BEWILDERING BEHAVIOUR OF COMMODITY PRICES

A recent session of UNCTAD's Committee on Commodities agreed that world commodity markets find themselves in a crisis unprecedented in terms of its duration and depth. Growing disillusionment with International Commodity Agreements (ICAs) has been expressed in some circles, especially in the light of the current crisis in the operation of the International Tin Agreement; and despite several attempts negotiators have so far failed to clinch agreement in renegotiating the current ICAs (relating to cocoa and natural rubber) which are due to expire. International discussions on a number of the 11 commodities under the Integrated Programme for Commodities (IPC) not covered by ICAs have been in abeyance; and furthermore sharp differences of views have characterised discussions on commodity processing, marketing and distribution at the special session of the Committee on Commodities held earlier in 1985.

UNCTAD's Acting Secretary General, Alister McIntyre, referred at the recent sessions to the dramatic collapse of primary commodity prices which has seriously weakened the economies of the majority of developing countries. By the third quarter of 1985, commodity prices in dollar terms had been some 34 percent below the 1980 average, while the commodity terms of trade had worsened by some 16 percent over this period. Although price movements had not been as sharp when expressed in non-dollar currencies, the recent strengthening of other major currencies against the dollar had brought no significant improvement in most dollar commodity prices.

"The behaviour of commodity prices is to say the least bewildering" commented McIntyre. There was some evidence that the abnormally high real rates of interest which had prevailed in the industrialized countries since 1980 had greatly increased the cost of holding commodity stocks, resulting in a large reduction in inventories which had accentuated the contraction in demand resulting from the lower level of economic activity. In addition, the squeeze on international liquidity since 1981 had adversely affected the demand for a number of commodities as stores of value because of the tendency to move investment into more liquid assets. The constraints on the availability of foreign exchange had also induced many developing countries to export more, in volume terms, in order to minimise their loss of foreign exchange earnings. The volume expansion itself is said to have been a contributory factor to the continuing depressed level of prices for many commodities.

On the whole, it was fairly evident that changes of a far-reaching character were occurring in patterns of demand and supply for a number of primary commodities, whether agricultural products or minerals and metals. These changes were bound to affect profoundly the development situation and prospects of very many developing countries. "One thinks particularly of the least developed, low-income and very small countries that are heavily dependent on a few commodities for their foreign exchange earnings and livelihood", McIntyre added. "Their future may be very grim unless they begin now to examine their concrete prospects, and what are the practical options open to them to put in hand effective policies and actions for achieving a successful transition." The task facing the international community was to provide support measures both appropriate to the circumstances of the individual commodity and to the particular developing countries concerned. "If governments are ready once again to tackle commodity issues and are determined to achieve results, they will all need to show flexbility in considering together how best to deal with the present situation. In doing so, it would be advisable to take full account of the lessons of experience", McIntyre stressed.

Commenting on the debt-servicing problem of developing countries, McIntyre stated that if the commodities situation was not addressed as a matter of top priority, it was bound to affect the capacity of several indebted developing countries to service their debts. Action on commondities should form an integral part of strategies to promote adjustment through growth. The International community now had a timely opportunity to pull together, in a coherent manner, a number of complementary initiatives in areas such as trade liberalization, co-operation in development measures, finance for structural adjustment, and export earnings stabilization. These could together improve significantly the present situation of many commodities. Such opportunities were well within the reach of governments, if they were ready to make the effort.

Another major topic before the Committee on Commodities concerned the need for increased participation of developing countries in the processing, marketing and distribution of commodities of export interest to them, including their transportation. On the one hand the Group of 77 (developing countries) wished to move ahead and to draw up measures that would constitute provisions under each element of the frameworks that had been mentioned in the UNCTAD Conference resolution 124 (V) such as improvement in market transparency and increased technical and financial support for the development of national marketing and distribution systems of developing countries. The Group of 77 wanted to begin consideration of institutional arrangement for accomplishing this task.

Group B, (the developed market economies) on the other hand, believed that the first step in establishing the frameworks was to agree on the criteria that should apply to them. Among those that it proposed were: that the frameworks should consist of mutually acceptable guidelines or principles which would be applicable to all governments and which would not be legally binding; that maximum use should be made of existing institutions and that the proposed frameworks should not infringe on responsiblities of these institutions, and that the local processing of commodities should be economically justified in the light of dynamic comparative advantage and in the context of on going trade liberalization with a view to establishing economically viable enterprises which would contribute to sound economic development.

INCREASING FOOD SECURITY FOR THE POOR

The world has plenty of food but some 700 million people in developing countries do not eat sufficiently well to lead an active working life. Nearly half of these people are acutely undernourished; they barely subsist on a minimum survival diet, a new World Bank policy study has revealed. The study titled "*Poverty and Hunger: Issues and Options for Food Security in Developing Countries*," has also made suggestions about what can be done to alleviate this problem.

The basic cause of hunger of "food insecurity", which affects almost a third of the population in the Third World (excluding China) is poverty or lack of purchasing power, according to the Report. Hunger persists even in countries that have reached self-sufficiency in food. Food insecurity cannot be eliminated without alleviating the poverty of countries and people. This is the central conclusion of the Report.

Economic growth will ultimately provide poor people with enough income to acquire enough food and such growth should be a primary goal of economic policy. But growth will increase their purchasing power only slowly and may not reach everyone.

In the long run, linking poverty alleviation with economic growth is the best way to reduce malnutrition and chronic food insecurity, the Report states. But in the short run, specific and cost effective programmes designed for the poor and malnourished are also needed.

The Report identifies two forms of food insecurity: transitory and chronic. Transitory food insecurity, a temporary decline in a family's access to food, results from unstable food prices, food production, or incomes. Its worst form is seen in famines. Chronic food insecurity affects households that are continually unable to buy enough food or produce enough of their own.

The choice of intervention needs to be based on "a balanced concern for budgetary and economic costs, administrative and political feasibility, and their expected benefits," states the Report. In sub-Saharan Africa, for example, where food producers themselves, together with some urban poor and rural landless, suffer from food insecurity, policies should focus on raising producer prices to stimulate production, and raising incomes, with subsidy programmes for the urban poor and employment programmes for the landless.

Foreign assistance, the Report says, should continue to emphasize investments that benefit the poorest people. This includes projects that increase the supply and lower the price of food. It should also improve the capacity to handle sharp and sporadic increases in food imports, as well as the management of small, strategically located emergency food stocks. Other programs that deserve foreign support are those aimed at improving the nutrition of vulnerable population groups through income transfers, nutrition education, better drinking water, and preventive health and family planning services. The Report also maintains that it is helpful to support efforts to diversify crops, improve transport facilities, and provide public employment.

Food aid is often used directly to augment the earnings of the poor and their nutrition. The Report cites the efforts of the World Food Programme and voluntary agencies which co-finance development to the poor for work performed. Better integration of these kinds of projects in a country's overall development program is expected to improve the long-term benefits of such aid.