



Food and Agriculture Organization  
of the United Nations

# Ministerial meeting on long-term commodity price trends and sustainable agricultural development

Rome, 3 October 2016

## Roundtable I: Commodity dependence, diversification and value chain development

### *Why the subject is important*

- Agricultural commodities continue to play a large 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. It is now widely believed that prices will remain at lower levels in the short to medium term. These events renewed global interest on the relationship between commodity prices and long term economic development.

### *Background*

Commodity dependent countries are defined as those with an export ratio of primary commodities over merchandised goods equal or above of 60 percent. As of 2014, there were 97 commodity dependent countries worldwide, of which 39 depended on agricultural commodity exports. Among the latter group, 19 are classified as Least Developed Countries.

This traditional definition of commodity dependence refers only to commodities exported – which are often cash crops – and does not include countries in which national diets are heavily reliant in one or few food staples produced and consumed nationally. In many Asian countries, for example, rice is the largest crop and a main food staple, but it is also traded worldwide. While these countries are not commodity dependent, price movements in the global rice markets can impact incomes, poverty, and food security significantly.

Price fluctuations influence agricultural commodity dependent developing countries in various ways. Since poor households use most of their income to meet food needs, agricultural price movements impact food security and poverty rates. In many developing countries, food prices can also affect inflation and wages. Finally, commodity price movements can affect macroeconomic aggregates such as the balance of payments, government revenues, employment and ultimately economic growth.

The avenues by which commodity price movements affect a commodity dependent country also depend on the nature of farm organization and structure. Crop production for export by large commercial farms leads to the impact being transmitted initially to macroeconomic variables, including government revenues and expenditure, exchange rates, the terms of trade, the balance of payments, and GDP growth. In commodity dependent countries with farm structures characterized by small family farms with high shares of family labour and low productivity, prices are even more important. In addition to the above macroeconomic effects, price movements can have direct and significant impacts on poverty and food security.

Small family farms suffer disproportionately when prices for their crops are low, since they have limited means and alternative options to make up for lost income. High food prices affect net food buyers, especially the poor ones negatively. Policy makers often find themselves working to balance the competing needs of affordable food for consumers, and fair prices to producers. Public policies that drive productivity increases are able to respond to this dual challenge.

An enabling policy environment, based on infrastructure improvements, well-functioning markets and measures to strengthen productivity, can help smallholders to step up to the challenge of sustainable productivity growth even during periods of low prices. For example, in Ghana, smallholders have been at the forefront of cocoa bean production for many decades, the crop representing 30 percent of the country's commodity exports in 2012/13. Since the 1980s, targeted government-led policies along the value chain drove productivity and quality increases, transferring a larger share of international cocoa prices to smallholders who were able to reap the benefits of higher prices during the recent surges.

Policies that simultaneously promote agricultural productivity growth, food security, and poverty reduction are central to the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals. For commodity dependent countries, governments can design policies that promote productivity, diversification, value addition and value-chain development to become the key enablers of inclusive growth.

### ***Current Outlook***

In the medium term, the growth in global demand for food and other agricultural products is projected to slow down as population growth and income growth in key economies decelerate. Therefore, real agricultural prices are projected to remain relatively flat.

However, relative price changes that reflect adjustments in the composition of demand are expected. Higher incomes in some populous emerging economies are expected to drive the demand for meat, fish, and dairy products. Demand for these foods is expected to be stronger, relative to demand for basic grains. The prices of coarse grains and oilseeds are projected to rise relative to the prices of food staples.

### ***Guiding questions for policy makers***

- What are the possible paths to diversification, value chain development, and value addition for reducing dependence on agricultural commodity exports?
- What policies foster the development of (small and medium) enterprises to take part in local and global value chains?
- What measures promote the inclusion of small family farmers into modern value chains (national, regional or global), increase of value addition and the generation of decent jobs?