25 BRIEFING PAPER

Commodity-dependent countries in the COVID-19 crisis

Bernhard Tröster

Vienna, May 2020

Austrian Foundation
for Development Research

DOI: https://doi.org/10.60637/2020-bp25

Download:
https://www.oefse.at/fileadmin/content/Downloads/Publikationen/Briefingpaper/BP25-Commodity-dependent-countries-in-the-COVID-19-crisis.pdf

IMPRINT

Austrian Foundation for Development Research – ÖFSE
A Austria, 1090 Vienna, Sensengasse 3, **T** +43 1 3174010, **F** -150
E *office@oefse.at*, **I** *www.oefse.at*, *www.centrum3.at*

With funding from
Austrian Development Cooperation

Contents

Index of Figures 2
Index of Tables 2
Abstract 3
1. Introduction 4
2. Commodity price changes – the short- and long-run perspective 4
3. Commodity Dependence and Vulnerabilities 6
4. Current Fundamental Drivers in Commodity Markets 8
5. Dynamics in Financial Commodity Markets 9
6. Implications for Commodity Dependent Countries in the Global South 11
7. Conclusions and policy responses 12
References 14

Index of Figures

Figure 1: Weekly Futures Price Indices of Selected Commodities in 2020 5
Figure 2: Commodity Prices from 2000 to 2020, 12-Month Moving Averages 6

Index of Tables

Table 1: Commodity Dependence in 2018 as a Share of Total Goods' Exports by Region 7
Table 2: Changes in net positions of financial actors and prices in selected commodities 10

Abstract

The global spread of the corona virus is a massive challenge for countries in the Global South. Beyond the health crisis, many countries face economic turmoil linked to their dependence on commodities. Commodity markets have reacted strongly to the COVID-19 crisis with drastic price movements and changes in production and demand due to the policy measures to contain the pandemic. As a result, commodity-dependent countries face the serious risk that the current multiple and simultaneous crises in health, financial and commodity sectors mutually reinforce each other and exceed the abilities of commodity-dependent countries for a proper response.

The vast majority of low- and middle-income countries (102 of 134) are persistently dependent on commodities on their export and import side. This ÖFSE Briefing Paper portrays, therefore, the current commodity price developments and the underlying fundamental drivers in the current crisis, considering the unique changes to supply and demand conditions in the different types of commodities. Most importantly, we note that global commodity prices are largely determined on commodity futures markets. As these futures prices are used as the benchmarks for all other prices set along physical commodity chains, the changing behavior of financial investors in the current crisis plays a crucial role in the current challenges faced by commodity-dependent countries.

These changes in commodity sectors have multiple implications for commodity-dependent countries in the Global South. Beyond the risks of short-term shocks including potential food crises, these countries might have to deal with depressed export earnings and changing global demand patterns as medium- to long-term effects of the COVID-19 crisis. Appropriate policy responses should address rapidly the short-term financial constraints of many commodity-dependent countries in the Global South, but also support policies and capacities in the public and private sectors to advance structural transformation of these countries. However, the stable economic conditions required to implement these measures depend on the stability of commodity prices. It is therefore necessary to reopen the debate on the functioning of global commodity markets and pricing, which revolves around financial commodity markets.

Keywords: commodity dependence; commodity prices; COVID-19 crisis; financialization; commodity price stabilization

1. Introduction

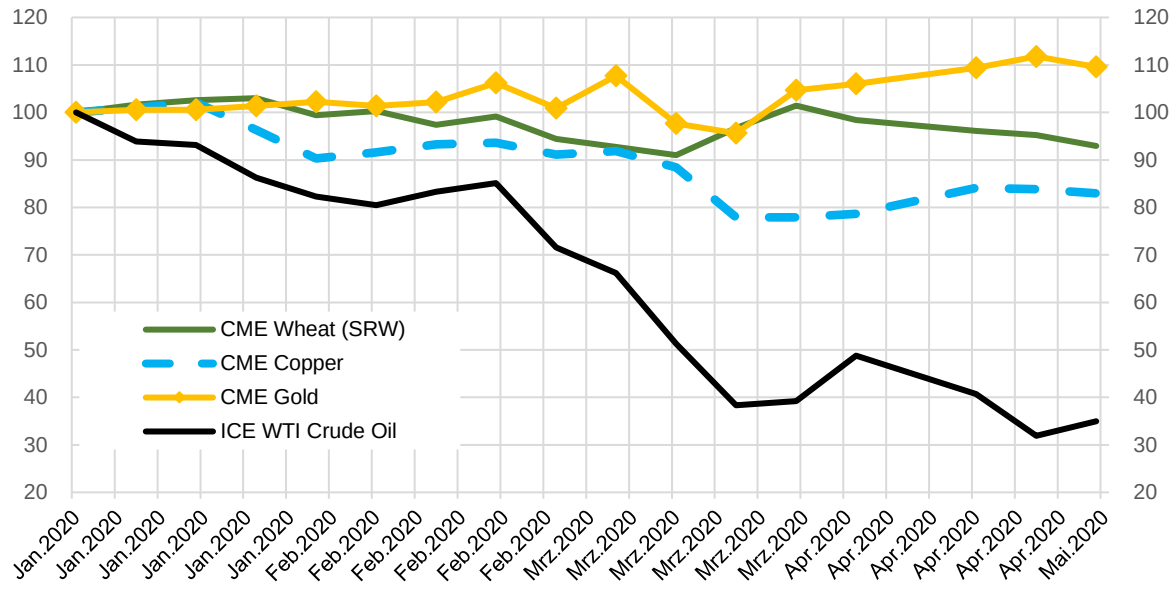
The dependency on primary commodity exports and imports is an essential characteristics of the vast majority of low- and middle-income countries. Therefore, the links between commodity dependence and economic development have been the subject of heated debates in development economics. The question arises around the capacity of commodity sectors to generate dynamic growth and whether such development benefits or harms the development of manufacturing and modern services and hence diversification and structural transformation out of commodities (Ocampo 2017). In these debates, commodity price dynamics feature as a – or arguably the – key mechanism to explain the direct and indirect impacts of commodity dependence on economic growth and development outcomes. Commodity prices are fundamentally characterized by significant, short-term fluctuations in combination with a downward or stagnating long-term trend in real terms (Deaton 1999). The commodity price boom in the 2000s could only reverse this trend for a short period of time. As global commodity prices have trended downward since 2012, many commodity-dependent countries were already suffering from weak economic conditions before the start of the COVID-19 crisis.

This ÖFSE Briefing Paper portrays current commodity price developments (section 2) and the current status of commodity dependence, that the vast majority of low- and middle-income countries experience (section 3). Section 4 describes the underlying fundamental drivers in the current crisis, considering the specific dynamics in different types of commodities. Moreover, recent dynamics on financial commodity markets are analyzed in section 5, as these markets are central for the determination of global commodity prices. The short- and long-run implication for commodity-dependent countries due to the COVID-19 related changes in commodity markets are presented in section 6, before policy options are discussed in the final section.

2. Commodity price changes – the short- and long-run perspective

Commodity prices have reacted strongly to the corona crises, as shown by the price indices of selected commodity futures from January 2020 to early May 2020 in Figure 1. However, the extent and the direction of price changes differ considerably. The prices of energy commodities such as crude oil and natural gas collapsed in an unprecedented way, by as much as -70% at the end of April compared to prices at the beginning of 2020. The prices for base metals such as copper, iron ore and zinc declined significantly with sharp price drops in March 2020 and some slight recoveries in April. In contrast, gold prices, as precious metals, benefited in the current situation. Food prices such as wheat prices fluctuated around price levels at the beginning of the year.

Figure 1: Weekly Futures Price Indices of Selected Commodities in 2020

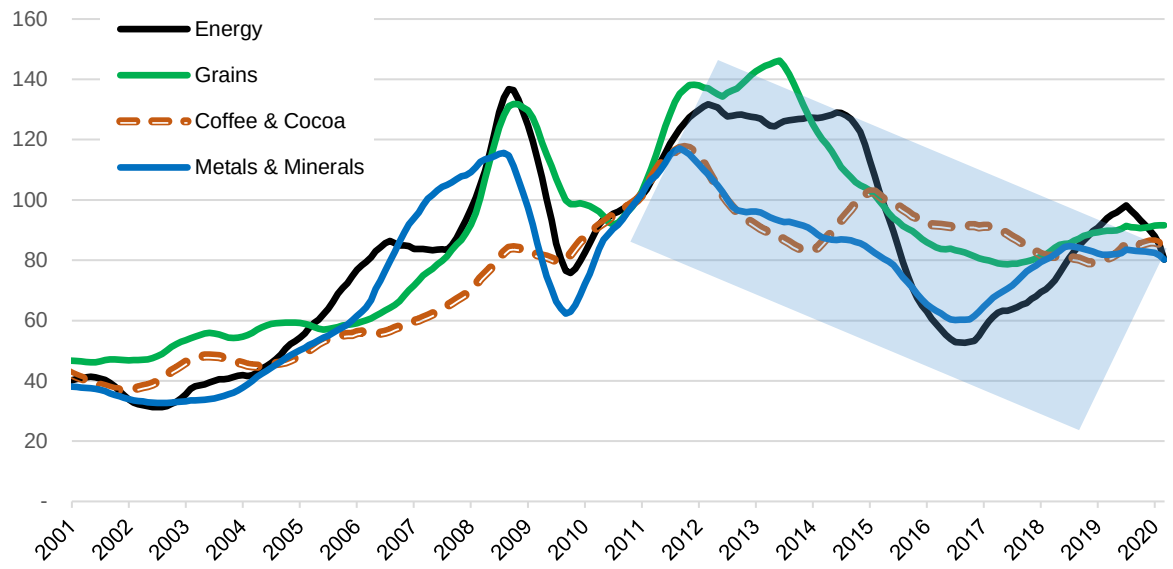


Notes: Index value of 100 at settle price of 03. Jan 2020. Index refers to settle price at the end of the week. Prices are volume-weighted averages of the three continuous futures contracts.
Source: ICE and CME futures price (via Free CHRIS Wiki).

The price changes in 2020 must be placed in a long-term perspective. After the massive boom and bust cycle between 2003 and 2011, nominal commodity prices fluctuated around a mid-term downward trend. The recent price drops halted a recovery from the lows in 2015/16 in energy commodities and metals and minerals, and continued the declining trend since 2011/12 for coffee and cocoa. The main exception is global grain prices, which remain at a higher level compared to recent years (see Figure 2). In real terms, the current level of global commodity prices corresponds to the price levels of 2002/03 before the massive boom in the 2000s.[1] Thus, countries dependent on the extraction, production and trade of raw materials are confronted with unfavorable economic conditions caused by contracting commodity terms-of-trade (IMF 2020a). As a result, the economies of these countries faced the challenges of the corona crisis in a rather weak and vulnerable state and low fiscal capacities, as discussed below.

[1] Monthly nominal commodity prices deflated with US consumer price index (CPALTT01USM661S).

Figure 2: Commodity Prices from 2000 to 2020, 12-Month Moving Averages



Note: Monthly Average 2010 = 100;
Source: World Bank Data

3. Commodity Dependence and Vulnerabilities

The phenomenon of commodity dependence in terms of commodities dominating a country's export portfolio is well-known. In general, countries are defined as commodity-dependent if they generate at least 60% of their merchandise export earnings from primary commodities.[2] Between 2013 and 2017, 102 countries – equivalent to 54% of all countries or 76% of low- and middle-income countries – met this criterion, with a strong bias towards low income countries and Sub Saharan African countries (UNCTAD 2019a; see also Table 1). Moreover, this dependency is very persistent, with little changes over the last two decades (ibid.).

Commodity dependence is also highly relevant on the import side. Many low-income countries spend higher shares of import expenditures on food and fuels (in Sub-Saharan Africa, 13% and 16%, respectively) than high-income and relatively commodity-poor countries (in EU-28, 9% and 12%). Moreover, private households in low-income countries as well as in emerging and developing market economies spend 60% or more of their income on food (World Bank 2020). In 2018, exports from 26 of the 31 low-income countries came largely from raw materials (>60%), but at the same time, 29 of the 31 low-income countries were net-importers of basic food (UNCTAD data).

[2] The 60% threshold in exports is associated with a weak performance in UNDP's Human Development Index (Nkurunziza et al. 2017).

Table 1: Commodity Dependence in 2018 as a Share of Total Goods' Exports by Region

Region	Primary Commodities	All Foods	Agri. Raw Materials	Minerals	Fuels	Gold / Precious Stones
Sub-Saharan Africa	**84%**	12%	3%	16%	38%	15%
Latin America and the Caribbean	**50%**	21%	3%	12%	12%	2%
Southern Asia	**40%**	9%	2%	4%	19%	6%
Western Asia	**68%**	4%	0%	4%	56%	4%
South-eastern Asia	**28%**	9%	2%	3%	12%	2%

Source: own calculations based on UNCTAD Stats

In many countries, this high dependence on primary commodity exports and imports goes hand in hand with negative impacts on economic and human development. The predominant role of commodities creates large and diverse vulnerabilities. The fiscal transmission has been identified as a main impact channel, particularly in oil-exporting countries. In most low- and middle-income countries, however, all sectors of the economy (corporate, household, pubic, banking) are confronted with significant impacts (Christensen 2016). These complex effects are often accelerated by the dynamics in the different types of commodities. For example, rising prices of a country's main export commodity, such as crude oil or copper ores, can be beneficial for public revenues and foreign exchange reserves. However, simultaneous price surges in imported fuels could deplete foreign reserves at the same time, and higher food prices benefit private households being net-producers, but harm net-consumers of food (see also von Arnim et al. 2018). Thereby, the nature of price shocks and the multiplicity of transmission channels create substantial mismatches between incomes and expenditures for many actors at the microeconomic level, but also for economies as a whole at the macroeconomic level, resulting in highly 'unbalanced' outcomes.

As shown in section 2, average global price levels between 2013 and 2019 were substantially below the peaks in 2008 and 2012, and, in real terms, are even below the levels before the price boom in the 2000s. This has contributed to an economic slowdown in more than 60 commodity-dependent countries since 2012, with several of them sliding into recession. With slower growth, the fiscal situation has deteriorated and many countries have responded by accumulating debt, often external debt. According to UNCTAD (2019b), external debt increased by more than 25% of GDP between 2008 and 2017 in 17 commodity-dependent countries. Similarly, external debt payments by African governments doubled as a share of revenue from 6% in 2015 to 12% in 2017 (Jubilee Debt Campaign 2018). This makes these countries highly vulnerable to changes in commodity prices and in exchange rates. Moreover, the precarious economic situation exacerbates malnourishment and food insecurity. Between 2011 and 2017, two thirds of the 102 high commodity-dependent countries identified by FAO (2020) have witnessed a rise in hunger or a worsening food security.

From this perspective, many low- and middle-income countries are confronted with the corona crisis in the midst of a problematic situation. The deteriorating economic situation as a consequence of the declining trend in global commodity prices since 2012 considerably constrains the countries' abilities to respond to the challenges of the current crisis. As the IMF

(2020b) points out in its recent World Economic Outlook, there is a serious risk that the current multiple and simultaneous crisis in health, financial and commodity sectors will mutually reinforce each other and exceed the abilities of commodity-dependent countries for a proper response.

4. Current Fundamental Drivers in Commodity Markets

The current commodity market shocks resulting from the COVID 19 crisis are dramatic due to the simultaneous combination of unique supply and demand factors. Changes in supply and demand conditions are important determinants of commodity prices, with oil and metals being more sensitive to disruptions in economic activity than agricultural products. COVID-19 prevention measures lead to very specific supply and demand responses, which may have different implications for commodity producers, traders and consumers than in previous crises. Nevertheless, it should be borne in mind that centralized pricing in commodity markets takes place largely in commodity financial markets and is transferred to physical markets through pricing practices in these sectors. Thus, financial dynamics and speculation can influence or undermine the processing of fundamental demand and supply information in price determination (as discussed in section 5).

The fundamental drivers of the current market conditions are largely related to the lock-down measures introduced in countries around the world in March and April 2020 to contain the spread of the corona virus. They are affecting both supply and demand through numerous and interconnected channels:

- **Aggregate demand shock**: The sudden breakdown in economic activities leads to a sharp drop in incomes and aggregate demand. The global economy is forecasted to shrink by -3% in 2020 (IMF 2020). In particular, the demand for crude oil and other energy commodities declines as they are directly and indirectly consumed in almost all sectors of an economy. Base metals such as copper, iron ore or zinc are closely linked to demand for manufactured goods. Therefore, both types of commodities are highly sensitive to short-term slowdowns in economic activities due to their high income elasticities (Baffes et al. 2020). But also cash crops such as coffee, cocoa and cotton typically react to slowing global demand.
- **Disruptions in manufacturing global value chains:** In the current crisis, global value chains (GVCs) of manufactured goods proof to be highly dependent on the supply of certain inputs. As the processing of most manufactured goods is increasingly fragmented and dispersed across various actors and geographic spaces, the failure of individual suppliers or suppliers from specific country can disrupt production in these GVCs. As a result, demand for commodities such as metals or crude oil (plastics) which serve as the basis for many intermediate goods in these sectors, falls.
- **Stop of commodity extraction and production:** The lockdown and the quarantine measures have forced production of many commodities to be halted. This affects mining projects, which had to be temporarily shut down, for example in Peru or South Africa. Thus, the supply of various metals declined in March 2020. On the other hand, the supply reactions on oil markets came belated as the Organization of Petroleum-Exporting Countries (OPEC) and Russia could not agree on a quick and substantial reduction of production in early March. Finally, the agreement to cut oil production by a record of almost 10 million barrels per day (or 10% of global production) from May onwards is not sufficient to close the gap between demand and supply as oil demand is expected to decline by 10% for the year as a whole (IEA 2020).

- **Restricted mobility of people and goods:** The aim of reducing personal contacts trough travel bans and stay-at-home orders led to a considerable reduction in travel and other, often cross-border, transport activities. The restricted mobility has wide-reaching and diverse consequences in commodity markets. The demand for fuel for transport, which accounts for two thirds of global oil demand, collapsed (World Bank 2020). In agricultural markets, restrictions on the national and cross-border movement of workers affect the cultivation and harvesting of crops, including the production of cash crops in countries of the Global South such as bananas (Fairtrade International 2020). On the other hand, various commodities including cash crops such as coffee and cocoa and other tropical fruits suffer from closure of ports and other transport facilities as well as from the disruptions in the international shipping container markets (Ferraresso 2020).
- **Trade restrictions:** In late March, the major rice consuming and exporting countries Vietnam and India considered export bans as a response to potential supply disruption. Unlike in 2007/08, when these measures have been identified as major drivers in the food price surge (Headey 2011; Tadesse et al. 2014), the current measures have not been put into practice so far. Nevertheless, only the risk of potential export bans has triggered the fear of global supply shortages in foods and prices for rice and wheat showed large price swings.

5. Dynamics in Financial Commodity Markets

Even though often ignored in current discussions, the global prices of most commodities are determined on financial commodity markets, more specifically in futures markets. On these financial commodity markets, where producers, merchants and buyers of physical commodities and financial investors interact with each other, the expectations on supply and demand conditions are combined and expressed in the prices of commodity derivatives, which then serve as benchmark prices in contracts in physical commodity trade. Thus, the influence of financial investors, which are now responsible for the majority of trading activities on these markets (known as 'financialization of commodity markets' (see for instance Ederer et al. 2016)), and the functioning of these markets play an important role in this situation.

Since the beginning of the year, massive changes in commodity financial markets have occurred. An indication of the changing sentiments and trading activities are variations in open interest in futures contracts (= the number of contracts that are not yet settled and remain 'open'). These data reflect whether money flows into the futures and options market are increasing or decreasing. Independent of absolute changes to open interest, the allocation of these positions between commercial actors and financial investors and their relative exposure in long (increasing prices) and short (decreasing prices) contracts are important determinants for price changes (ibid.). Even though a single indicator cannot necessarily capture the complex dynamics in commodity futures markets, as shown for the example of oil markets, it is an important entry point to understand dynamics in commodity financial markets.

Over the first months of 2020, the development in weekly open interest has been very mixed in the different commodity futures. Between the 07. Jan 2020 and the 28. Apr 2020[3], open interest in CME copper futures and options contracts declined significantly by almost -40%. Very similar, open interest in Chicago SRW Wheat, Arabica coffee and Cotton No.2 contracts went down by around -20%, and also open interest in Gold Futures fluctuated strongly and finally decline by 15%. At the same time, open interest in WTI crude oil futures and options

[3] Open Interest is reported by the US Commodity Futures Trading Commission (CFTC) as a breakdown of each Tuesday's open interest for futures and options on US futures markets https://www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm.

remained relatively stable until February and increased strongly in March and April to 20% more than in January (CFTC Data). Overall, positions in many commodity derivatives were reduced, signaling a high risk awareness as in other financial markets, but crude oil futures saw large inflows.

Table 2 shows the changes in net-positions (long minus short positions) from 07. Jan 2020 to 28. Apr 2020 and the corresponding price changes. An increase in net-short positions indicates, for instance, that financial actors have invested relatively more in short contacts than in long positions to speculate on declining prices. In copper futures, financial actors held more short than long positions in early January. Until late April, financial trader reduced their long positions by 50% and short position by only 30%, which results in an increasing net-short position. In corn futures, long positions were reduced by financial actors and short positions built up, which also extents the net-short positions. In wheat futures, investors remained net-long (=long positions exceed short positions), but the net position declined slightly. In cotton futures, financial actors changed from net long in January 2020 to net-short positions. Prices of all these futures declined, as investors increased their speculative positions on lower prices relative to the absolute level of open interest. These patterns in net-positions and price changes are however not true for crude oil futures.

Table 2: Changes in net positions of financial actors and prices in selected commodities

Commodity	**Change in Net Position of Financial Actors**	**Change in Prices**
Copper	↓ *increasing net-short position*	↓ -16%
Wheat	↓ *decreasing net-long position*	↓ - 5%
Corn	↓ *increasing net-short position*	↓ -20%
Cotton	↓ *from net-long to net-short*	↓ -21%
WTI crude oil	↓ *decreasing net-long position (by late March)* ➔ *no change in net- position (by late April)*	↓ -57% *until late March* ↓ -73% *until late April*

Note: Financial Actors represented by Non-Commercial Commercials in CFTC Futures-and-Options Combined Reports. Price changes are based on volume-weighted averages of the three continuous futures contracts.
Source: US Commodity Futures Trading Commission (CFTC)

In oil markets, similar patterns in net-positions and price changes were observed only until late March, when net-long positions of financial actors decreased. However, the sharp fall in crude oil prices has attracted investors to speculate on a price rebound and to massively buy exchange traded funds on oil in March.[4] As these investment vehicles take up long positions in futures contracts with nearby expiry to participate in their price movements, these strong surge in investment flows resulted in the largest US oil ETF alone holding 24% of all outstanding contracts with expiry in June 2020 at New York Mercantile Exchange (Brower/Meyer 2020). This came simultaneously with the extreme constellation of oversupply and shortage of storage in US oil markets, and oil ETFs had to shift investments to contracts with later expiry dates and sell off contracts closer to expires. As a result, prices of nearby contracts collapsed particularly strong, showing how speculative trading can disrupt an increasingly fragile oil market while demand for the plentiful commodity is so depressed (Dempsey/Stafford 2020).

[4] Such changes in the composition of traders in not accurately shown in open interest positions published by the CFTC, as Commodity Index Investments are only reported for selected agricultural commodities. The most notable change in the available data has appeared in the spread positions of swap dealers and 'other reportable' actors.

The drastic movements in derivative markets in March and April came just after the CFTC had proposed new regulations to cap positions of commodity speculators, at least in contracts close to expiry. Initial plans from 2011 suggested such limits for all contracts, but were defeated by two banks in a legal dispute (Meyer 2020). If these rules were passed, the positions of a single trader in the oil markets would be limited to 6 million barrels of oil. In the current turmoil, the largest oil ETF possessed contracts with June delivery equivalent to 146 million barrels (Sheppard 2020).

6. Implications for Commodity Dependent Countries in the Global South

The current short-term changes in commodity markets due to the COVID-19 crisis are already having adverse effects on commodity exporting countries. Crude oil and metals exporting countries in particular are experiencing drastic declines in their export earnings and public income. While in the case of oil-exporting countries, the declines are mainly due to the price effect, in the case of minerals and metals exporters there have also been closures of mining activities, which has reduced the volume of exports in addition to lower prices. Many of these countries have already applied for or received loans from IMF's rapid credit facilities. However, there are fears that this crisis will have negative implications also in the mid- and long-run.

Current IMF projections of economic activities predict global GDP to recover in 2021, under the assumptions that the pandemic will fade out in 2020 and the shut-downs will reduce working days by 5 to 8% this year, and that there is sufficient policy support for recovery next year (IMF 2020b: 4). However, even in this rather optimistic scenario, commodity prices are expected to remain at low levels in the coming years, as it will take years for economic activity to return to pre-crisis levels. Oil prices, for example, are projected at USD 38 per barrel in 2021 and to remain below USD 50 per barrels in the years thereafter, even though these estimations involve a high level of uncertainty (ibid.: 18).

Consequently, commodity exporting countries could be hit twice in the medium term, as lower and stagnating prices could generally lead to a reduction of extraction activities. For OPEC countries, the price reactions to their cuts in oil supplies depend heavily on the response of non-OPEC countries such as the US and Russia. Therefore, lower output might not correspond with higher prices to stabilize export earnings. In metal markets, mineral-rich countries in Latin America could partially compensate declining prices for metals between 2011 and 2015 with an increase in the export volume of copper and iron ore exports (UN Comtrade data). In addition, lower fuel prices could lead to lower costs for miners, making extraction of minerals, and in particular of gold, profitable (Home 2020). However, weak global demand might limit this option. A further extension of mining activities will also come at the cost of increasing environmental and social tension.

On the import side, lower prices for fuels and other oil-based products such as fertilizers could ease the pressure on current accounts. Positive effects for sectors and households that use these imported input could however be limited, given that lower incomes and depressed economic activity in most countries would curb demand despite lower prices. In addition, the import of processed commodities requires that supply chains are not disrupted, and shut-downs of major refineries and other processing facilities could drive price wedges between raw and processed materials.

Essential risks emerge from the development of food prices. So far, global food prices have been relatively stable, with some exceptions on the upside (rice) and on the downside (corn, oils). This means for net-food importing countries, that expenditures on food imports are not likely to decline. In addition, disruptions in the supply chain, storage or transportation can drive

local food prices above global levels and might trigger export restrictions. In sum, there a substantial risk that the COVID-19 crisis could easily trigger a food crisis, in particular in Sub-Saharan African countries (FAO 2020; George 2020).

A debate has also emerged around long-term changes to demand patterns based on a reorganization of global production networks. According to the World Bank (2020), the unwinding of supply chains, increased substitution among commodities and changing consumer behavior as a response to calls for more regional and local production networks could reduce the demand for oil and specific metals in the long-run. Consequently, commodity exporters might face negative impacts on their current accounts and on their macroeconomic stability, as well as the increasing need to diversify their economic structure.

7. Conclusions and policy responses

The global spread of the corona virus increases the vulnerability of commodity-dependent countries of the Global South. The health crisis is a major challenge for the often weak health systems and shutdowns and other restrictions to contain the spread of the virus hit the national economies simultaneously with the global slowdown of economic activities. Their multiple commodity dependencies and the declining trend in global commodity prices since 2012 have already deteriorated their economic situation, and the sudden slump in prices, supply and demand has further constrained these countries to fight the current crisis.

The current crisis highlights once more that heavy dependence on commodities is a major limiting factor to economic and human development. Since the vast majority of low- and middle income countries are commodity-dependent, this structural weakness should be a global concern. Structural transformation to strengthen non-commodity sectors and to diversify export and import portfolios is an essential goal for policy makers in the medium to long run. However, the current crisis and the turmoil in commodity markets will further limit fiscal and policy space for commodity-dependent 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.

International support programs for low- and middle income countries have to consider, firstly, governments' capacities to prevent short-term emergencies in the health system due to the COVID-19 pandemic as well as potential crisis of public social systems and food security. This includes sufficient funding for social and food security safety nets, on which more than 1.9 billion people in low and middle-income countries rely on (World Bank 2017). The cancellation of debt of countries in the Global South could bring immediate relief due to the reduction of debt payments (Jubilee Debt Campaign 2020). However, initiatives by the G-20 and the IMF to cancel or freeze debt in the short term are developing very slowly, and the way in which they are implemented will determine whether such programs can actually have positive impacts in the medium term (Saldinger 2020).

Secondly, governments should gain the capacity to develop and pursue policies to reduce commodity dependence and diversify the economic structure, taking into account the need for a socio-ecological transformation. Important starting points are the development of local and regional agricultural production networks to reduce the dependence on basic food products, such as rice in West Africa (George 2020). On the export side, productive linkages from existing commodity sectors to other sectors are highly relevant (Morris et al. 2012). This involves forward linkages to processing with important potential for value addition and employment generation as well as backward linkages in terms of input provision including equipment and services from IT to transport (see also Staritz et al. 2015).

Initiatives for diversification and commodity-based industrial development, generally require a broad set of industrial policies and capacities in the public and private sector and sufficient policy space. However, the success and efficiency of such national and regional policies depends largely on the stability of commodity prices, which are generally transmitted from the global to the local level. Thus, thirdly, an immediate point of intervention involves the price setting in global commodity chains. As the volatility of commodity prices and the magnitude of price swings in the recent months drastically affect commodity-dependent countries, the debate on the functioning of global commodity markets and pricing centered upon financial commodity markets has to be restarted.

After the 2008/09 commodity boom and bust, international initiatives have been formulated (see the Interagency Report to The G20 On Food Price Volatility in 2011 (FAO 2011)) and potential stabilization mechanisms have been presented (Ocampo/Griffith-Jones 2007; von Braun/Torero 2009). However, the political actions to tackle the increasing financialisation of commodity markets and a stabilization of commodity prices have failed to materialize or have been slow and difficult to implement as the example of potential position limits for traders in derivative markets in the US (see section 5) and the EU shows (ESMA 2020).

Given the persistent resistance to interventions in financial markets and to price stabilization mechanisms and enhanced cooperation on the global level (take for the disputes on oil supply cuts in March/April 2020), cooperation on the regional level could gain significance. Examples are national and regional stabilization funds and initiatives for smallholders producing cash crops such as cotton and cocoa in West Africa, in particular the initiative of Ghana and Côte d'Ivoire that is currently implemented to raise minimum prices for cocoa farmers (Tröster et al. 2019). Such schemes can potentially enable countries to counterbalance weak bargaining power against dominant international buyers, but the functioning of these stabilization mechanisms are exposed to the high volatility of global commodity prices.

Many oil- and minerals developing countries, have introduced sovereign wealth funds (SWFs) in recent years to balance governmental expenditures and provide intergenerational savings accumulation, buffers against economic shocks, wealth diversification and funding for domestic investment. However, the record of SWFs is mixed given the differences in the quality of public financial-management systems, but also due to excessive commodity price volatility as newly established SWFs might not be equipped with sufficient funds to balance extreme one-time price drops or episodes of prolonged price decline (Tröster 2018). The current crisis also shows the risks created by interdependencies between financial asset prices, commodity prices and the value of SWFs (Arnold 2020). Therefore, regional or international counter-cyclical financing facilities could be a crucial element to support mechanisms to mitigate income shocks from commodity price movements and to ensure the financing of national price stabilization schemes and policy space for counter-cyclical macroeconomic measures. These mechanisms could be further enhanced with the support of regional or international development banks.

References

Arnold, Tom (2020): Oil-rich wealth funds seen shedding up to $225 billion in stocks. Reuters. https://www.reuters.com/article/us-health-coronavirus-swf-analysis-idUSKBN21G05K (14.05.2020).

Baffes, John/Kabundi, Alain/Nagle, Peter (2020): The Role of Income and Substitution in Commodity Demand. Washington D.C.

Brower, Derek/Meyer, Gregory (2020): World's largest oil ETF revamps portfolio after market chaos. https://www.ft.com/content/11cf8aeb-2d74-4c25-a111-943be6d8bf39 (05.05.2020).

Christensen, Benedicte (2016): Challenges of low commodity prices for Africa. BIS (Bank for International Settlements) Paper Nr. 87). Basel.

Deaton, Angus (1999): Commodity Prices and Growth in Africa. In: Journal of Economic Perspectives 13(3), 23-40. https://doi.org/10.1257/jep.13.3.23 (14.05.2020).

Dempsey, Harry/Stafford, Philip (2020): US crude prices tumble as world's largest oil ETF cuts stake. https://www.ft.com/content/a8a7dc16-1a9a-48f9-9bfa-89269f94218a (05.05.2020).

Ederer, Stefan/Heumesser, Christine/Staritz, Cornelia (2016): Financialization and commodity prices – an empirical analysis for coffee, cotton, wheat and oil. In: International Review of Applied Economics 30(4), 462-487. https://doi.org/10.1080/02692171.2015.1122745 (14.05.2020).

ESMA (2020): MiFID II Review report on position limits and position management. European Securities and Market Authority.

Fairtrade International (2020): Fairtrade Together: COVID-19 Briefing on 27 April 2020. Fairtrade International. https://www.fairtrade.net/news/fairtrade-together-covid19-briefing-on-27-april-2020 (30.04.2020).

FAO (2020): COVID-19: Our hungriest, most vulnerable communities face "a crisis within a crisis". http://www.fao.org/news/story/en/item/1269721/icode/ (05.05.2020).

FAO (2011): Interagency Report to the G20 on Food Price Volatility. FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLTF.

Ferraresso, Jonas (2020): How COVID-19 May Affect the Chain as Brazil Heads Into Harvest. Daily Coffee News by Roast Magazine. https://dailycoffeenews.com/2020/04/27/how-covid-19-may-affect-the-chain-as-brazil-heads-into-harvest/ (30.04.2020).

George, Libby (2020): How Africa risks reeling from a health crisis to a food crisis. Reuters. https://www.reuters.com/article/us-health-coronavirus-food-africa-insigh/how-africa-risks-reeling-from-a-health-crisis-to-a-food-crisis-idUSKCN2260M2 (04.05.2020).

Headey, Derek (2011): Rethinking the global food crisis: The role of trade shocks. In: Food Policy 36(2), 136-146. https://doi.org/10.1016/j.foodpol.2010.10.003 (14.05.2020).

Home, Andy (2020): Copper crashes as viral chill catches up with metals. In: Reuters.

IEA (2020): Oil Market Report - April 2020. IEA. https://www.iea.org/reports/oil-market-report-april-2020 (30.04.2020).

IMF (2020a): IMF Fiscal Monitor 2020 - Chapter 1 Policies to Support People During the COVID-19 Pandemic. Washington D.C.

IMF (2020b): World Economic Outlook 2020 - Chapter 1. Washington D.C.

Jubilee Debt Campaign (2020): Coronavirus: Cancel the debts of countries in the global south. Jubilee Debt Campaign UK. https://jubileedebt.org.uk/actions/stop-coronavirus-debt-disaster (14.05.2020).

Jubilee Debt Campaign (2018): Africa's growing debt crisis: Who is the debt owed to? London.

Meyer, Gregory (2020): US to set caps on commodities speculators. https://www.ft.com/content/ef4f6060-42b8-11ea-a43a-c4b328d9061c (05.05.2020).

Nkurunziza, Janvier D./Tsowou, Komi/Cazzaniga, Sofia (2017): Commodity Dependence and Human Development. In: African Development Review 29(S1), 27-41. https://doi.org/10.1111/1467-8268.12231 (14.05.2020).

Ocampo, José Antonio (2017): Commodity-Led Development in Latin America. In: International Development Policy | Revue internationale de politique de développement 9(9), 51-76. https://doi.org/10.4000/poldev.2354 (14.05.2020).

Ocampo, José Antonio/Griffith-Jones, Stephany (2007): A Counter-Cyclical Framework for a Development-Friendly International Financial Architecture (UN Department of Economic and Social Affairs (DESA) Working Papers Nr. 39).

Saldinger, Adva (2020): G20, IMF deliver on debt relief, but more is needed, experts say. DEVEX INSIGHT DEVELOPMENT.

Sheppard, David (2020): Sub-zero oil prices threaten big losses for ETF investors. https://www.ft.com/content/2669d6de-a381-400b-a678-64506dc60eed (05.05.2020).

Staritz, Cornelia/Tröster, Bernhard/Küblböck, Karin (2015): Commodity Prices, Financial Markets and Development. Österreichische Entwicklungspolitik 2015. Vienna. https://www.oefse.at/fileadmin/content/Downloads/Publikationen/Oepol/OEPOL2015_web.pdf (14.05.2020).

Tadesse, Getaw/Algieri, Bernardina/Kalkuhl, Matthias/von Braun, Joachim (2014): Drivers and triggers of international food price spikes and volatility. In: Food Policy 47, 117-128. https://doi.org/10.1016/j.foodpol.2013.08.014 (14.05.2020).

Tröster, Bernhard (2018): Commodity Price Stabilization – the need for a policy mix that breaks the vicious cycle of commodity dependence and price volatility. ÖFSE Policy Note Nr. 20. Vienna. https://www.oefse.at/fileadmin/content/Downloads/Publikationen/Policynote/PN20_Commodity-Price-Stabilization.pdf (14.05.2020).

Tröster, Bernhard/Staritz, Cornelia/Grumiller, Jan/Maille, Felix (2019): Commodity dependence, global commodity chains, price volatility and financialisation: Price-setting and stabilisation in the cocoa sectors in Côte d'Ivoire and Ghana. ÖFSE Working Paper Nr. 62. Vienna. https://www.oefse.at/fileadmin/content/Downloads/Publikationen/Workingpaper/WP62-Cocoa-Price-setting.pdf (14.05.2020).

UNCTAD (2019a): Commodity Dependence: A Twenty-Year Perspective (Nr. UNCTAD/DITC/COM/2019/2). Geneva.

UNCTAD (2019b): State of Commodity Dependence 2019. Geneva.

von Arnim, Rudiger/Tröster, Bernhard/Staritz, Cornelia/Raza, Werner (2018): Commodity price shocks and the distribution of income in commodity-dependent least-developed countries. In: Journal of Policy Modeling 40(2), 434-451. https://doi.org/10.1016/j.jpolmod.2018.02.008 (14.05.2020).

von Braun, Joachim/Torero, Maximo (2009): Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure. IFPRI Policy Brief 10.

World Bank (2020): A Shock Like No Other: The Impact of COVID-19 on Commodity Markets (Special Focus). Washington D.C.

World Bank (2017): Safety Nets – Social safety net programs protect families from the impact of economic shocks, natural disasters, and other crises. Washington D.C.