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Commodity Price Fluctuations and Impact on China's Economy: Cases of Soybean and Iron Ore

by

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"The views expressed are those of the author and do not necessarily reflect the views of UNCTAD"

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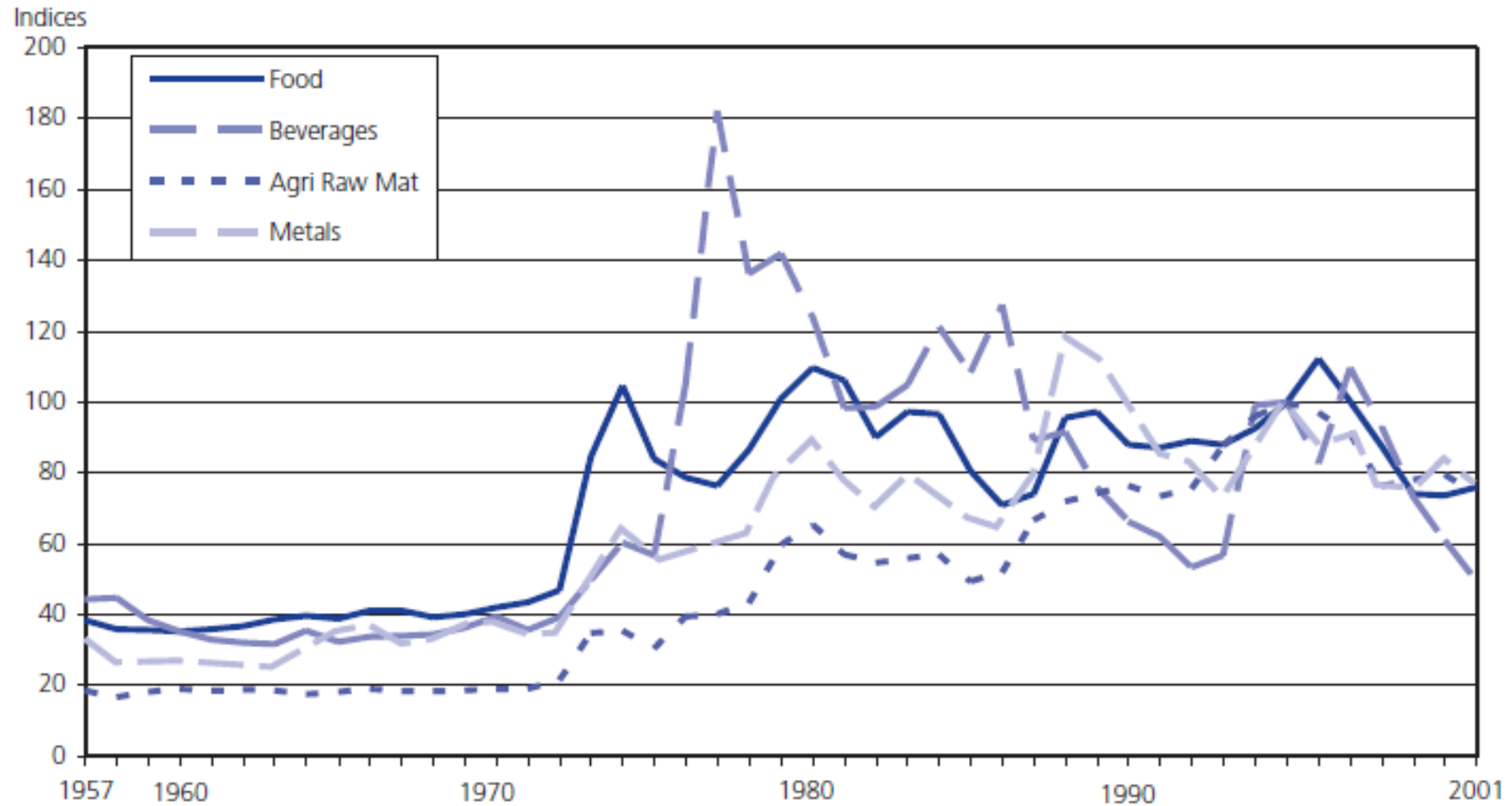
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Structure of Presentation

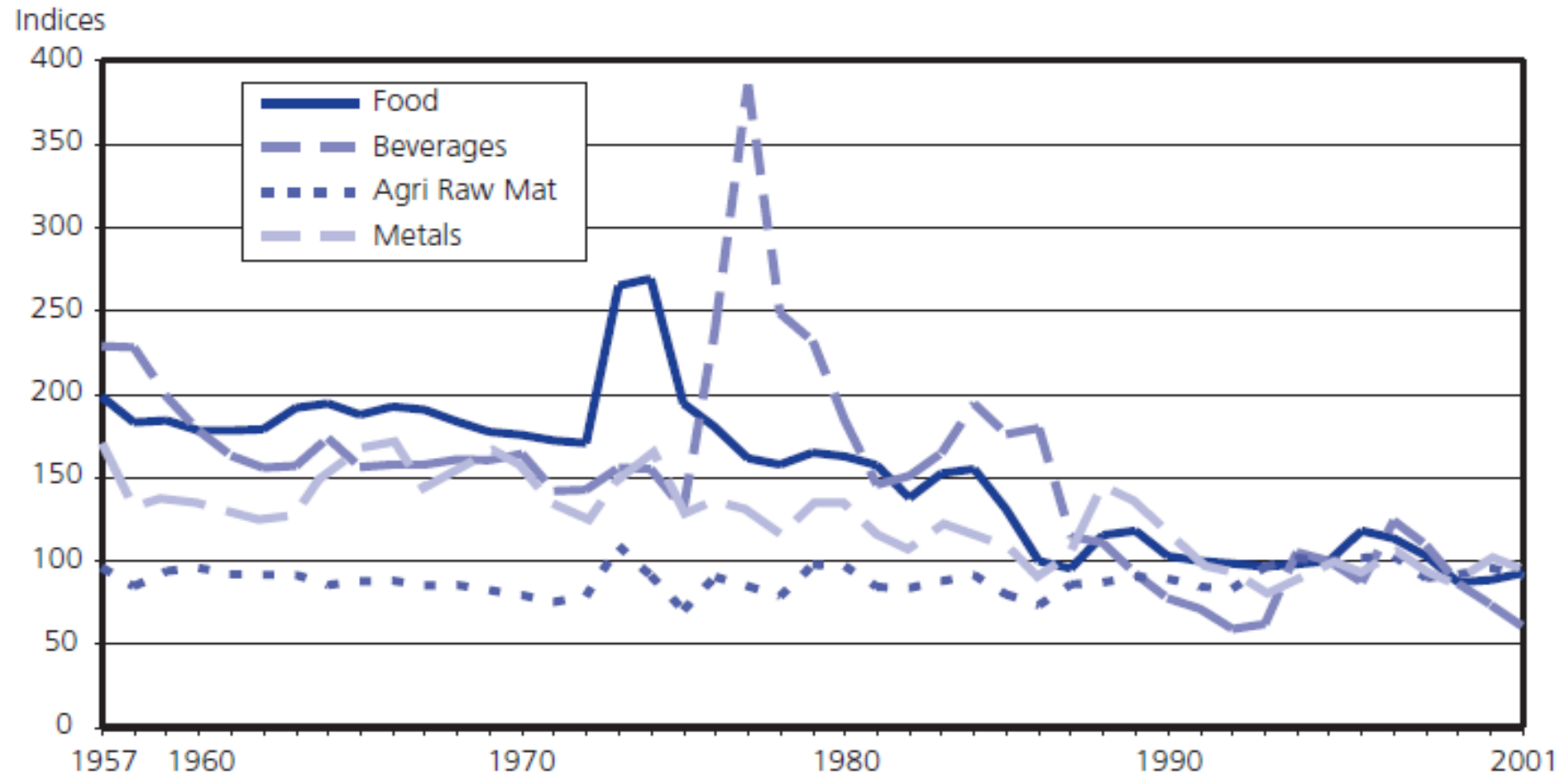
1. Introduction
2. Commodity Price Fluctuations
3. Cause Analysis
4. Impact on China's Economy
5. Some Proposals

Figure 1: Commodity Prices, 1957-2001



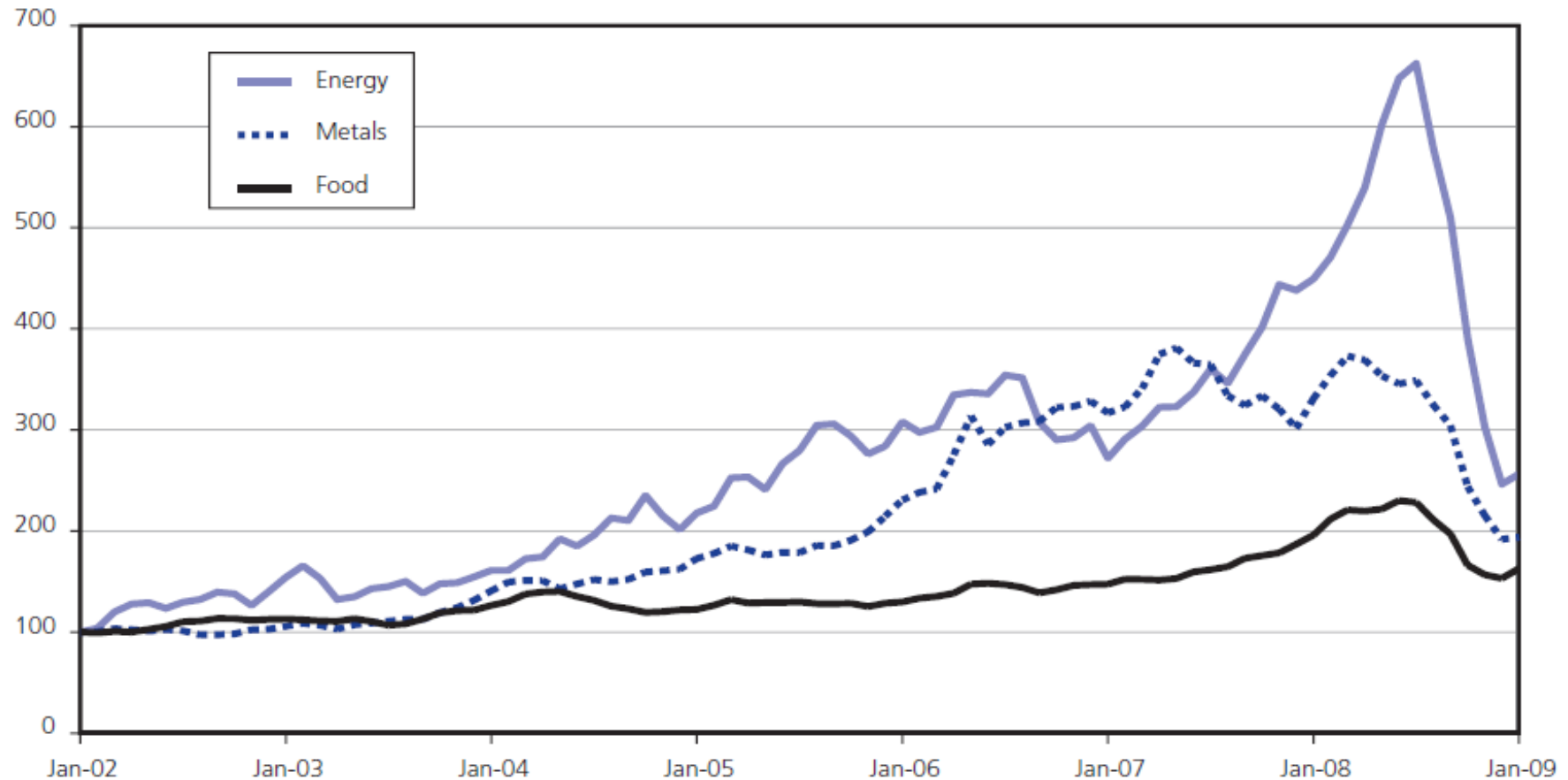
- Note: Indices, 1995=100
- Source: World Trade Report 2003, p.35
- Source: Commodity price indices of food, beverages, agricultural raw materials and metals are taken from the IMF's International Financial Statistics series.

Figure 2: Relative Commodity Price Developments, 1957-2001



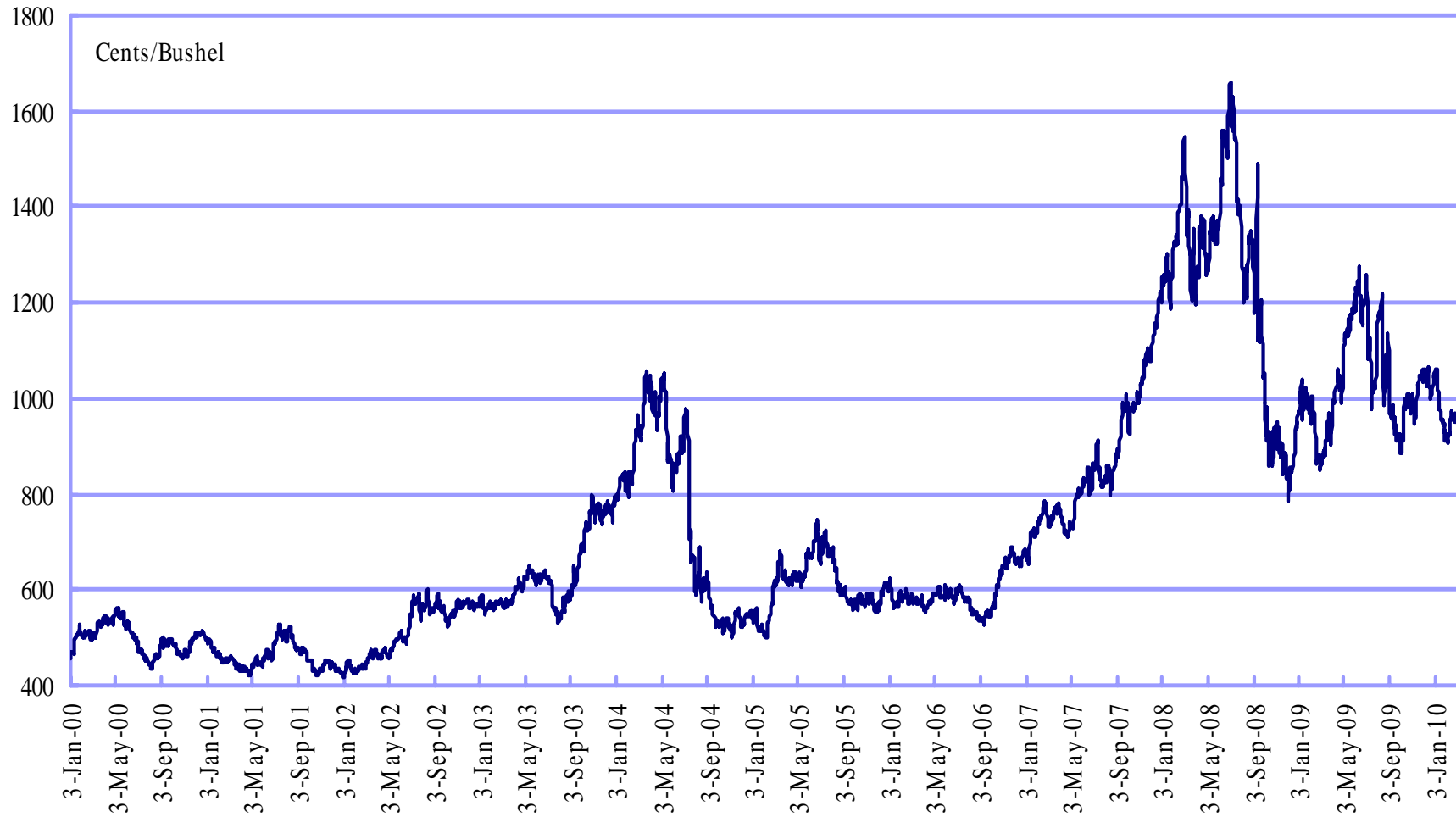
- Note: Indices, 1995=100
- Source: World Trade Report 2003, p.35
- Source: IMF (2003). International Financial Statistics. Manufacturing unit values from the World Bank.

Figure 3: Prices of Selected Primary Products, January 2002-January 2009



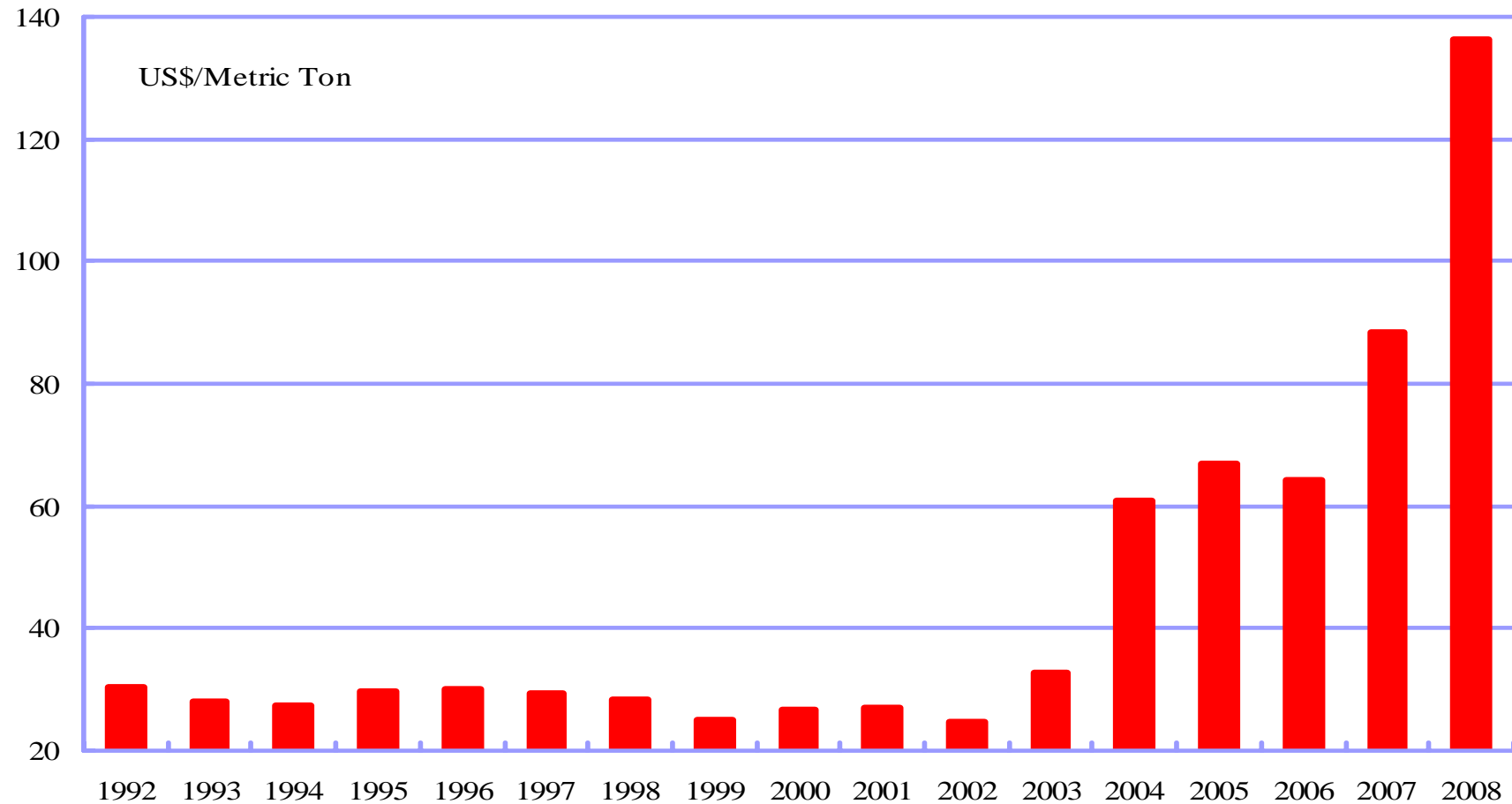
- Note: Index, January 2002=100
- Source: World Trade Report 2009, p.4
- Source: IMF International Financial Statistics.

Figure 4: Soybean Closing Price of Futures Market in CBOT



• Source: Wind Data and Information

Figure 5: Average Import Price of Iron Ore in China Customs

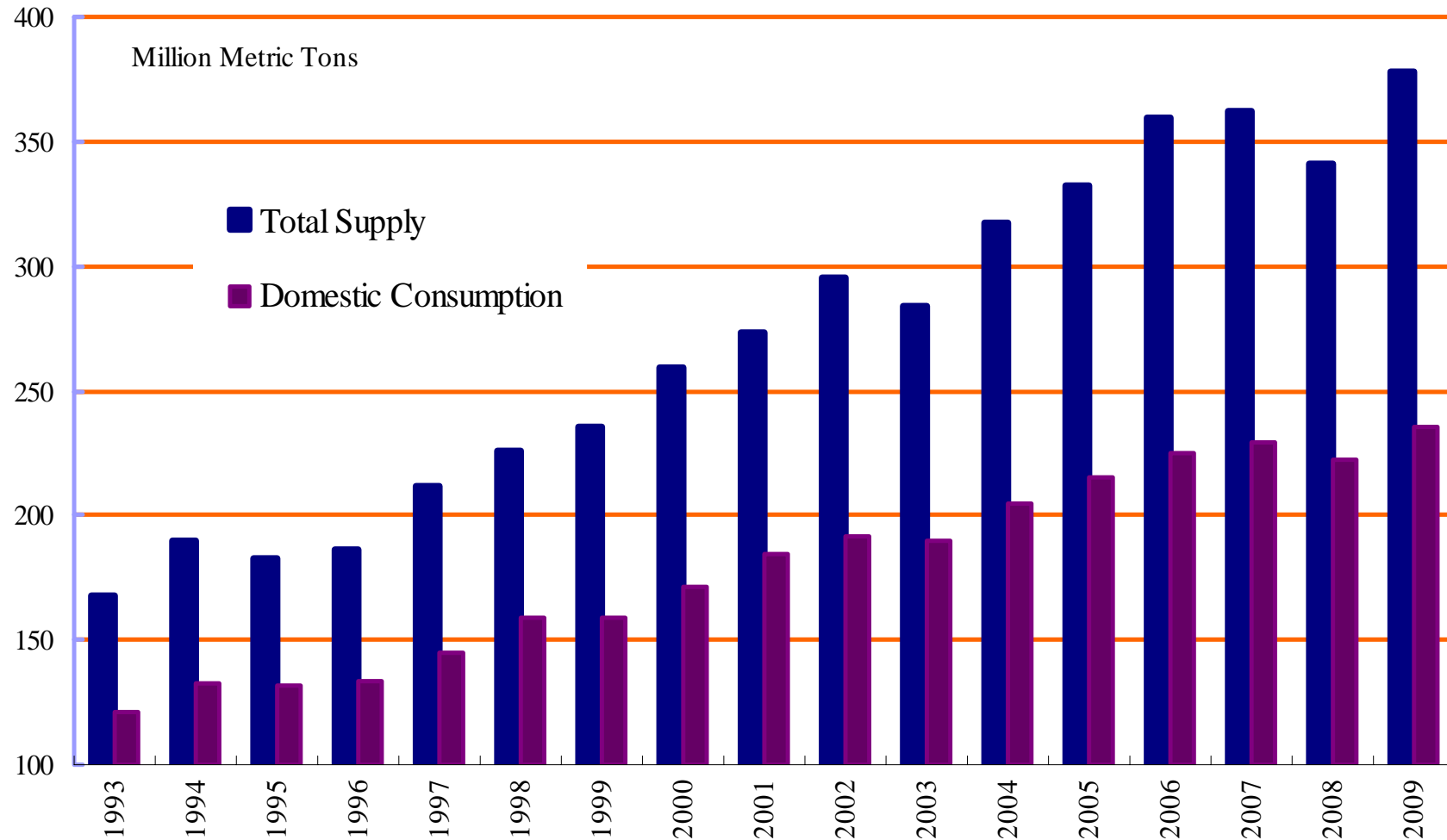


- Source: China Customs Statistical Yearbook, Various Years.

3. Cause Analysis of Commodity Price Fluctuations

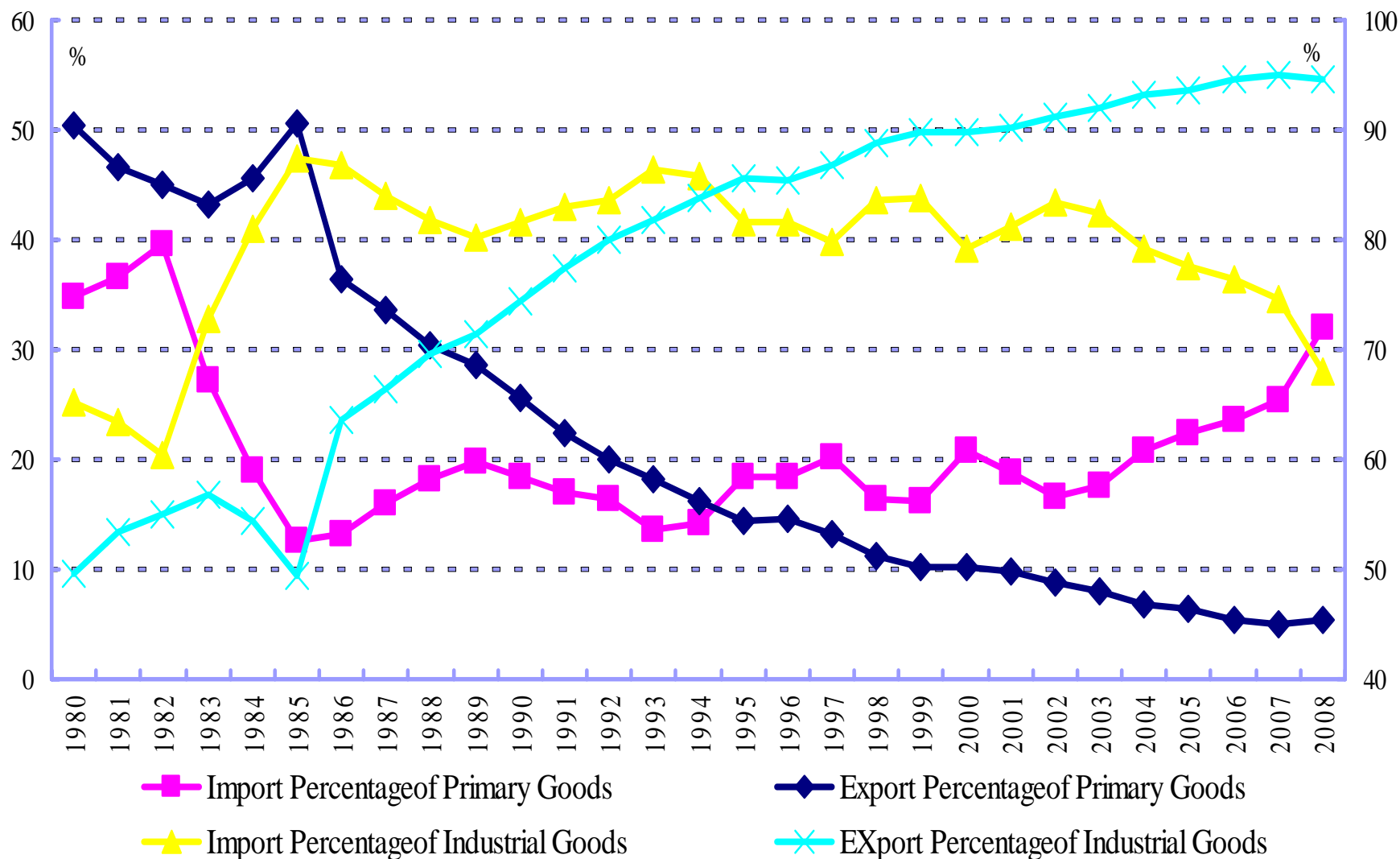
- Aggregate Supply and Demand
- Economic Development Pattern and Demand from Emerging Economies, e.g. China
- Price Control and Oligopoly by MNCs in Some Commodity Markets
- Passive Acceptance of Price-decision, Especially by Developing Countries

Figure 6: World Aggregate Supply and Demand



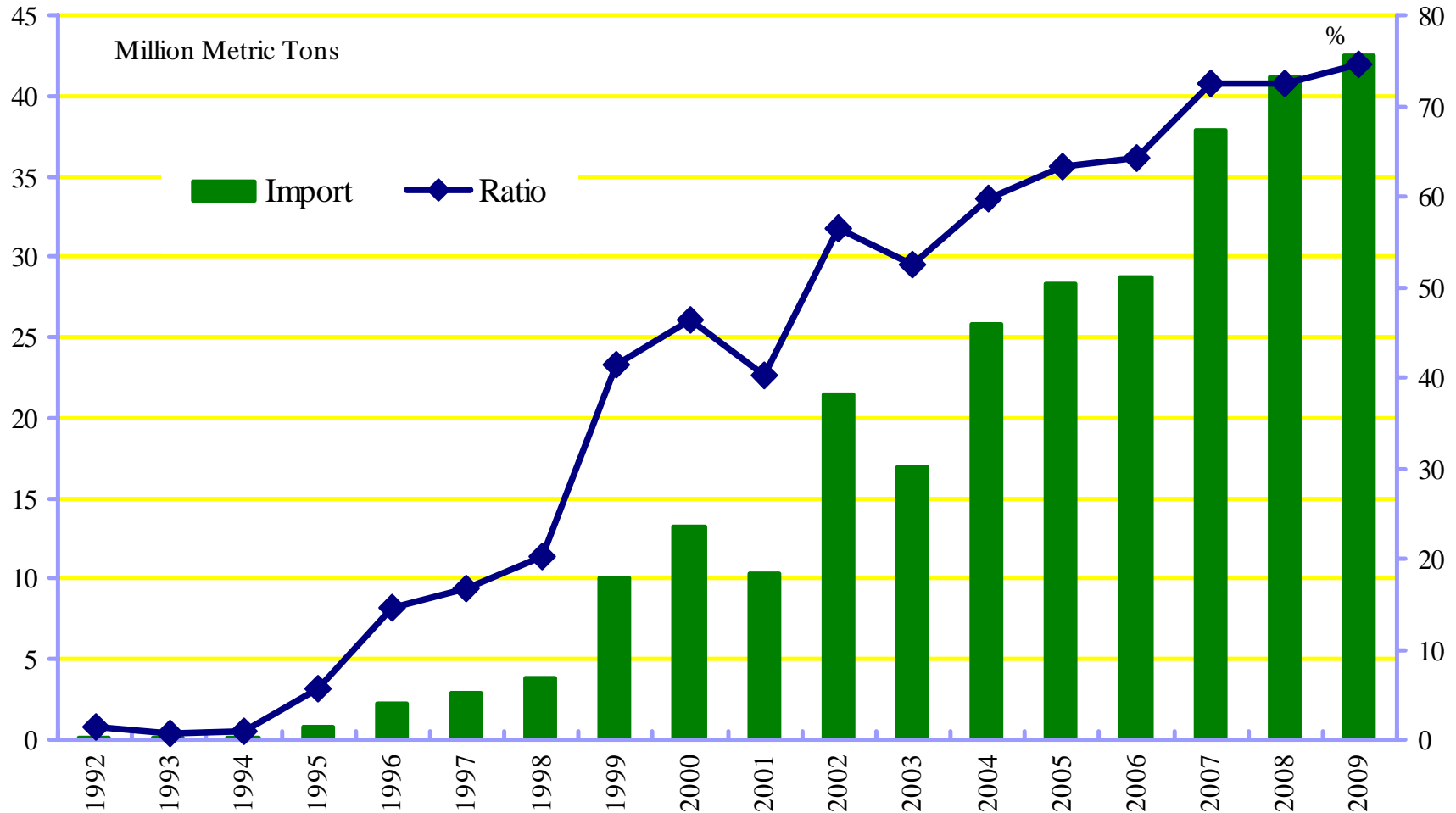
- Note: Total Supply = Production + Import + Beginning Stock, Domestic Consumption = Crush + Feed Seed and Waste
- Source: [Http://www.usda.gov/](http://www.usda.gov/).

Figure 7: China's Trade Structure of Primary Goods and Industrial Goods



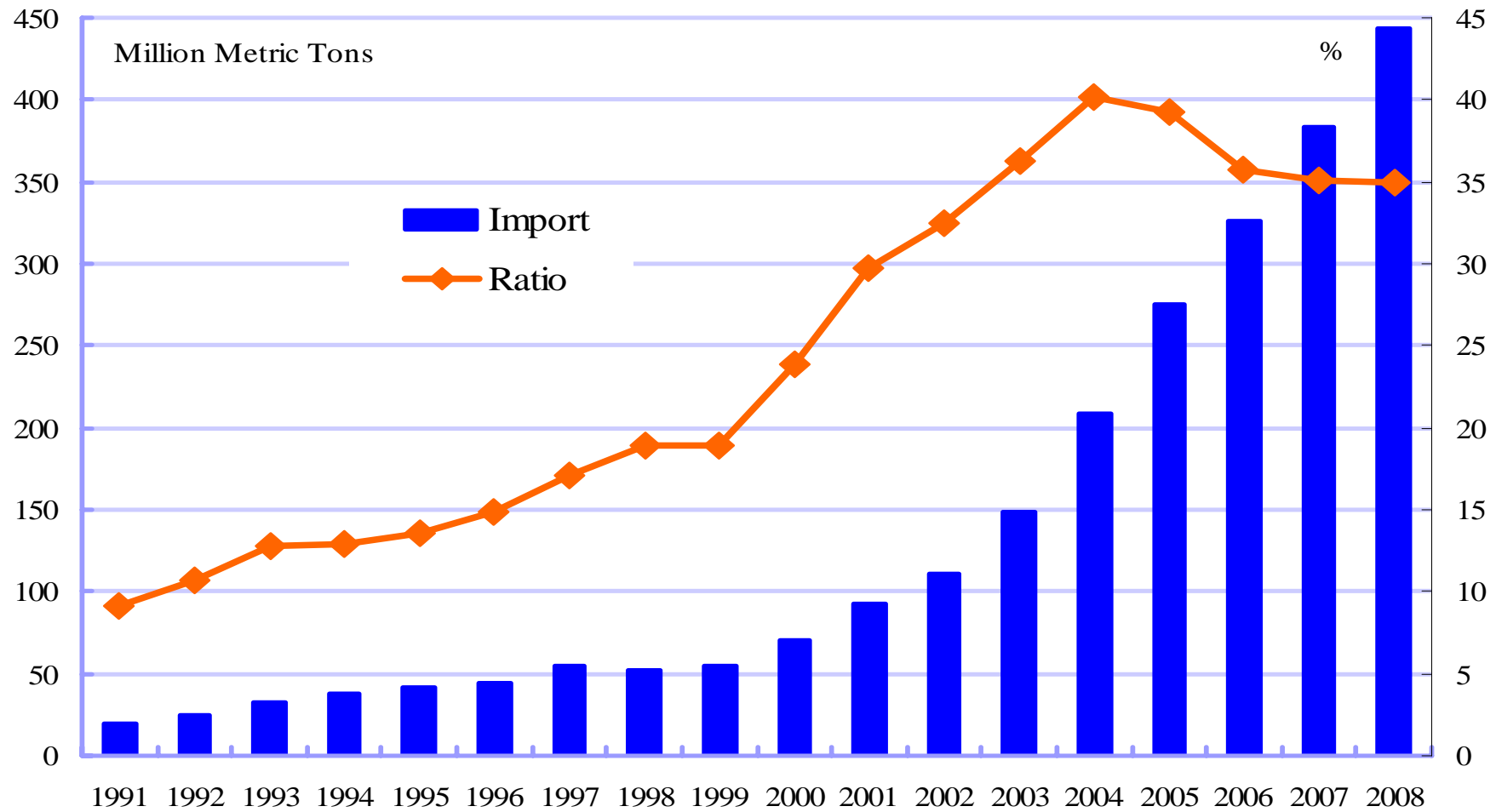
• Source: Statistical Yearbook, China, Various Years.

Figure 8: China Soybean Import and Ratio of Import Dependency



• Source: [Http://www.usda.gov/](http://www.usda.gov/).

Figure 9: China Iron Ore Import and Ratio of Import Dependency



• Source: Steel Statistical Yearbook, World Steel Association, Various Years.

Table : Negotiations of Iron Ore Price (2005-2009)

Agreement Time	Negotiation Parties		Price Growth of Iron Ore (%)	
	Purchasing Parties	Supplying Parties	Powder Iron Ore	Lump Iron Ore
2005 Feb	Nippon Steel	Rio Tinto Group	71.5	71.5
2006 Jun	Baosteel Group	VALE	19	19
2006 Dec	Baosteel Group	VALE	9.5	9.5
2007 Mar	Nippon Steel, POSCO	VALE	65	71
2008 Jan	Baosteel Group	Rio Tinto Group	79.88	96.5
2009 May	Nippon Steel	Rio Tinto Group	-33	-44
2009 Aug	China Iron and Steel Association	FMG	-35.02	-50.42

Multinational Corporations (MNCs)

- Agricultural Products
 - A, Archer Daniels Midland (ADM), US
 - B, Bunge, Netherlands
 - C, Cargill, US
 - D, Louis Dreyfus, France
- Mineral Products
 - VALE, CVRD, Brazil
 - Rio Tinto, Australian
 - BHP Billiton, Australian
- Rio Tinto Espionage Event
 - July 2009, more than 700 billion RMB loss

Conclusions

- Neither suppliers nor buyers can decide commodity prices.
- Prices which are seemingly induced and anticipated by futures market, are actually controlled by a few MNCs in the specific markets.
- As an emerging economy, China is one of the main suppliers and consumers of commodities. It has suffered huge losses and paid high cost for a long period.
- Some factors will contribute to the reduction of price volatility: suitable economic development pattern, efficient use of resources and sustainable development, and balance of the interests of different parties.

4. Impact on China's Economy

- Increase exchange cost, and decrease social welfare.
- Lead to great loss, bankruptcy of some enterprises, and unemployment of workers.
- Make shock to economic development
- As one of world economy engines, China's unsound economic growth will make great influence on the other economies.

5. Some Proposals

- Capacity building and better use of risk management instruments, enhance cooperation between suppliers and consumers.
- Encourage M & A in industrial chains.
- Fight against market monopoly in line with the economic laws.
- International organizations (for example, UNCTAD, WTO) establish and perfect commodity price-coordinating mechanism.
- Seek new materials and other substitutes through technological progress and revolution.

Thanks!

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