

Geneva Trade & Development Forum: Inclusive Globalization

Dutch Disease TOR

From commodities revenues to real development benefits

Issue:

Since 2002, there has been an increase in the demand and price for a range of minerals and some agro-commodities, inter alia linked to the emergence of Developing Asia generally, and China in particular, as major commodity consumers.

What has been referred to as a "commodity boom" is largely confined to minerals, ores and metals, whose indexed prices increased by almost 100 % during 2002 – 2005. For agro-commodities, the same period has been one mainly of recovery from historical lows, rather than a break away from a long trend of secular decline.

In 2003-2005 there were around 55 commodity dependent developing countries (CDDCs) in the world, in the meaning that their average annual exports were more than 50% dependent on non-oil commodities. This is down from around 70 in the period 1993 – 1995.

The largest single concentration of CDDCs is in Africa, where more than two thirds of countries reporting trade data to Comtrade fall into this category.

It can be noted also that the dependence of LDCs on tropical beverages and raw materials for export earnings rose between the 1960s and 2001. At the same time, their share in world agricultural trade shrunk even as their dependency on it remained far higher than that of other developing countries

Over the same period, Africa registered a sustained growth rate. For the third year in a row, in 2006 Sub-Saharan Africa (SSA) recorded growth over 5 percent. For 2007 a pick-up to 6.7 percent is expected. The resource endowments are among the most important factors influencing the growth path of SSA countries. (IMF regional outlook).

Members:

Shepherd: Mr. Pierre Defraigne, Director of IFRI Brussels.

Co-Shepherd: to be determined

1) *Private sector*

2) *Government representatives*

- Mr. Fausto Valle (Ministry of Oil and Mining, Ecuador)

Mr. Ibrahima Soumah (former Minister of Mines, Guinée)

Mr Stephen Stork (DG Taxation and Customs Union, EC)

Mr. Jakob Thamage (Ministry of Minerals Energy and Water Affairs Botswana)

3) *Academia:*

Prof. John Lungu (Copperbelt University, Zambia)

4) *NGO – IO – IFI:*

Mme Françoise Moreau, (Head of Unit.DG Development, EC)

Mr. Habib Ouane, (UNCTAD).

Mr. Antonio Pedro, (UNECA)

Mr Jerome Pons, (DG Development)

Mr Pascal Saint-Amans, (OECD)

Mr. Claude Kabemba, (Southern Africa Resource Watch SARW)

Objectives:

How to translate mineral commodities revenues into (sustainable over time) development benefits for the producing developing countries.

Under this theme questions to be discussed include:

1. How to encourage the **re-investment** of the benefits in developing countries:

- How to improve investment security: protection from expropriation but even more importantly physical security
- The role of off-shore financing/ tax heavens can not be ignored

2. Governance and in particular **taxation policies**

Following the dramatic price declines for agricultural commodities at the turn of the century, substantial attention has been given in the last few years to measures required to defend the competitiveness of these sectors in Commodity Dependant Developing Countries and the livelihood of the many small scale producers active in these countries. In this context, some attention has been given to how to increase the participation of the producing countries in the international value chain, and ensuring a greater revenue for producers.

Less attention has been given to the situation of mineral commodities, partly due to the more concentrated ownership structure within these sectors. However, while the sector's share in the country's employment can be relatively low, the relative

importance for the government's budget and the share in overall export in many countries largely exceeds that of the agricultural sector. With global trends in mineral commodity prices offering a positive outlook for exporting countries, a timely question is how it can be ensured that potential future revenues are translated into real and sustainable over time development benefits for the exporting countries.

Hence, it is proposed that one of the Forum's theme groups tackles this theme, and seek to answer the following key questions:

- How to ascertain that the current commodity boom is sustainable (bubble effect and talk of "supercycle", links with oil price increase, appeal of the commodity sector as an alternative asset for a much wider range of investors, strength of the BRIC economies driving the demand for metals, some commodities can be seen as hedge against a declining dollars...)
- What are the key policy measures required to translate future (mainly mineral) commodity revenues into real development benefits for the producing countries?
- Are there lessons to be drawn from existing experiences and current issues (EITI, Kimberley, FLEGT Sovereign Funds, Raw material initiative etc.)
- What, if any, is the role of regional integration in this quest?
- What role, if any, is there for voluntary private sector approaches, or labelling (CSR, etc)? (link with the other Forum's group working on this theme)
- What, if any, is the role for Trade Related Assistance/wider Aid for Trade in this context?
- What questions remain unanswered?
- What can we learn from a limited number of success cases?

The Group will consider the overall promotion of a conducive business environment as an already given policy recommendation widely accepted by the international community. The Group will enter further into that discussion only when precise recommendations relevant to the specific problematic discussed can be made. It will focus on specific and targeted tools, mechanisms and incentives to promote reinvestment in developing countries.

Outputs expected:

- action plan outline with potential commitments required by all stakeholders involved in the case study in the given country
- More general recommendations to be submitted to panels comprising policy makers and private sector participants

Calendar:

March 10: launching meeting

End April: conclusion and action plan drafted

Case studies:

Botswana, Zambia, Ecuador