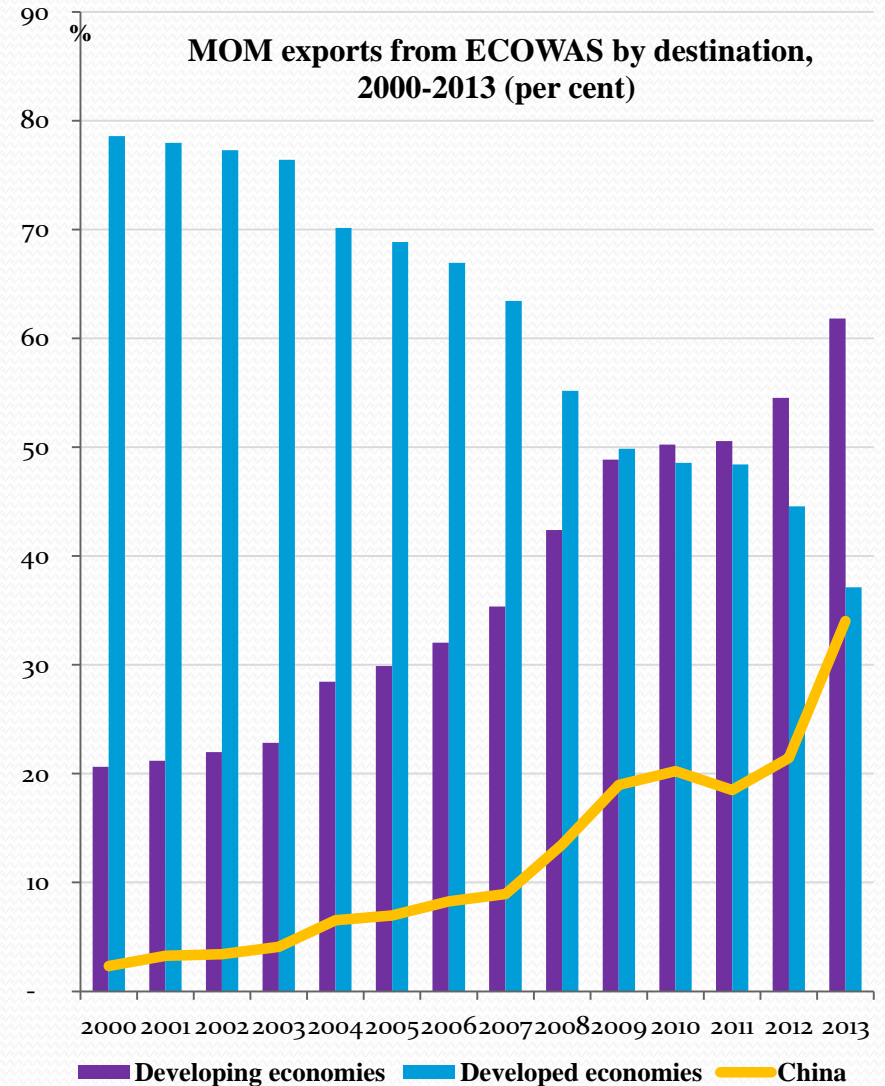
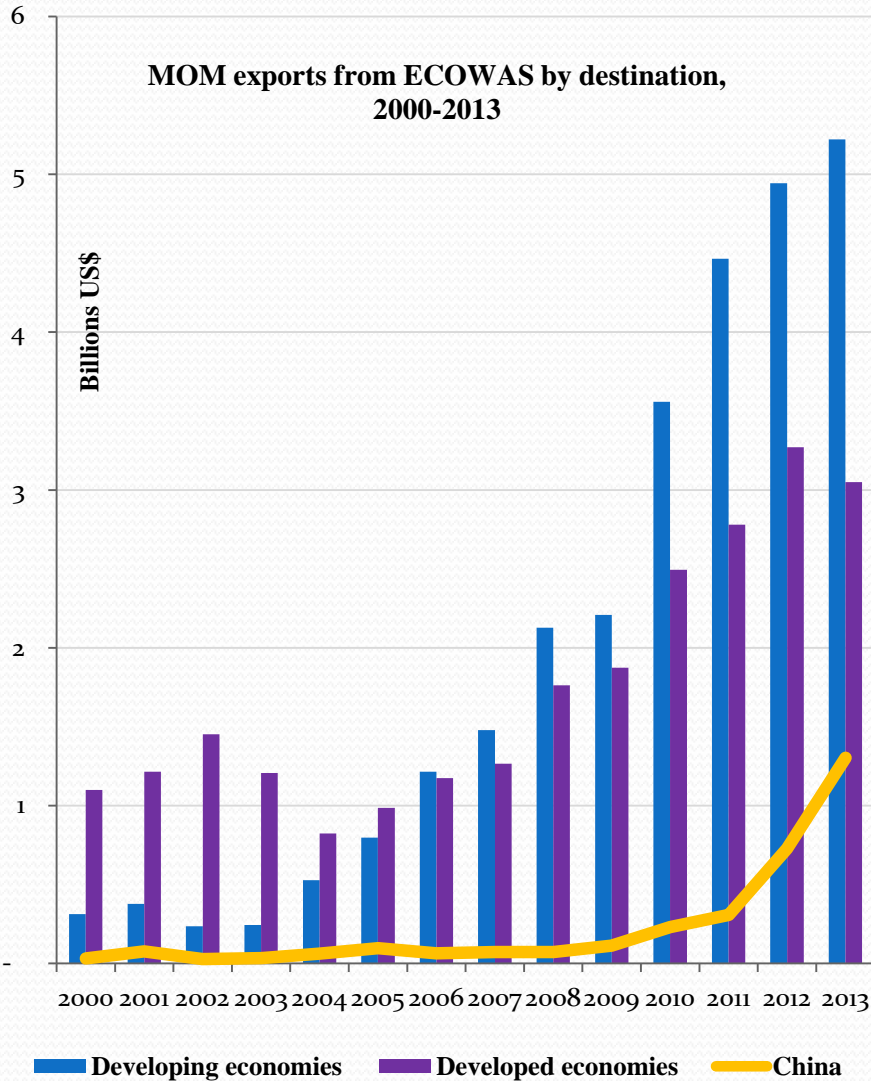
China's share in world imports for selected commodities (1995-2012, current dollars)

2012 2000 1995



Source :data from UNCTADStat

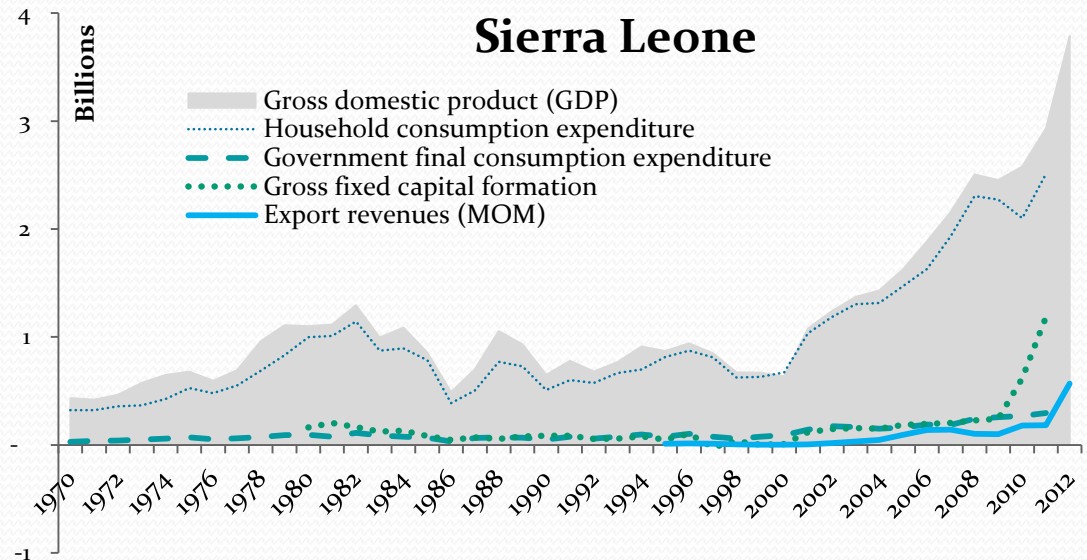
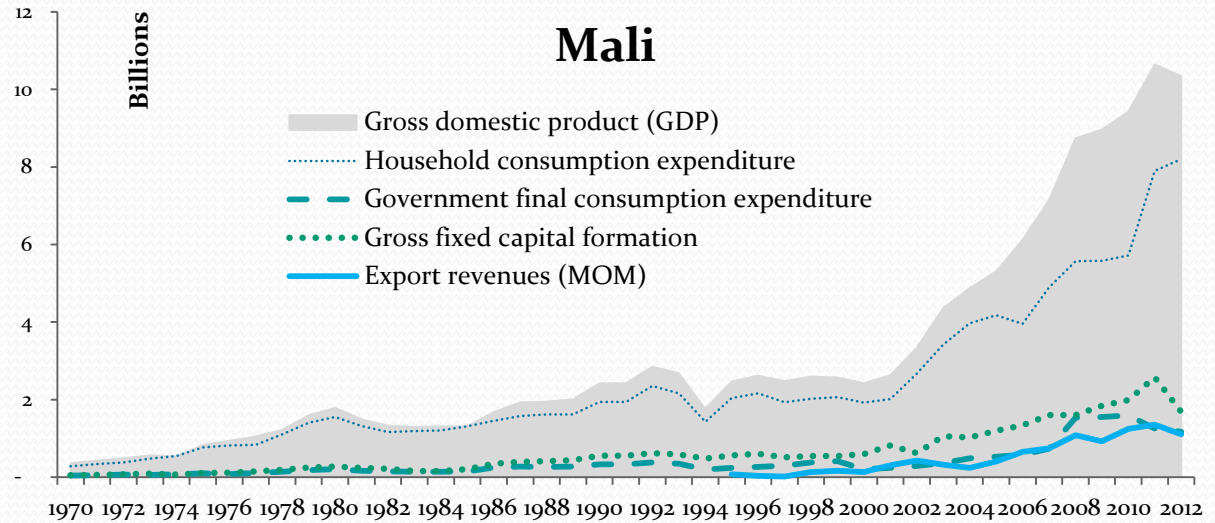
Increased exports from ECOWAS to developing economies, especially ...to China



MOM price trends and economic performance of selected resource rich countries (ECOWAS)

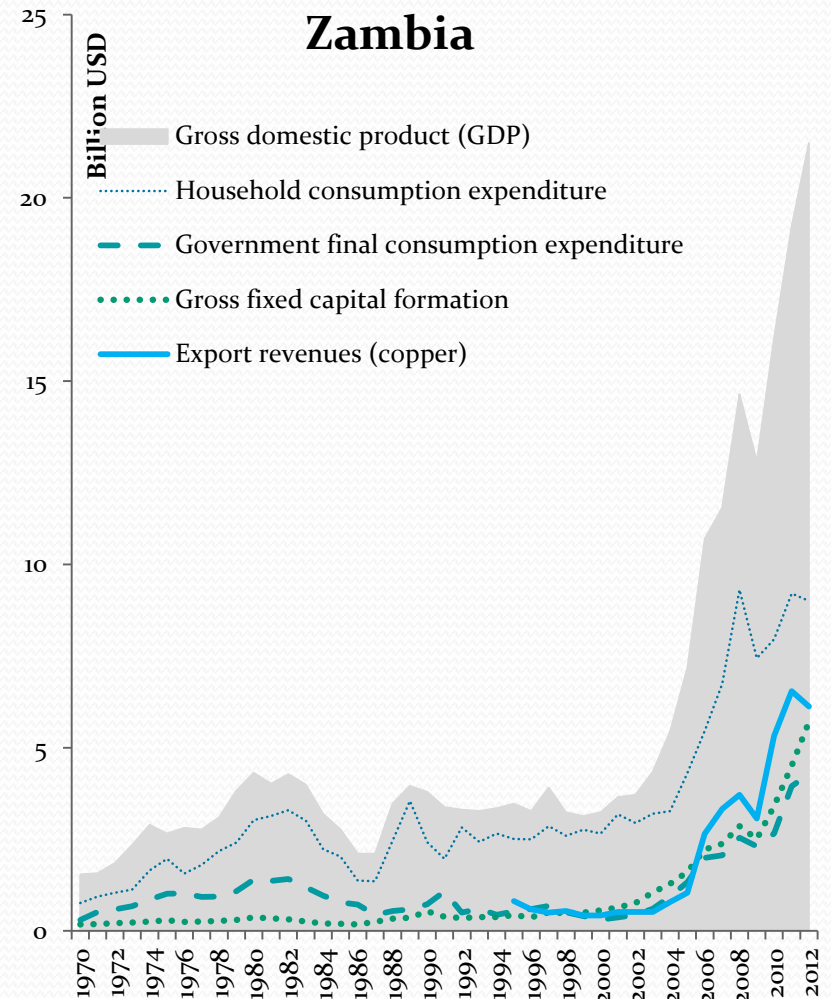
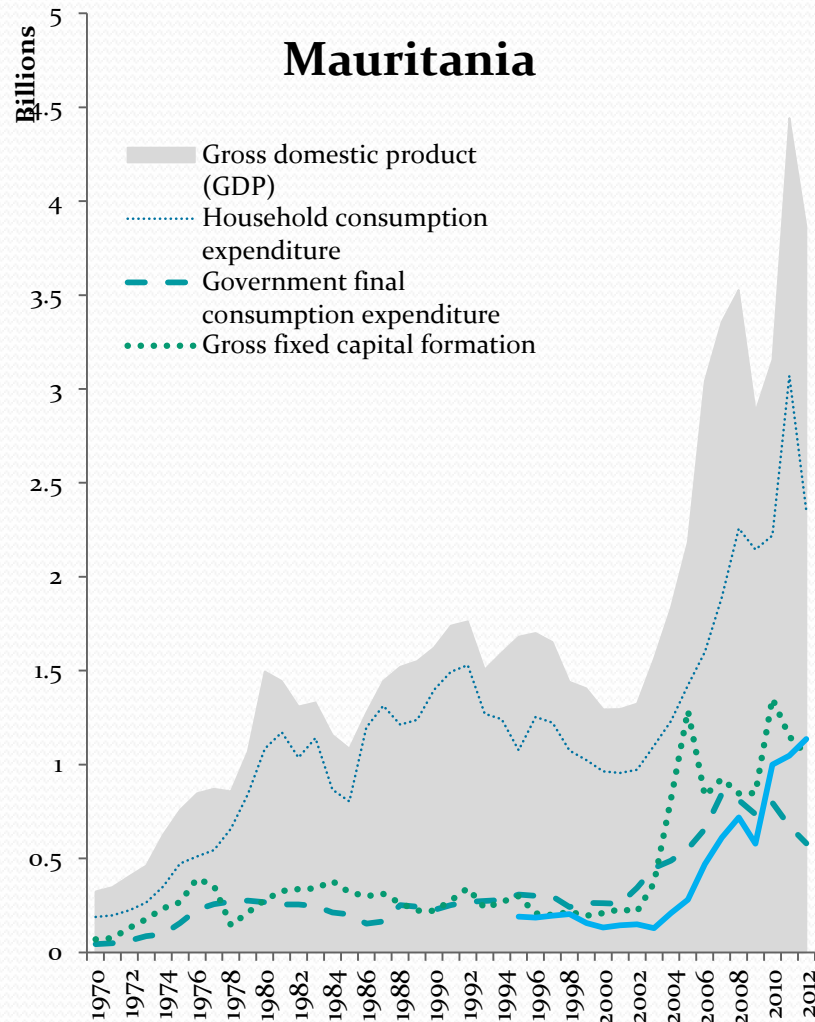
ECOWAS countries

- Improved economic performance ;
- High correlation between commodity prices, export earnings and economic performance;
- *But... did not lead to enhanced productive capacity development (UNCTAD,2013)*



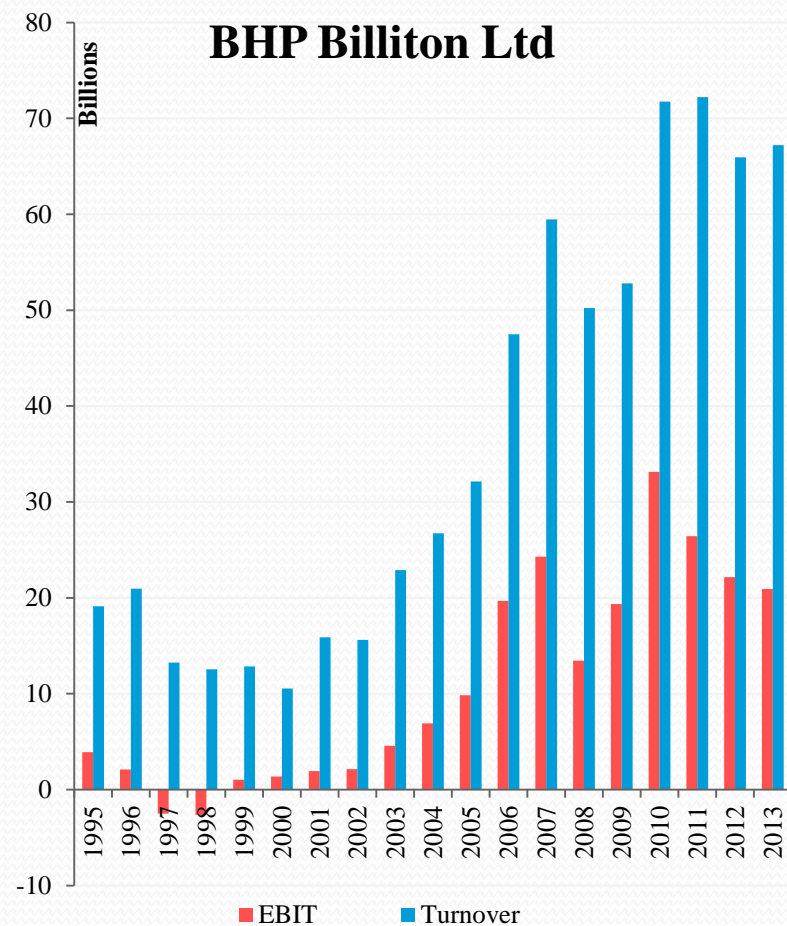
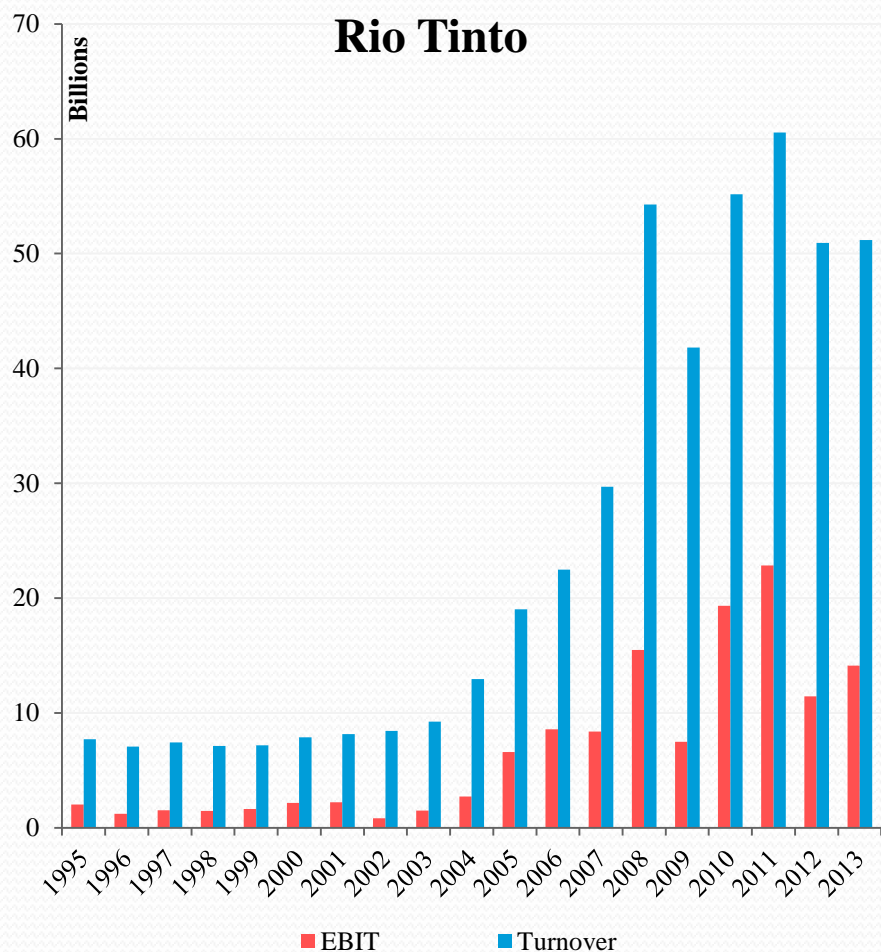
Source :data from UNCTADStat

... Economic performance elsewhere in Africa



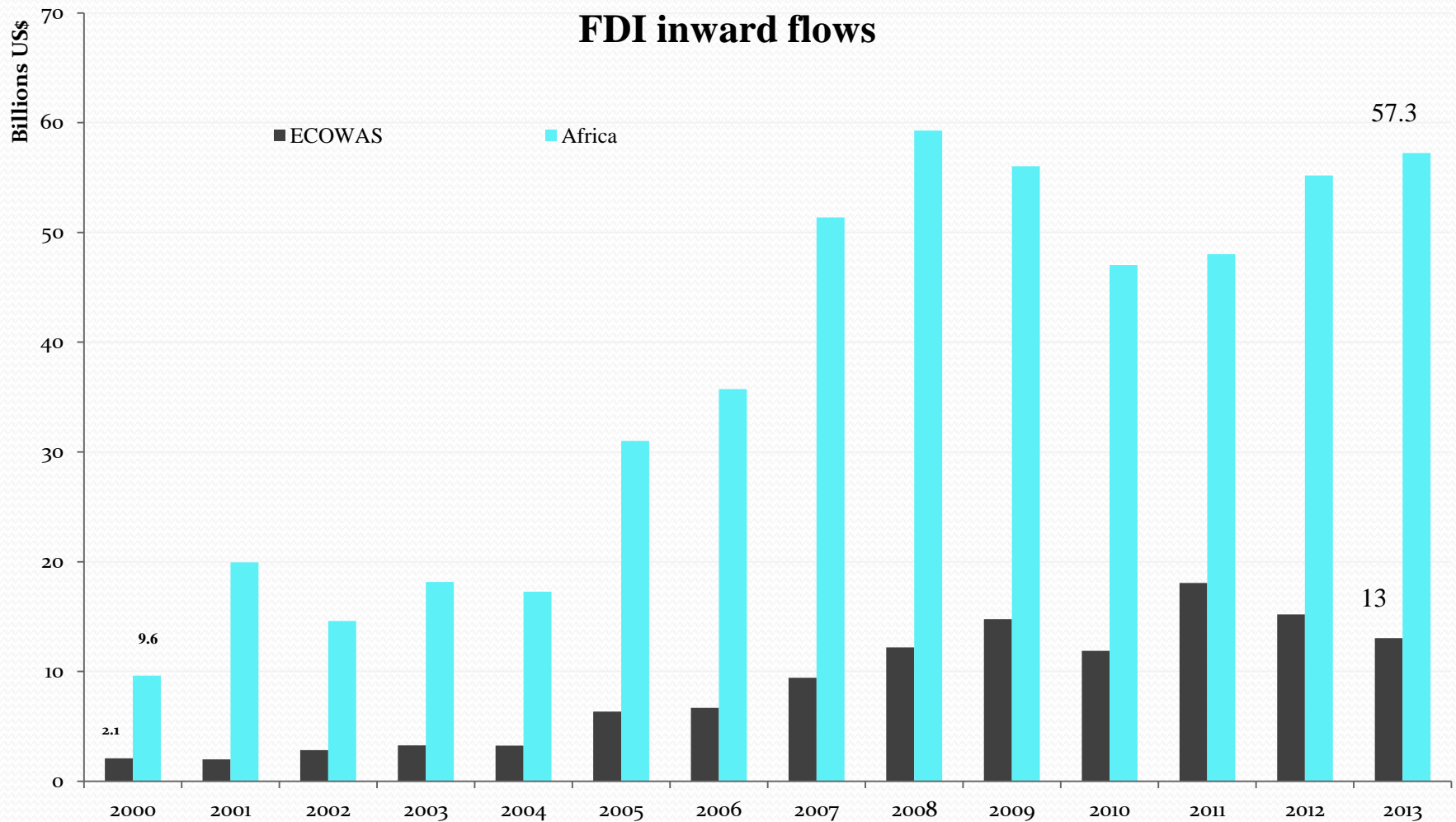
Performance in the industry : turnover and EBIT of selected MNCs

Significant increases in Turnover and EBIT of mining companies



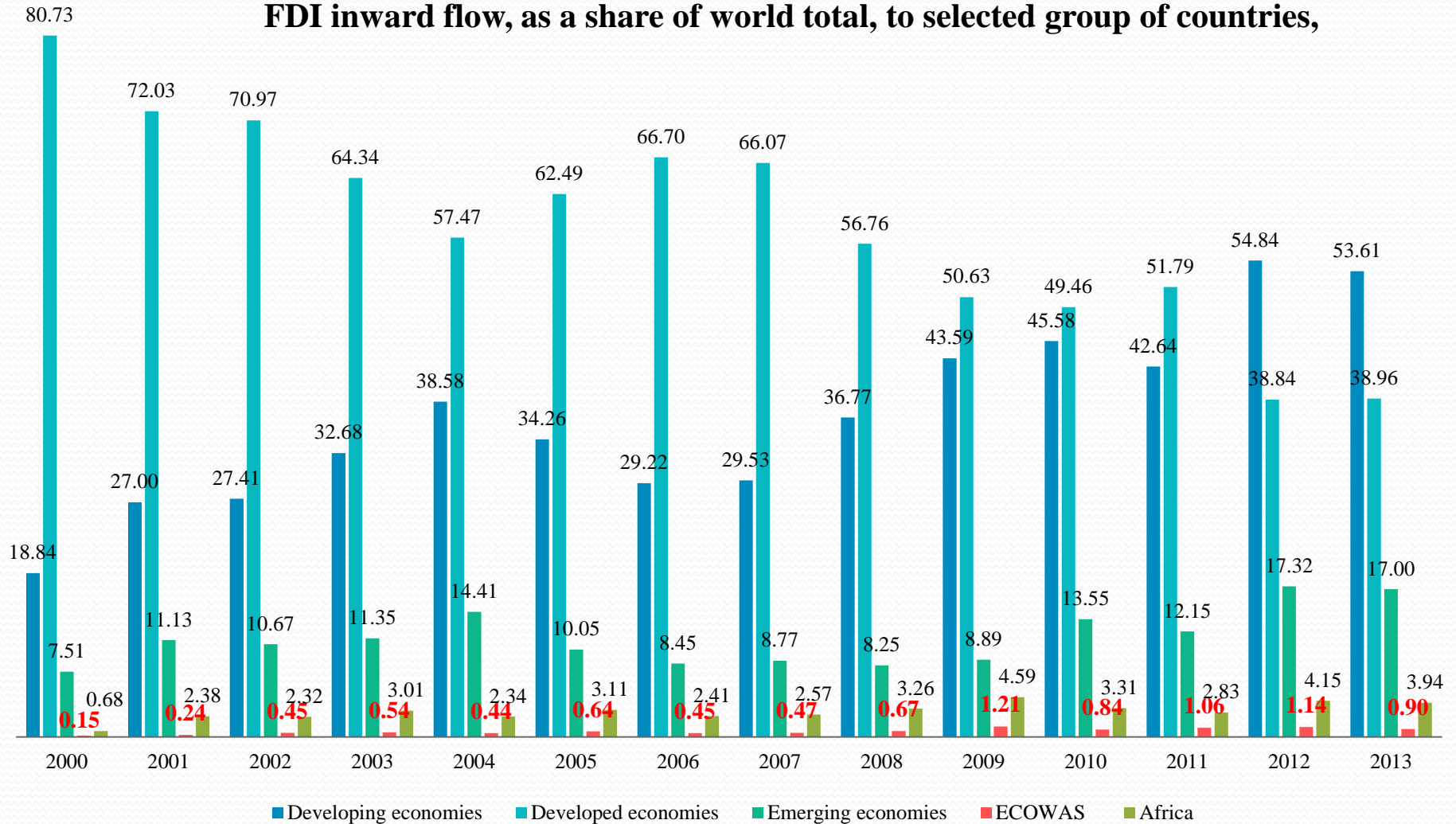
Source : Bloomberg (accessed on 23/10/2014)

Other implications of high commodity prices : increased FDI inflows to ... Africa and ECOWAs



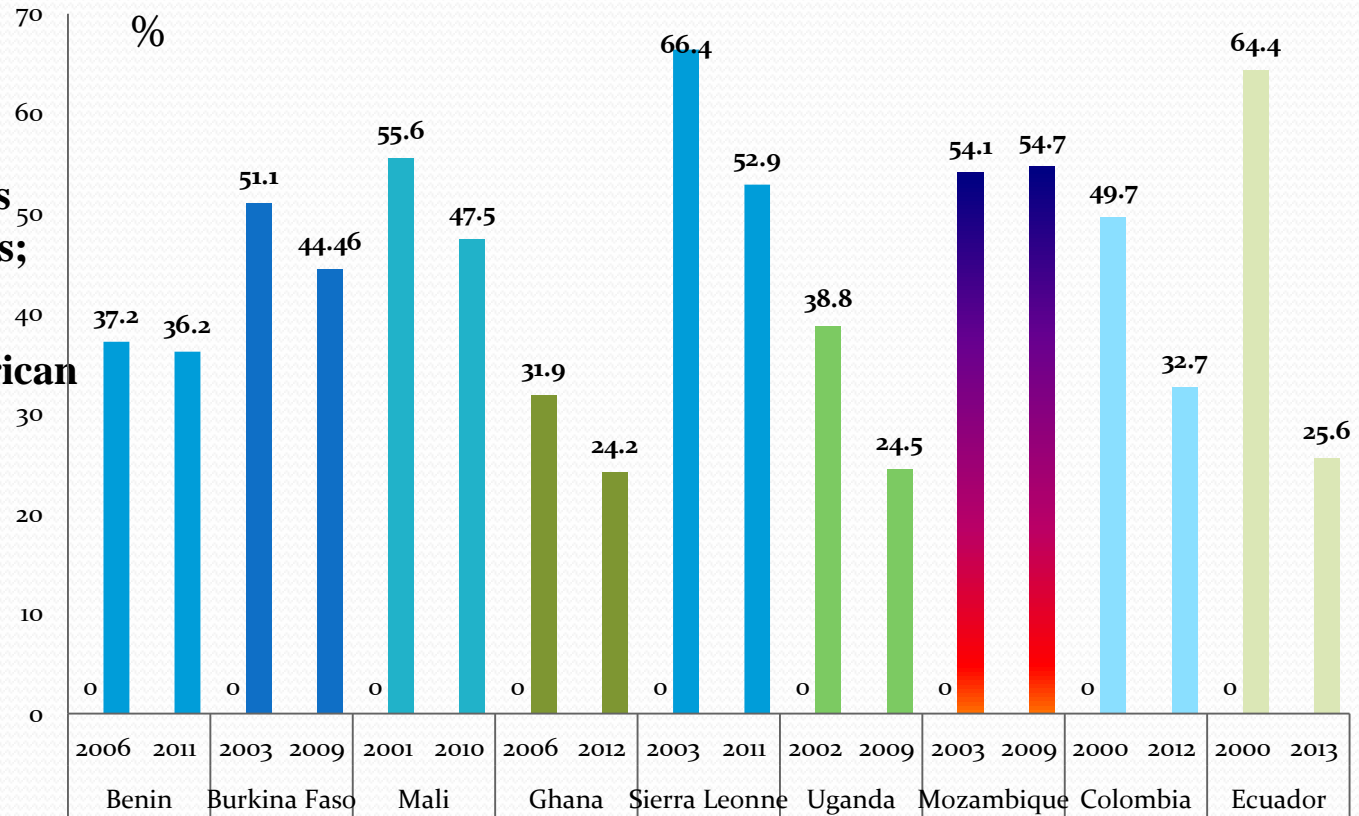
...though slight increase in the share of world FDI flows to ECOWAS countries

FDI inward flow, as a share of world total, to selected group of countries,



...Poverty levels still high

Proportion of population living below "national poverty line"



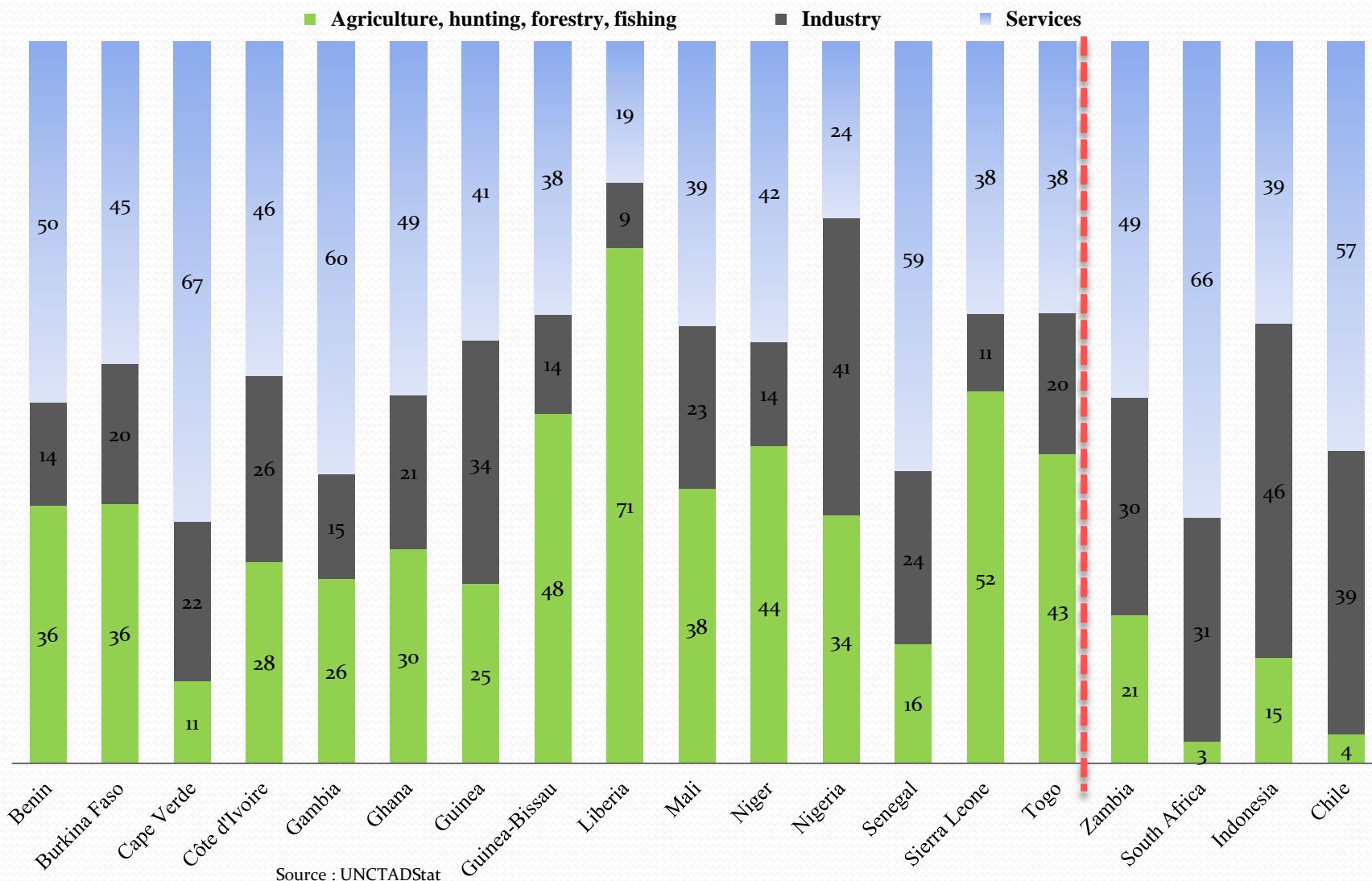
- High levels of poverty rates despite some improvements;
- 2013, 13 of the 15 West African countries : "*Low Human Development*" (Human Development Index rank; UNDP).

➔ Limited benefit

What about local value addition...?

not much promotion of economic diversification (industry) ...

Value Added by economic activity as a percentage of the GDP, average 2000-2012



Limited benefit from recent boom in MOM prices : some potential causes

- **Highly volatile and unpredictable commodity prices**
 - Increased vulnerability to market swings (dependency on few raw minerals/metals);
 - Volatile foreign exchanges earnings;

⇒ Macro economic instability;
- **Low value created at domestic levels;**
 - Lack of/ weak industrial growth strategies;
 - Few linkages of MOM industry to local economy
- **Unequal distribution of resource rents;**
 - along the global value chains;
 - at domestic levels;
- **Vulnerability to high prices**
 - Broad based commodity boom;
 - Many countries are **low income countries**, and at the same time **net-importers** of commodities (incl. agricultural commodities, energy);
- **Resource curse;**
 - Succession of imbalances in the economy of resource-rich countries;
 - Low levels of investment in education, vulnerability of resource-rich countries to commodity dependency, political instability;

Outlook in MOM prices : high level of uncertainty

MOM prices : global downward trends since 2011 despite short-term fluctuations

• Downside risk factors;

- Gloomy economic prospects of industrialized economies (Euro zone)
- Slower growth in China;
- Economic restructuring in China away from **I** to **C**;
=> ↘ iron ores, copper prices
- End of economic stimulus operation in the US : ↘ Gold prices;
- ... strong US dollar, high interest rate;

• Upside risk factors

- Possible recovery (?) in US economy;
- Demand from other emerging economies such as India;
- Export bans ;
- Economic restructuring in China away from **I** to **C**
• ↗ zinc, aluminium, tin , lead

MOM prices are likely to trend further down, however, they would remain high compared to their long term trends and should remain so, from short to medium run...

Key messages

- **Commodities in particular MOM sector remain vital for Africa countries and ECOWAS;**
- **Recent boom in global commodity markets, especially in MOM markets have been led by a number of factors;**
 - Higher demand ;
 - Supply constraints;
 - Macro economic policies in developed economies;
 - Increased financialization of commodity markets;
- **Such high MOM prices have contributed to economic growth in resource rich-countries across the continent;**
- **However, in many cases, the transmission of these windfall gains to a path for sustainable socio-economic development has not been successfully achieved ... yet;**
- **MOM prices have been trending down over the past 2-3 years but remain high compared to their long term trends;**

Way forward : (re)-establish the link between high MOM prices, real sectors and sustained growth of incomes through policies that give greater priority to national development. The AMV and EMDP offer some relevant action plans to achieve these objectives.

Way forward, policy options

...short-medium term

- **Strategic vision and policy development:**
 - Regional, national levels
 - Multi-stakeholder approach
- **Increase the shares of the rents generated by commodity production :**
 - Revising existing investment or mining contracts;
 - More efficient form of taxing extractives industries
e.g.: progressive taxation on profits ;
- **Policies to retain values locally, targeting a broadening and deepening linkages (Upstream, Sidestream; Downstream) from commodity production :**
 - Local content policies

Way forward, policy options

...short-medium term

- **Local content policies : win-win strategies**

- promoting upstream and downstream industries;
- Create friendly environment with local community;
- Increased employment, and technology spillovers;

=> maximize the economic benefits made by the extractive industries in host countries;

But, critical challenges remain :

- Adopt a multi-stakeholder approach in devising local content strategies/policies;
- Establish realistic local content strategies taking into account local capacities and needs of extractive industries;
- Create an independent authority to monitor and enforce local content policies;
- Develop framework to accelerate innovation and appropriation of technology (R&D centers, skills development...);
- Promote infrastructure development (critical for the establishing new, inclusive, and developmental growth path).
- promoting forward and backward linkages with MOM sector;
- *Some lessons : Nigeria, Ghana, Zambia, Chile...*

Way forward, policy options

...medium to long term

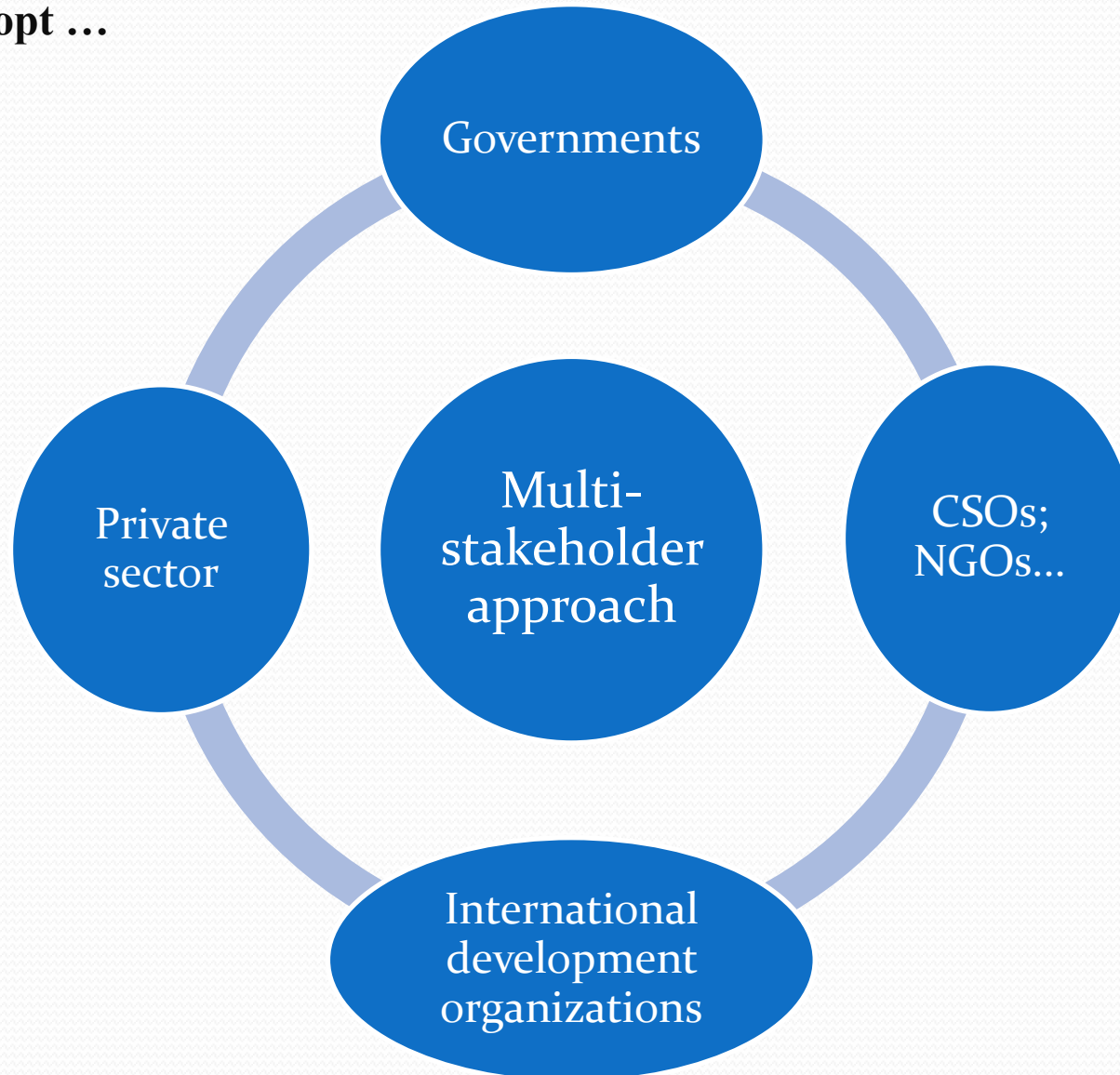
- **Harness windfall gains from high MOM prices in the way that facilitate wider economic transformations and boost economic growth that is not driven by commodities alone :**
 - promote structural transformation incl. economic diversification
 - => sustainable growth and development;
 - => reduced vulnerability to commodity;
 - *Successful experiences in East and South East Asian economies*
 - *Investments in industrial/infrastructure projects ;*
 - *Investments in domestic capital markets (↑ available capital to financing productive assets)*
 - => *long term growth ;*
- **Invest in Sovereign Wealth Funds (SWFs) (?) :**
 - to cope with instability in global commodity markets;
 - to smooth inter-temporal imbalances in domestic spending and revenues;

But, not fully uncontroversial...

 - opportunity costs in terms of investment in productive assets ; spending on health and education and finance for real sector growth;.....appropriate strategy and balance needed.

Way forward, policy options

...imperative to adopt ...



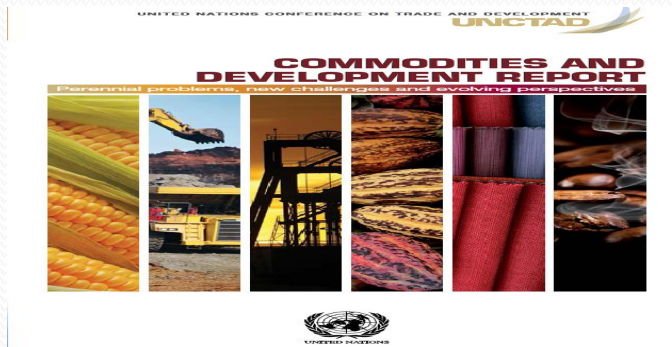
UNCTAD's works on commodity and development in line AMV, EMDP

Research and analysis

- **Price trends and market developments:** price formation, challenges facing CDDCs ;
- **Natural Resources Market Information Systems, UNCTAD NRIE**
- **Commodity Finance and Exchanges:**
- **Commodity policy reviews, resources management (rents, SWF, local content), Commodity development strategies, etc...**

Capacity building and Technical cooperation

- **UNCTAD Africa Oil, Gas, Minerals Trade and Finance Conference ;**
- **Multiyear Expert Meetings on Commodities and Development;**
- **Global commodity forum;**
- **Projects ;**
 - *On-going : Strengthening the capacity of countries to enhance domestic production linkages from the mineral resources sector*
 - **Pilot phase : 3 countries**
 - **Multi-stakeholder approach**



UNCTAD, Special Unit on Commodities

<http://unctad.org/commodities>

Some selected
publications
(ref. to CDs)



UNITED NATIONS
UNCTAD

Consulted documents

- African Development Bank and African Union (2009). Oil and gas in Africa. United Nations publication. Sales No. HD9577.A2 O355 2009. Oxford ; New York
- Africa Progress Report 2013: Equity in Extractives: Stewarding Africa's natural resources for all. Africa Progress Panel. 2013
- Esteves, A.M., Coyne, B. and Moreno, A. (2013). Local Content Initiatives: Enhancing the subnational benefits of the oil, gas and mining sectors. Briefing note, July 2013. New York: Revenue Watch Institute.
- Gylfason T (2001). Natural resources, education, and economic development. European Economic Review. 45 847–859.
- UNCTAD (2013). Commodities and Development Report: Perennial problems, new challenges and evolving perspectives. March 2013. No. UNCTAD/SUC/2011/9. United Nations. New York and Geneva.
- UNCTAD (2013). Trade and development report, August 2013. No. UNCTAD/TDR/2013 United Nations. New York and Geneva.
- Morris M, Kaplinsky R and Kaplan D (2012). One Thing Leads to Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa.
- Sigam C and Garcia L (2012). Extractive Industries: Optimizing Value Retention in Host Countries. UNCTAD Discussion Papers, No. UNCTAD/SUC/2012/1. United Nations. New York and Geneva.

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