

## **THE ASIAN DRIVERS AND CHANGING TERMS OF TRADE: IMPLICATIONS FOR SSA COMMODITY PRODUCTION**

### Policy relevance

High commodity prices are one of the major factors driving the recent growth-surge in much of SSA. This is not only the case for those economies directly exporting commodities (and benefiting from associated inward FDI) but also as a consequence of the indirect regional spillover effects on neighbouring economies who do not export commodities. This is one of the single most important factors affecting growth, macroeconomic strategy and indeed development strategy in the current period.

SSA policymakers need to know whether these commodity prices are likely to be sustained – will this growth impetus peter out, and if so, within what time horizon? Is SSA on the radar chart of major mineral supplying companies and major buyers, or is SSA seen as a residual supplier of last resort? What are the projections for demand growth, particularly from Asian Driver economies? Do these trends differ between commodities, and for which SSA countries?

### Context

Past commodity booms have seen price spikes in hard commodities petering out within 5-8 years. This is largely a consequence of the development of new sources of supply. There is almost no experience of the impact of large surges in demand on the sustainability of commodity price spikes.

Few SSA countries are aware of the extent to which the gains accruing from price rises in the specific commodities which they export are vulnerable to new sources of supply. This is especially pertinent, since evidence is emerging that much of this new supply is located in Australia, North America and parts of Latin America. SSA countries are also weakly informed about the sustainability of potential sources of demand growth for commodities of specific interest.

An understanding these emerging patterns of both supply and demand is critical for an appropriate policy response in SSA to the direct and indirect impacts of the rise of the Asian Driver economies.

### The Research Report

The proposed research will:

- Identify the key commodities affected by price spikes and map these against existing and potential sources of supply in SSA.
- Identify key new and proposed investments in these commodities designed to augment global production capacity, including the gestation periods and time-frames of the major investments
- Collate informed assessments of the likelihood of a sustained growth in demand for these commodities, including in the AD economies.
- Identify key implications for policy and for research

### Methodology

- Review of existing reports – paper-based and electronic
- Interviews with key industry informants and policy stakeholders in Europe and in SSA
- Use of private and public data bases

### Interaction with Policy Stakeholders

The Report will be presented to the September meeting of the AERC Asian Drivers network.

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