

The Re-Emergence of China as an Economic Superpower: Implications for the Commodity Markets

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January 2008



1. Introduction

History is not kind to empires. One powerful nation after another gets a turn to dominate the world politically, economically and culturally, then it declines, and eventually falls – rarely to return to a dominant position. For example, in recent history Spain was the greatest economic power in the 16th century, France dominated the 18th century, Britain the 19th century, and the Americans ruled by and large the 20th century. Today it seems that China will dominate the 21st century, and it will not be for the first time.

At the turn of the first millennium China was a great empire with a strong market economy. For example, it was engaged in international commerce with a vast fleet of sailing ships, shops in the capital city were open 24 hours a day, and the Chinese were using paper money then, long before it was currency in the West.

This paper evaluates the resurgence of China as a major economic power. Moreover, the important influence its economic development has had on commodity prices in recent years and the expected implications of China's surging commodity demands for future commodity prices will be considered. Are we indeed experiencing a period of permanently high commodity prices or will commodity prices still exhibit a cyclical nature?

2. The Boom in Commodity Prices: An Overview

Since the early 2000s we have witnessed a propelled increase in commodity prices; first oil and other energy-related commodities, then metals, followed by agricultural products (grains, oilseeds and livestock).

The Reuters-CRB Index (chart 1) measures the price index of a broadly diversified basket of commodities. From the chart it can be noticed that the previous commodity bull market started in the early 1970s with the Suez oil crisis and lasted until the early 1980s. Since then commodity prices generally moved sideways until the advent of the recent bull market in the early 2000s.

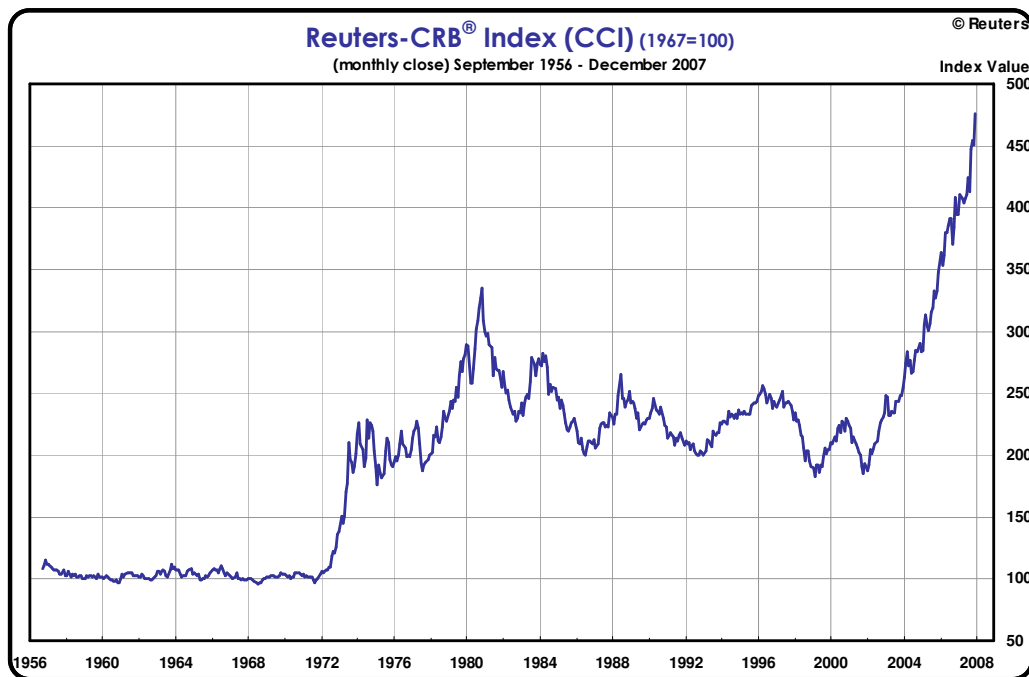


Chart 1: The Reuters-CRB Commodity Price Index

Source: www.crptrader.com

Various market forces have contributed to the recent surge in commodity prices, namely:

The Economic Growth of the Emerging Markets

In recent years the world has enjoyed its strongest growth in 30 years, especially in "developing Asia". A number of developing countries, notably China have reached the stage in development where their use of resources is escalating. Economic liberalization and deregulation have freed about 3 billion people who were labouring in planned and closed economies.

Production and Capacity Constraints

Low commodity prices in the 1980s and 1990s depressed global investment in commodity production. High-cost capacity was shut down, companies merged, and inventories were drawn down. The mining industry reduced capacity in 1990s through mergers and restructuring. Environmental regulations also made capacity less responsive. Producers were caught short when demand rose.

Favourable Currency Exchange Rates

A depreciating dollar translates into higher dollar-denominated commodity prices. Since February 2002, the US dollar has lost one quarter of its value against a basket of major currencies. If the dollar is worth that much less on foreign exchange markets, commodity producers will understandably demand more dollars for a given unit of their goods.

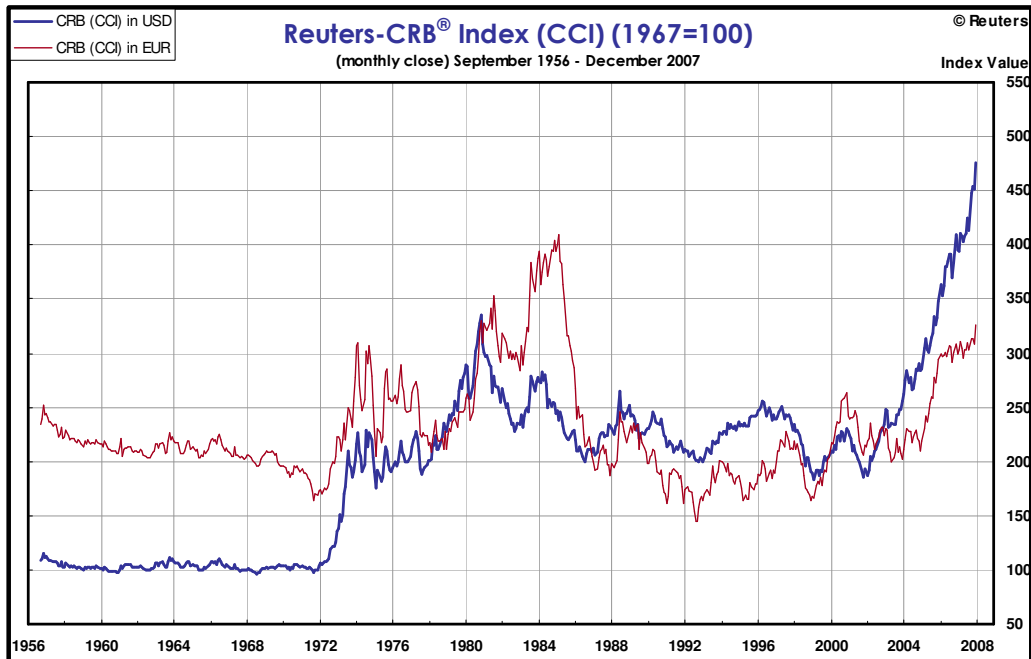


Chart 2: The Reuters-CRB Index in US Dollars and Euro

Source: www.crptrader.com

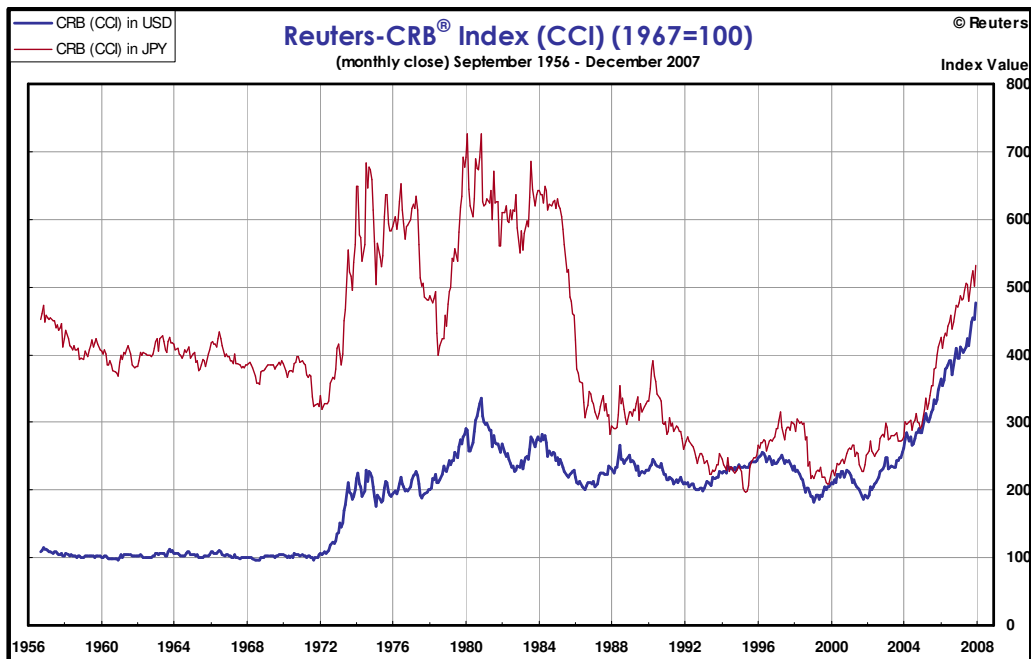


Chart 3: The Reuters-CRB Index in US Dollars and Yen

Source: www.crptrader.com

Geopolitical Risk

Commodity buyers are being charged a higher "security premium" because of rising geopolitical tensions. Experts say the terrorist attacks of September 11, 2001, the invasion of Iraq, and looming confrontations with Iran and North Korea have added as much as \$15 to the price of a barrel of oil. Rising anxieties and oil prices have had a knock-on effect on the price of other commodities.

Investment Demand

In the past few years commodities have emerged as an investment asset. Low global interest rates and underperforming global stock markets in the early 2000s have sent hedge funds and institutional investors in search of better yields. NYMEX oil futures contracts have increased four-fold in the past decade, and non-commercial contracts now make up one-sixth of the market. It would be wrong to say investor speculation is driving higher prices. Investors are following the fundamentals of the market, providing funds that help the market translate changes in sentiment into changes in prices. Higher prices are causing increased investor participation, not vice versa.

3. China's Economy: Facts & Figures

Since the reforms of Deng Xiaoping began in 1978, China's economy has grown by more than 8 % per year. Notably, in the recent past economic growth accelerated rapidly and reached double digits (table 1).

Table 1: General economic indicators, 2002-06

Main indicators	2002	2003	2004	2005	2006
Real GDP growth	9.1	10.0	10.1	10.2	10.7
Consumer price index (%)	-0.8	1.2	3.9	1.8	1.5
Trade (% growth)	21.8	37.1	35.7	23.2	23.8
Exports (% growth)	22.4	34.6	35.4	28.4	27.2
Imports (% growth)	21.2	39.8	36.0	17.6	20.0
Industrial value added output (% growth)	16.5	27.3	30.5	31.7	16.6
Fixed-asset investment (% growth)	16.9	27.7	26.8	26.0	23.8
Retail sales (% growth)	11.8	9.1	13.3	12.9	13.7
Urban per capita disposable income (RMB) (% growth)	12.3	10.0	11.2	11.4	12.1
Rural per capita net income (RMB) (% growth)	4.6	5.9	12.0	10.8	10.2
Unemployment rate**	4	4.3	4.2	4.2	4.1

Source: USCBC Database, 2007

More importantly, to understand China's impact on the commodity markets the above table indicates that the growth in trade and imports, industrial output and fixed-asset investment averages more than 20% over the past five years.

3.1. The World's Leading Emerging Market Economy

Currently, more than two-thirds of global growth are being contributed by emerging market and developing countries (chart 4). Not only is China the leading emerging market economy, but in 2007 it also contributed more to global economic growth than the US economy (chart 5).

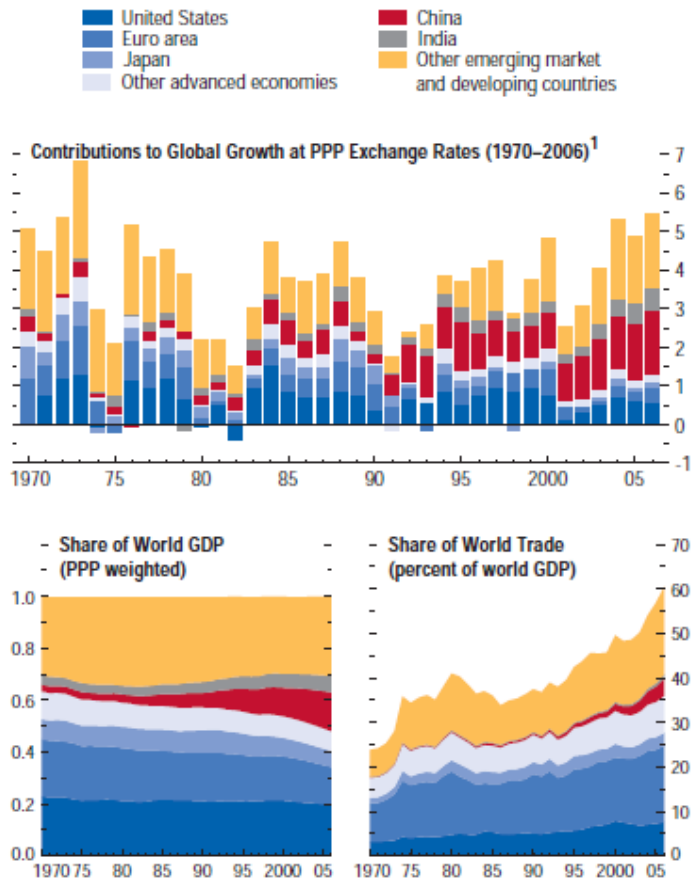


Chart 4: Major economies of the world

Source: IMF, *World Economic Outlook*, October 2007

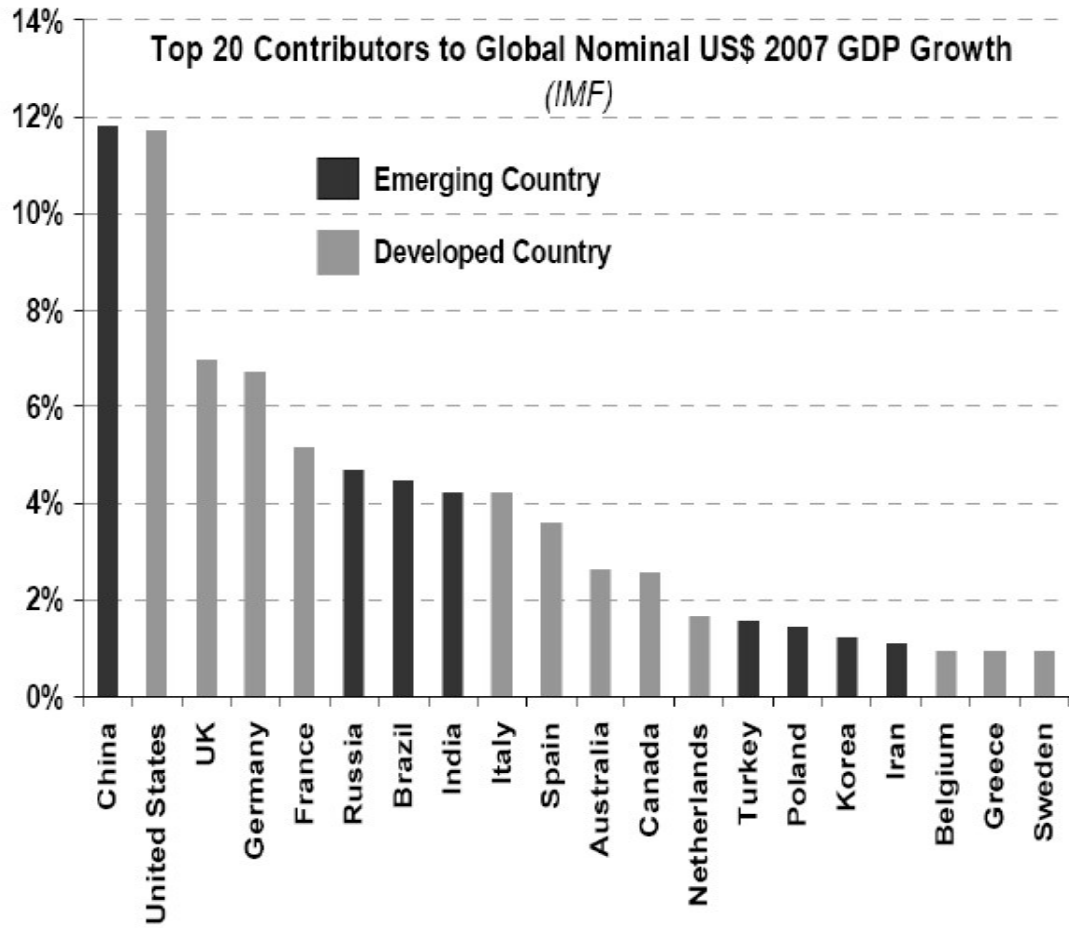


Chart 5: Contribution of individual countries to global economic growth

Source: Investec Asset Management, 2007

3.2. Economic Growth

China is one of the fastest growing economies of the world; currently 11.5% year-on-year. At the current exchange rate of the *yuan* it is the world's fourth largest economy with a GDP of \$2.5 trillion.

It is expected that China will overtake Germany by 2008 as the world's third largest economy, and Japan's second spot by 2011. At current growth rates it is projected that China will topple the USA as the world's largest economy by 2020 (table 2).

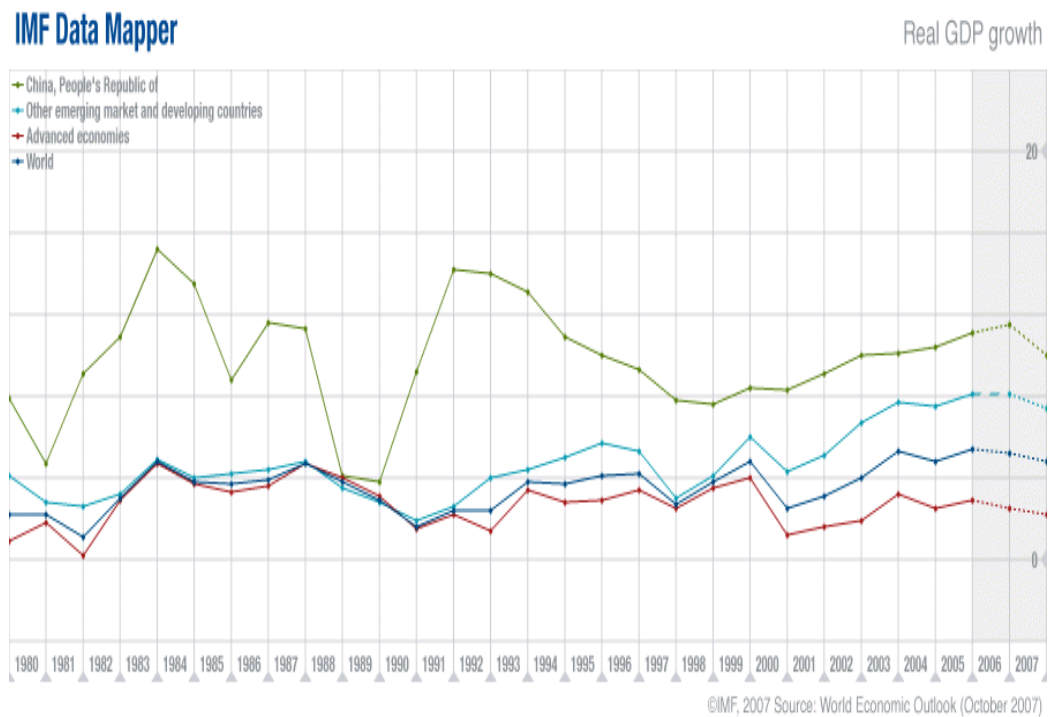


Chart 6: China's economic growth compared to other economic regions/markets

Source: IMF Data Mapper, 2007

Table 2: The Trillion-Dollar Economies of the World

Rank	Country	GDP in US\$ (billion US\$)
1	United States of America	13,220
2	Japan	4,911
3	Germany	2,858
4	China	2,512
5	United Kingdom	2,341
6	France	2,154
7	Italy	1,780
8	Canada	1,089
9	Spain	1,081

Source: *CIA World Factbook, 2007*, www.photius.com

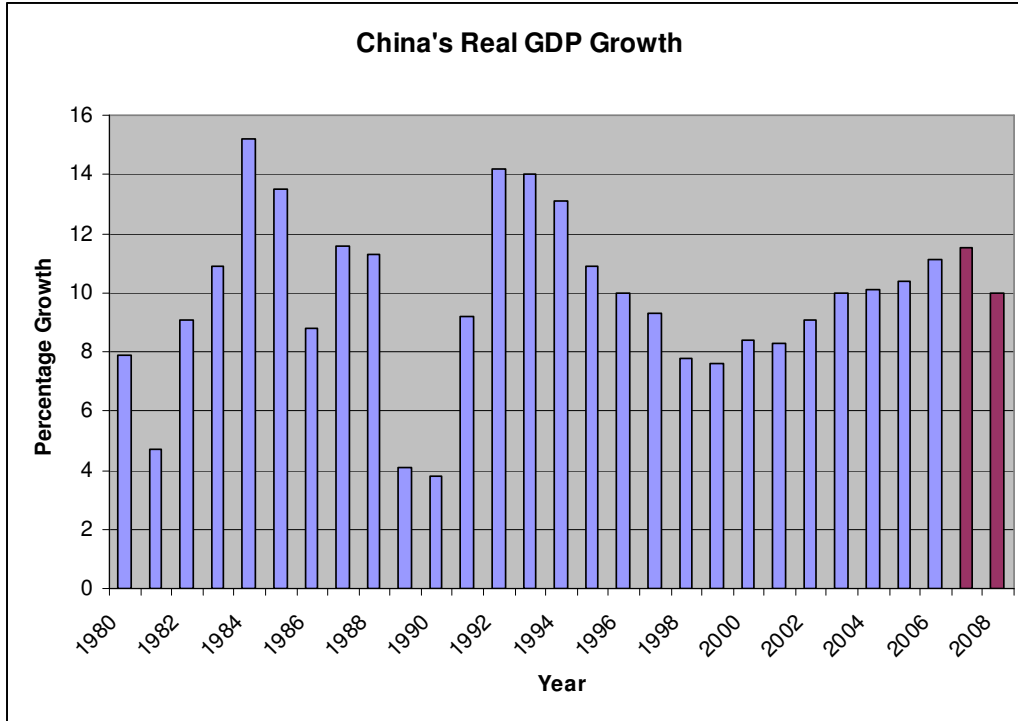


Chart 7: China's Real GDP growth – historical and expected

Source: International Monetary Fund, World Economic Outlook Database, October 2007

3.3. Wealth Accumulation

While China is one of the largest economies in the world, it is by no means one of the richest nations. When the economy's size and wealth distribution is expressed in GDP per capita (on a purchasing power parity basis) it still lags far behind the developed economies of the world; for example it records a moderate \$6,700 per capita versus America's \$43,500, but is growing rapidly at an average rate of 10% (table 3).

[South Africa's economy is measuring on the same basis \$13,000 per capita, but while an estimated 50% of South Africa's population is living below the national poverty line, only 10% of the Chinese population is living below their national benchmark; thus a much less skewed wealth distribution.]

Table 3: China's GDP per capita

Year	China GDP based on PPP per capita GDP US dollars Units	percent change
1980	419.87	
1981	476.59	13.5%
1982	543.10	14.0%
1983	617.89	13.8%
1984	728.98	18.0%
1985	840.53	15.3%
1986	920.26	9.5%
1987	1037.75	12.8%
1988	1175.86	13.3%
1989	1251.46	6.4%
1990	1329.94	6.3%
1991	1483.75	11.6%
1992	1713.48	15.5%
1993	1967.11	14.8%
1994	2236.89	13.7%
1995	2495.86	11.6%
1996	2758.44	10.5%
1997	3020.60	9.5%
1998	3262.97	8.0%
1999	3517.64	7.8%
2000	3852.52	9.5%
2001	4211.44	9.3%
2002	4606.52	9.4%
2003	5087.16	10.4%
2004	5641.63	10.9%
2005	6193.42	9.8%
2006	6760.62	9.2%

Source: ECONSTATS Database, 2007

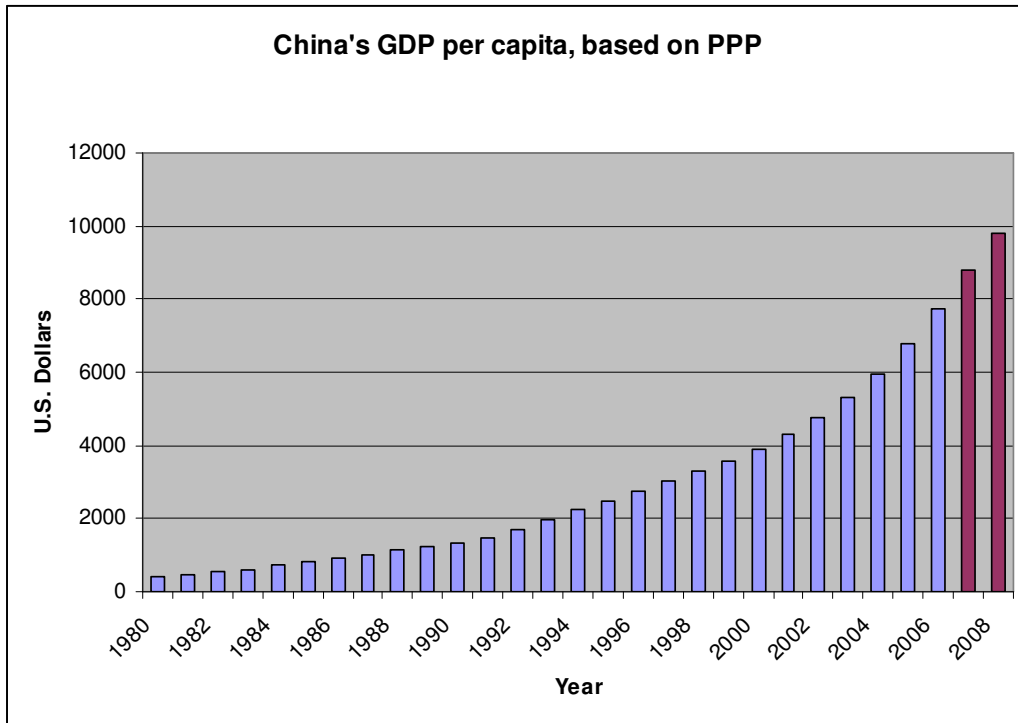


Chart 8: Growth in China's GDP per capita

Source: International Monetary Fund, World Economic Outlook Database, October 2007

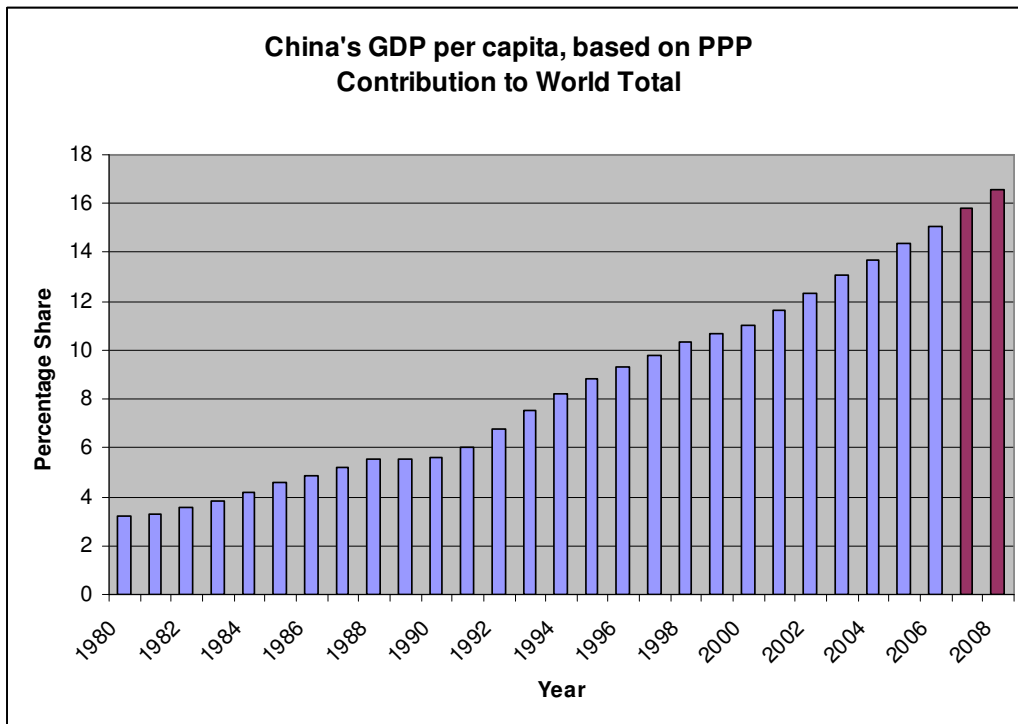


Chart 9: Growth in China's GDP per capita in world context

Source: International Monetary Fund, World Economic Outlook Database, October 2007

3.4. Foreign Direct Investment

China is the world's top foreign direct investment (FDI) destination with inflows totalling about \$70bn in 2006. The manufacturing sector is the main recipient of inflows (\$40bn), but foreign investments into the services sector of the Chinese's economy are expanding at a rapid pace.

Table 4: The 10 most attractive FDI destinations in the world

Rank	Country
1	China
2	India
3	United States of America
4	United Kingdom
5	Hong Kong
6	Brazil
7	Singapore
8	The United Arab Emirates
9	Russia
10	Germany

Source: FDI Confidence Index, AT Kearney Consulting, 2007

Therefore, it is no surprise that China's industrial production growth is for all practical purposes the highest in the world with a growth rate of 23% recorded in 2006.

[South Africa is ranked among the top 20 potential FDI targets, according to the *FDI Confidence Index*, compiled and conducted by the consulting firm, *AT Kearney*, in a survey among executives of 1,000 major companies all over the world.]

3.5. International Trade

From being a marginal player in the global economy 30 years ago, China is now the world's third largest trading nation, ahead of Japan and behind only the United States and Germany.

China is the world's second largest exporter (Germany is the world's top exporter), while it is the third largest importer of goods and commodities (behind the USA and Germany).

Table 5: China's Trade with the World (\$ billion)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Exports	148.8	151.1	182.7	183.8	194.9	249.2	266.2	325.6	438.2	593.3	762.0	969.1
% change	23.0	1.5	20.9	0.5	6.1	27.8	6.8	22.4	34.6	35.4	28.4	27.2
Imports	132.1	138.8	142.4	140.2	165.7	225.1	243.6	295.2	412.8	561.2	660.0	791.6
% change	14.3	5.1	2.6	-1.5	18.2	35.8	8.2	21.2	39.8	36.0	17.6	20.0
Total	280.9	289.9	325.1	324.0	360.6	474.3	509.8	620.8	851.0	1,154.6	1,421.9	1,760.7
% change	18.7	3.2	12.1	-0.4	11.3	31.5	7.5	21.8	37.1	35.7	23.2	23.8

Source: USCBC Database, 2007



Chart 10: China's share in world trade

Source: Deutsche Bank Research, 2006

Table 6: China's Top 10 Trading Partners (\$ billion)

Rank	Country	Value	% Change 2005-06
1	United States	\$262.7	24.2
2	Japan	\$207.4	12.5
3	Hong Kong	\$166.2	21.6
4	South Korea	\$134.3	20.0
5	Taiwan	\$107.8	18.2
6	Germany	\$78.2	23.6
7	Singapore	\$40.9	23.3
8	Malaysia	\$37.1	20.9
9	The Netherlands	\$34.5	19.8
10	Russia	\$33.4	14.7

Source: USCBC Database, 2007

Table 7: China's Top Exports, 2006

Commodity Description	Volume (\$ billion)	% Change from 2005
Electrical machinery & equipment	205.8	34.0
Power generation equipment	168.2	24.9
Apparel	80.2	33.7
Iron & steel	46.1	47.5
Optics & medical equipment	29.5	29.3
Furniture	25.4	25.4
Inorganic & organic chemicals	20.9	20.8
Toys & games	20.8	22.4
Vehicles other than railway	20.4	35.3
Plastics & articles thereof	20.2	26.0

Source: USCBC Database, 2007

Table 8: China's Top Export Destinations, 2006

Rank	Country/Region	Volume (\$ billion)	% Change from 2005
1	United States	203.5	24.9
2	Hong Kong	155.4	24.8
3	Japan	91.6	9.1
4	South Korea	44.5	26.8
5	Germany	40.3	23.9
6	The Netherlands	30.9	19.3
7	United Kingdom	24.2	27.3
8	Singapore	23.2	39.4
9	Taiwan	20.7	25.3
10	Italy	16.0	36.7

Source: USCBC Database, 2007

Table 9: China's Top Imports, 2006

Commodity Description	Volume (\$ billion)	% Change from 2005
Electrical machinery & equipment	198.0	26.8
Power generation equipment	98.9	13.9
Mineral fuel & oil	82.9	43.0
Optics & medical equipment	53.4	19.5
Plastics & articles thereof	34.1	12.5
Inorganic & organic chemicals	32.8	8.8
Ores, slag & ash	29.0	22.9
Iron & steel	24.4	-17.5
Vehicles other than railway	15.4	41.3
Copper & articles thereof	15.2	28.1

Source: USCBC Database, 2007

Table 10: China's Top Import Suppliers, 2006

Rank	Country/Region	Volume (\$ billion)	% Change from 2005
1	Japan	115.7	15.2
2	South Korea	89.8	16.9
3	Taiwan	87.1	16.6
4	United States	59.2	21.8
5	Germany	37.9	23.3
6	Malaysia	23.6	17.3
7	Australia	19.3	19.3
8	Thailand	18.0	28.4
9	Russia	17.7	37.3
10	Singapore	17.7	7.0

Source: USCBC Database, 2007

3.6. Trade Balance and International Reserves

The net result of the huge positive trade balance over the past years is the accumulation of international reserves – the largest in the world at \$1,300bn – and a rising current account balance (charts 11 & 12).

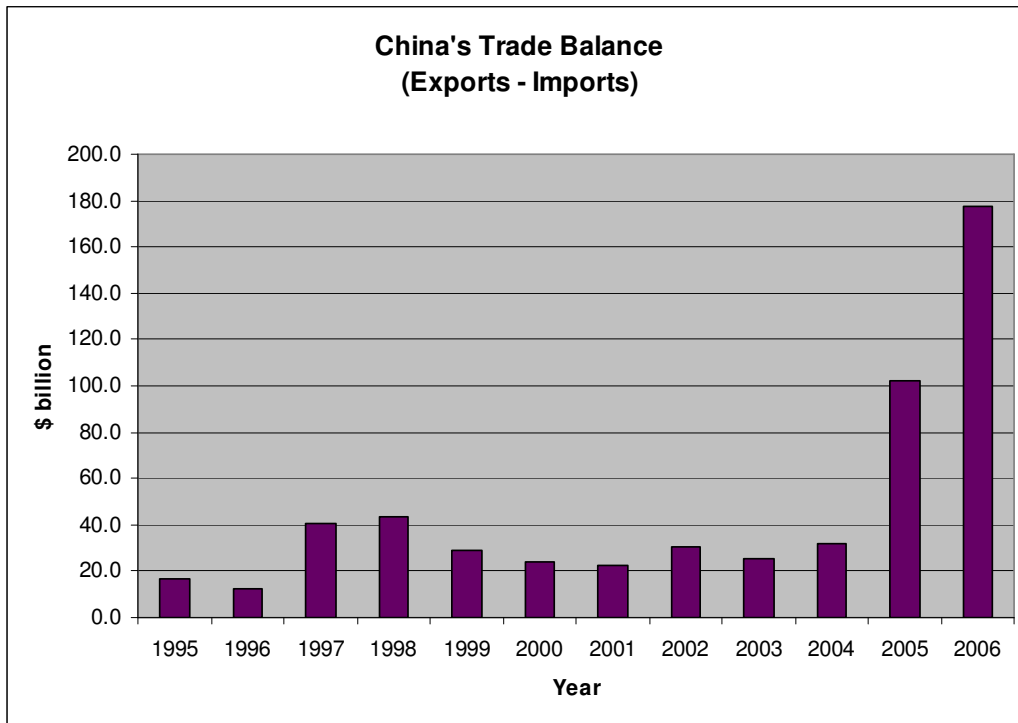


Chart 11: China's surplus trade balance

Source: USCBC Database, 2007

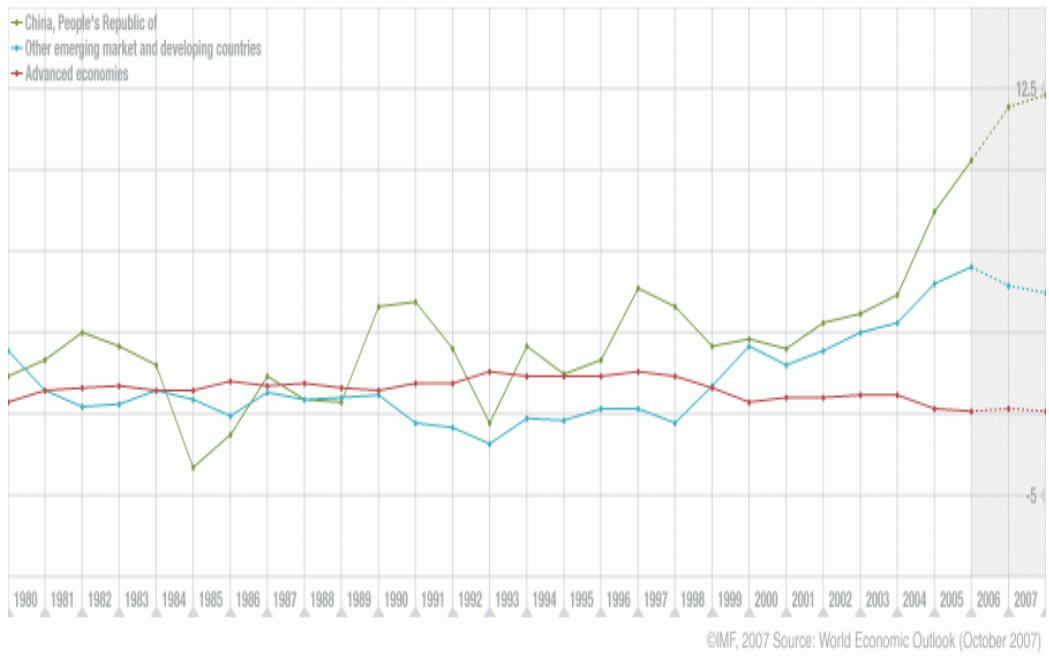


Chart 12: China's current account balance as a percentage of GDP

Source: IMF Data Mapper, 2007

4. China's Impact on Commodity Markets

Trading in commodities is an important part of the globalization phenomenon. Non-fuel commodities account for 14 percent of global trade and fuel another 7 percent; combined, they account for more than one-fifth of global trade.

China's economic expansion in recent years has been accompanied by rapid growth in its manufacturing sector, such as the automobile industry, which has helped drive its increasing demand for commodities.

China's total imports and imports of commodities rose rapidly beginning in 2000, in the period leading up to its entry into the World Trade Organization in December 2001. Today commodity imports account for about one-third of China's total imports (chart 13).



Chart 13: Volume and percentage of commodities imported by China
Source: Deutsche Bank Research, 2006

China's economy is only now reaching the stage of industrialization, urbanization, and infrastructure building – fixed investment is equal to 40% of GDP – that is the most intensive, especially in “hard commodity” (metals) usage.

It is no wonder therefore that China is today the world's top consumer of aluminium, copper, lead, nickel, tin, zinc, iron ore, coal, wheat, rice, palm oil, cotton, and rubber. It has been the world's top consumer and producer of steel for a decade, producing a third of the world's steel, three times as much as either the United States or Japan. While its economy has been growing by 9 percent a year since 1990, its consumption of metals has increased by 17 percent per year.

Table 11: China's top imported commodities

China's top 10 import commodities in 2004*				
Commodity	Value (USD bn)	Global rank	Share in world imports (%)	Share in total Chinese imports (%)
Crude petroleum	33.9	3	6.1	6.0
Chemical elements and compounds	27.7	2	9.5	4.9
Plastic materials, etc.	25.3	1	12.9	4.5
Iron and steel	23.2	2	9.0	4.1
Metalliferous ores and metal scrap	23.1	1	21.7	4.1
Non-ferrous metals	14.3	3	8.5	2.6
Oil seeds, oil nuts and oil kernels	7.2	1	27.8	1.3
Textile fibres, not manufactured, and waste	6.7	1	23.9	1.2
Chemical materials and products	5.6	4	6.0	1.0
Pulp and paper	5.3	1	19.2	0.9

*sorted by import value; values are for gross imports; two-digit SITC-1 classification

Source: UN Comtrade database **3**

Source: Deutsche Bank Research, 2006

Crude oil, metal ores and plastic materials head the list of China's top 10 commodity imports (see table 11). Together, these commodities account for roughly 40% of commodity imports

and 15% of total imports. China is in fact the world's leading importer of plastic materials, metal ores, oil seeds, textile fibres and pulp and paper.

China's rapidly rising demand for commodities, spurred by industrialisation and higher living standards, is having an increasingly significant impact on world commodity markets and prices as well as the economies' of the resource-rich regions of the world.

Latin America and Africa are the main beneficiaries and will continue to profit from the projected surge in Chinese commodity imports (chart 14). Latin America's share in Chinese imports doubled while Africa's rose fourfold in the past decade to 4% and 3%, respectively. In Africa, China mainly buys oil and metals, while Latin America has benefited from China's rising demand for agricultural products.

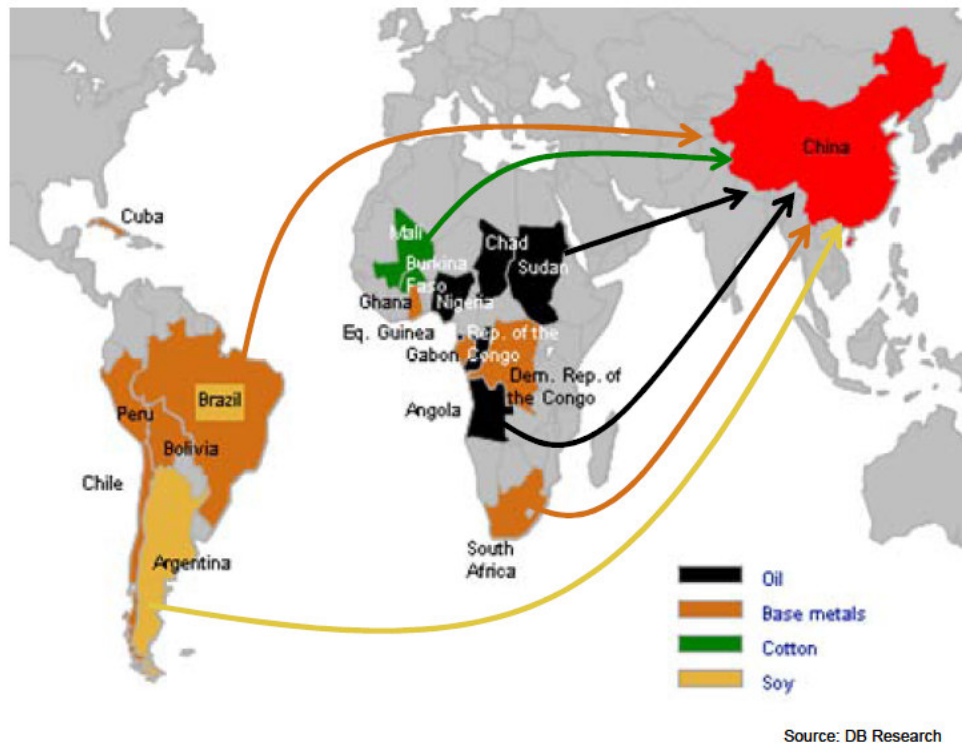


Chart 14: China's major suppliers of important commodities

Source: Deutsche Bank Research, 2006

China's impact on the three major commodity groups, namely oil, metals and agricultural products is briefly evaluated:

4.1 Demand for oil

The most important import commodity is crude oil. China has turned from being a net oil exporter, which it was until 1993, into a net oil importer and is today the world's third-largest oil importing nation, accounting for 6% of world imports and 8% of world consumption.

Chinese demand for crude petroleum has attracted widespread interest in the press and in policy circles in recent years. For example, China's share of world crude petroleum consumption has risen from 4 percent in 1999 to 8 percent in 2004, and total Chinese imports of crude petroleum increased by nearly ten times since 1999, to about \$50 billion today.

However, when considering that "developing Asia" accounts for 60 percent of the growth in world oil demand since 1990 – with China accounting for about half that – it is not likely that China's demand for oil is the only cause for the recent surge in oil prices; geopolitical tensions, production and refinery constraints are likely candidates.

4.2 Demand for agricultural commodities

China is the world's largest consumer of wheat, rice, palm oil, cotton and rubber, and the second largest consumer of soybeans, soy oil, and tea. But China is also a major producer of vegetables, seafood, rice, and corn. In fact, in most years, China runs a surplus in agricultural trade, its major market being other Asian countries.

As a result, China's impact on global agricultural markets is more selective. As incomes in China have risen, consumers have been eating less coarse grains and more meats and processed foods. China's consumption of wheat and rice is actually down since 1990 and corn up only slightly. Meanwhile, its demand for meat, fruits and vegetables has been soaring. China's demand for soy beans has also been rising rapidly because of the demand for soy oil in cooking and soy meal to feed livestock. China is now the world's biggest importer of soy beans.

China's industrial growth has also driven up demand for and prices of cotton, rubber, and wood. Since 2001, China has accounted for 90 percent of global consumption growth of cotton to feed its growing textile and apparel industries. China is now the world's top consumer of rubber, driven by 20 percent annual growth in tyre production and booming automobile sales. China's expanding furniture industry has turned China into the world's top importer of timber.

4.3 Demand for Metals

China undoubtedly has had a major impact on metals' global demand and prices. China has reached a stage in its economic development where its demand for metal commodities is especially intense.

In recent years metal prices have surged due to strong demand (chart 15), led by China, low inventories, and high energy prices, which in turn raised the cost of mining most metals.

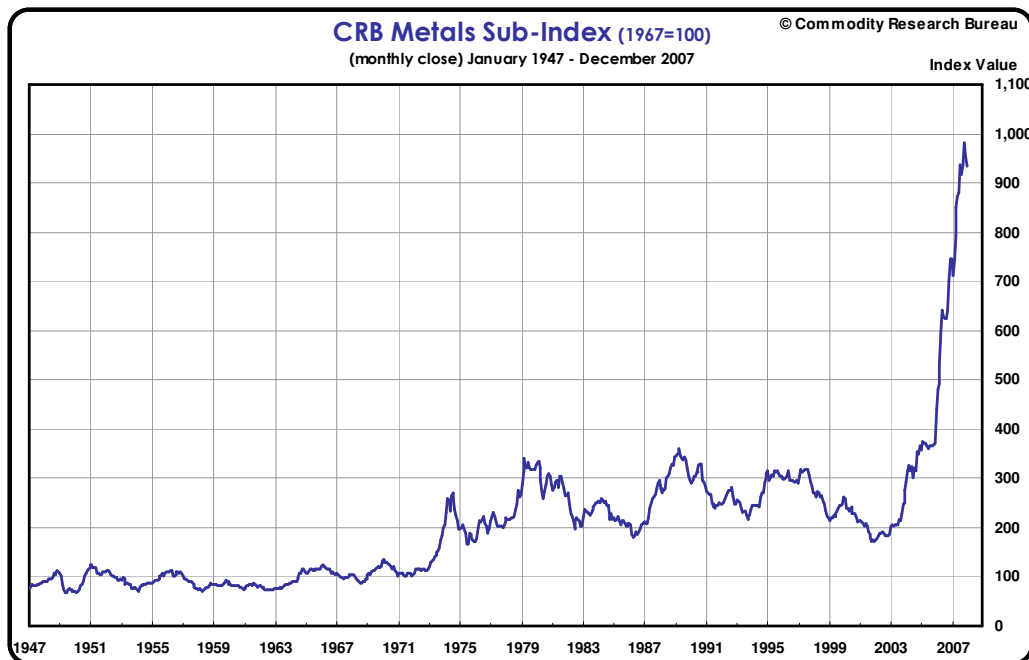


Chart 15: CRB metal price index

Source: www.crptrader.com

China's demand for metals is closely tied to its growth in industrial output, especially stainless steel, electrical wire, cable and infrastructure. Its metal consumption as a share of world consumption has jumped in the past decade from 10% to 25%. Since 1999, China has consumed two-thirds of the world's growth in base metals output. Since 2002, China has accounted for half the world's growth in consumption of steel, copper and aluminium, and for almost all the world's growth in consumption of nickel, tin, lead and zinc.

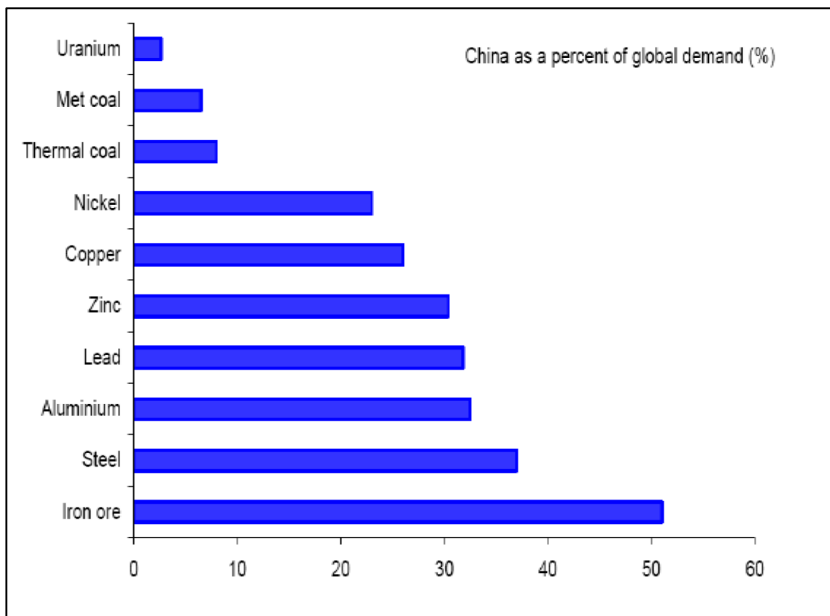


Chart 16: China's Demand for Commodities

Source: *Investec Asset Management, 2007*

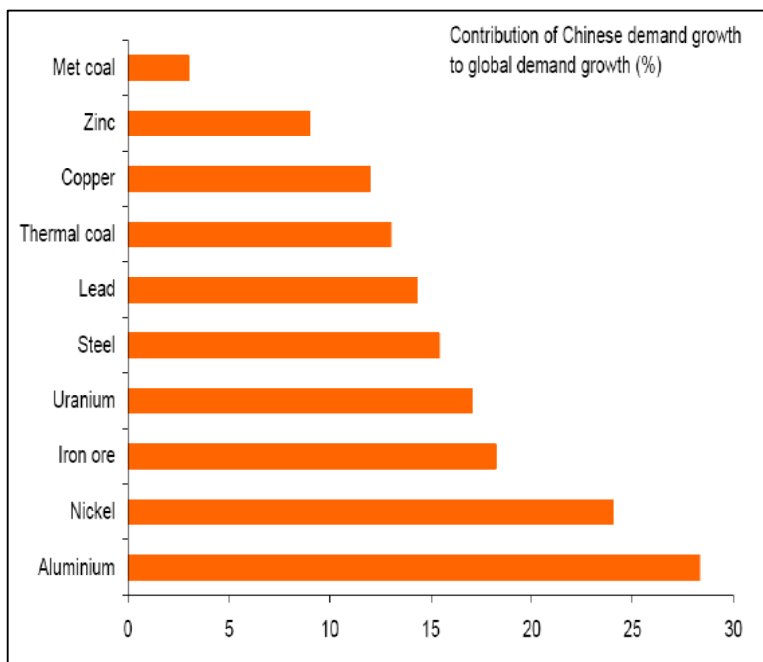


Chart 17: Contribution of the growth in China's demand for commodities to global demand

Source: *Investec Asset Management, 2007*

China is the number one importer of iron ore, manganese, lead, and chromium with shares of world imports ranging from 32% to 54% (see chart 18). Most of these base metals are used in steel production. While China has become the world's second largest steel importer after the United States, the growing domestic steel industry will potentially further raise the demand for the abovementioned base metals.

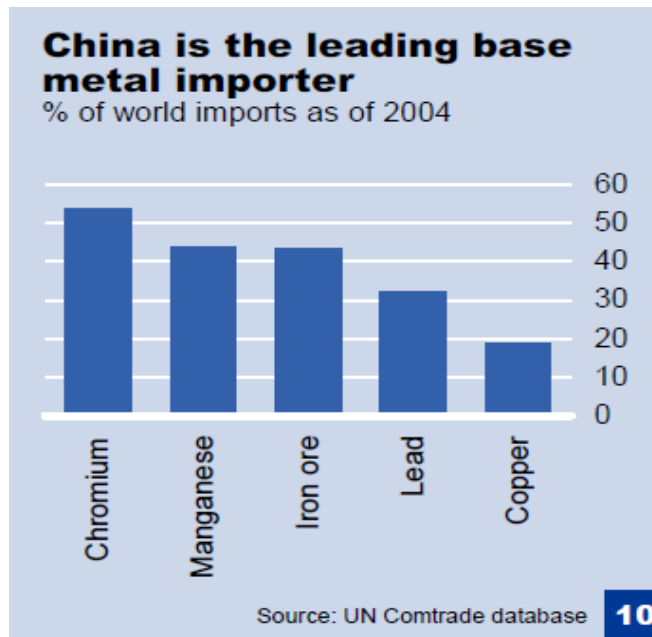


Chart 18: China's base metal imports

Source: Deutsche Bank Research, 2006

In terms of world copper ore imports, China's share in world imports rose to about 25%. Copper is mainly used in electrical products (e.g. wires, conductors in integrated circuits) and metal products (e.g. pipes, tubes, machine tools), i.e. almost any Chinese industry from IT hardware, to automotive and construction. Given China's strong growth in industrial output, it is no surprise that the price of copper rose dramatically in recent years.

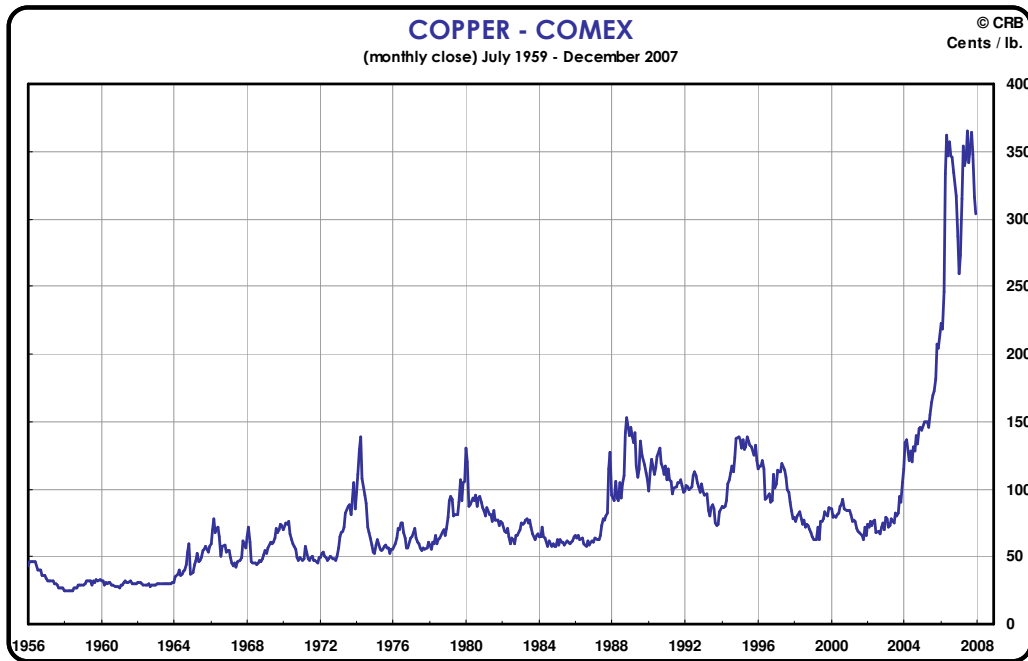


Chart 19: Copper price in cents per pound

Source: www.crptrader.com

The price of aluminium has been the one exception in base metal price trends as it remained flat compared to the others. In this regard China is a major producer and net exporter of aluminium, thus explaining aluminium's lagged price performance.

In summary: While China's impact on oil markets has been modest and its impact on agricultural commodities has been mixed and selective, it has had a tremendous effect on virtually all the major "hard commodities".

5. Future Demand for Commodities

Many market observers believe China's role in global commodity markets will only increase in the next 15-20 years. For example, *Deutsche Bank* is of the opinion that the current bull market in commodity prices will continue for at least the next 15 years as China's industrialisation process and commodity use continue unabatedly.

Furthermore, it is known from the experience of other countries that have industrialized rapidly such as America, Europe after WWII, Japan and South Korea that the intensity of resource use takes off when per capita incomes reach the \$5,000 to \$10,000 range in terms of purchasing power parity, while resource use per capita begins to slow down when per capita income reaches the \$15,000 to \$20,000 range.

With a per capita income of \$6,700 China is just now entering the take-off phase of resource demand. If Chinese per capita GDP (PPP) approaches South Korean levels, say in the next 20 years, its consumption of aluminium and iron ore will increase five-fold, copper nine-fold, and oil eight-fold. For example, *Goldman Sachs* estimated that the number of cars in China will increase from about 20 million today to 100 million by 2020 and 400 million by 2040.

Agricultural imports would increase likewise. In China, land and renewable water resources are scarce and because of changing diets, we can expect growing demands for meat, fish, vegetable oil and oil seeds. For example, Chinese meat consumption today is 50 kilograms per person compared to 130 kilograms in the United States.

Adding to these fundamental forces will be the much expected appreciation of the Chinese currency, the *yuan*. A stronger currency will translate into more buying power for the Chinese in global markets, thus stoking further demand for commodities.

Deutsche Bank developed a forecasting model, based on current growth projections of how China's commodity imports would increase over the next 15 years. These results are shown in table 12.

Table 12: Expected growth in China's commodity imports

Projections for China's commodity import demand					
Commodity	Unit	Annual demand		2006-2020, % change	
		Latest	2020	Total	Avg. p.a.
Iron ore	m tons	148	710	380	10
Oil	m tons	91	1860	1940	20
Soy	m tons	26	50	80	4
Coal	m tons	11	810	7400	20
Copper	m tons	3	20	600	10
Manganese	m tons	3	13	360	10
Meat	m tons	0.3	4	1260	20
Wood	m cubic meters	34	150	330	10

Source: DB Research **7**

Source: Deutsche Bank Research, 2006

Clearly, the demand growth for energy-related commodities (oil and coal) is expected to be very strong while the demand for base metals should moderate to some extent over the next 15 years.

6. Synopsis

Should the expected growth in China's commodity imports materialise over the next decade or two, what would that hold for commodity prices in the long run: A continuation of the recent upward price trend, i.e. permanently higher prices, or perhaps a renewal of the cyclical price trends we have become accustomed to in the past?

While the possible future demand for commodities from China is by all means overwhelming, one should keep economic reality in mind. Therefore, in all probability the latter price pattern will transpire, especially in consideration of the following arguments:

First, the law of supply and demand governs commodity prices. A long period of higher prices causes both consumers and producers to adjust their behaviour in a way that ultimately undermines the higher prices. On the demand side, high prices force conservation and use of synthetic materials and other alternatives. In 2006 the developed countries, including the United States, the European Union, and Japan actually consumed less oil than the year before, even though their economies grew. On the supply side, higher prices are already stimulating greater investment in exploration and production of oil and minerals. For example, investment in mining has already jumped from \$1.9 billion in 2002 to \$5 billion in 2005.

In simple economic terms, the outward shift in the global demand curve is being followed by a slow but sure outward shift in the supply curve, which will eventually mean a downward shift in prices even as the volume of commodities produced and traded each year grows ever higher.

Second, China's hunger for commodities will be dampened eventually by its gradual shift more toward consumption and away from the heavy emphasis on investment, which will lessen its resource intensity. And as incomes continue to grow, more of its economic activity will shift to services, where resource intensity is less than in industry. Adopting new technologies and conservation measures will also reduce the need for commodities to produce a given amount of output.

Third, economic growth around the world is causing structural changes that make commodities relatively less important. Trade is being liberalised, financial markets are becoming more efficient, and less resource intensive substitutes are being found. Better monetary policy, globalization and deregulation, and financial market innovations will help to dampen speculation and keep commodity prices contained in the long run.

It is no surprise that institutions like the *World Bank* and *IMF* predict that commodity prices are expected to be cyclical and volatile, and not to become permanently higher at anywhere

near recent price levels. The *Asian Development Bank* predicts most commodity prices in 2020 will be below their recent peaks, with the exception of forestry and fishery commodities.

In recent years commodity prices in general have responded to the mismatch between supply and demand. While over the short term such price hikes may certainly continue, a combination of more supply coming into the market and less demand, or alternatively more efficient use thereof will exert pressure on commodity prices in the long run.

Hence, one should be wary of extrapolating current commodity prices too far into the future or having unrealistic expectations that the extraordinarily high profit margins of resources companies will continue in the medium to longer term.

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