



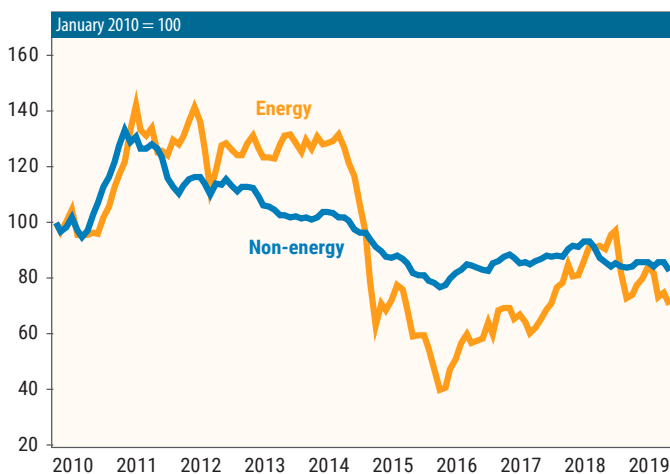
GLOBAL ISSUE

**The legacy of the global commodity price shock:
Long-term output losses and poverty setbacks**

The recently released Sustainable Development Goals Report 2019¹ paints a mixed picture of global progress on extreme poverty eradication. On the one hand, global poverty rates, measured as the proportion of people living below the \$1.90 a day international poverty line, have continued to decline.² In 2018, an estimated 8.6 per cent of the world’s population was living in extreme poverty, down from about 28 per cent in 2000 and 16 per cent in 2010. Much of this decline is due to the rapid progress achieved in East Asia and South Asia. China has virtually eliminated extreme poverty over the past three decades, while India has also made great strides, particularly since the early 2000s. On the other hand, global progress has been highly uneven. In sub-Saharan Africa, more than 40 per cent of the population are still living on less than \$1.90 a day and the total number of extremely

¹ See <https://unstats.un.org/sdgs/report/2019/>.
² The World Bank updated the new global poverty line in October 2015 to \$1.90 per day using 2011 prices.

Figure 1
Commodity price developments



Source: World Bank.

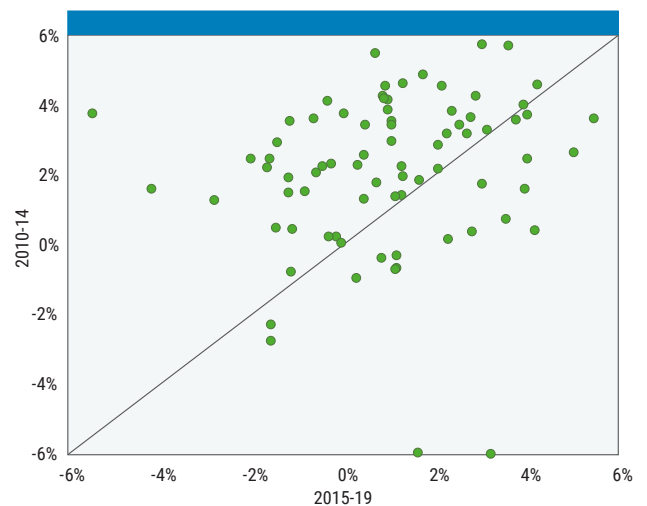
SUMMARY

- » The global commodity price shock of 2014-2016 has caused setbacks in the fight against poverty
- » Poverty eradication in Africa by 2030 is increasingly becoming out of reach
- » The humanitarian crisis in Yemen is exacerbating the poverty situation

poor people is significantly higher today than it was two decades ago. Worryingly, the pace of progress in eradicating poverty has notably slowed in recent years. According to UN DESA estimates as of May 2019³, the number of people living in extreme poverty has risen in several sub-Saharan African countries, where poverty levels are already very high. These countries include the Democratic Republic of the Congo, Madagascar, Mozambique and Nigeria. Poverty rates have also edged up in parts of Latin America

³ World Economic Situation and Prospects as of mid-2019, available from <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-as-of-mid2019/>.

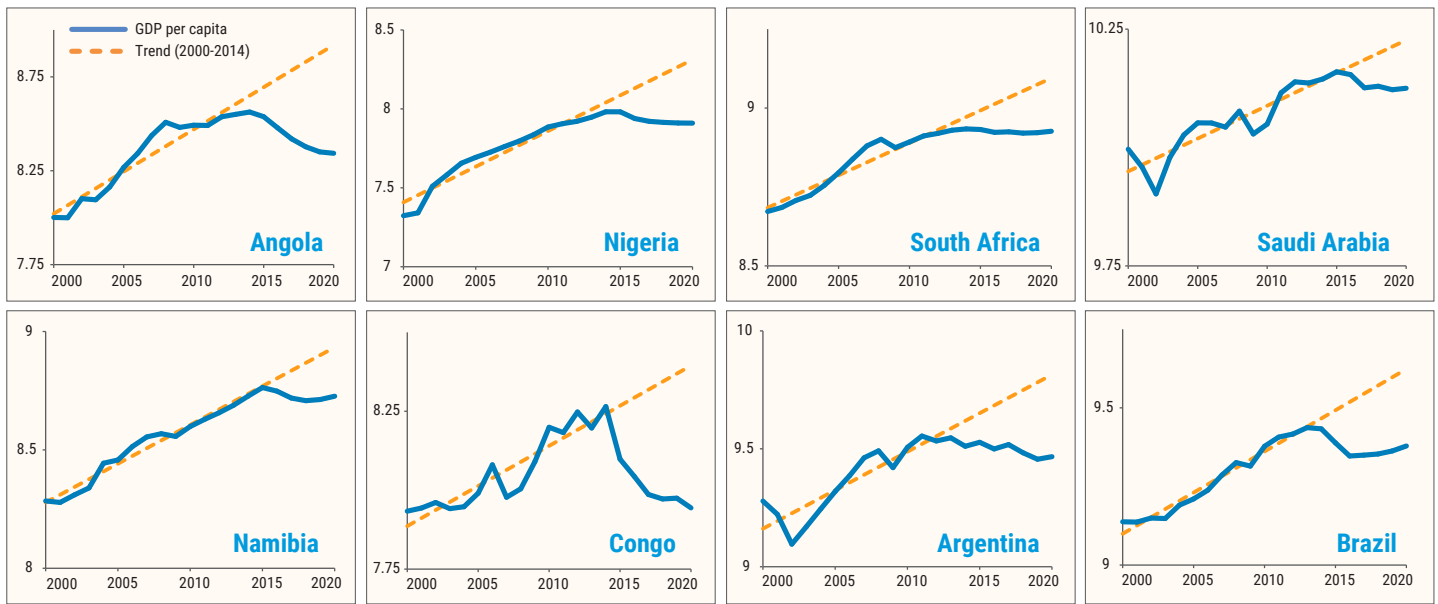
Figure 2
GDP per capita growth of commodity-dependent countries, 2010–14 vs. 2015–19



Note: Countries with growth above 6 per cent or below – 6 per cent in one of the two periods have been excluded.
Source: UN DESA based on World Bank.

Figure 3

GDP per capita trends of selected commodity exporters



Source: UN DESA. Scale expressed in terms of log of GDP per capita. Figures for 2018-2020 include UN DESA estimates and forecasts.

and the Caribbean, including in some of the region's largest economies such as Argentina, Brazil and the Bolivarian Republic of Venezuela.

For many of these economies, setbacks in poverty reduction are a direct consequence of weak macroeconomic performance in recent years. Notably, the sharp commodity price downturn in 2014-16 (figure 1)⁴ has hampered poverty reduction, particularly in the commodity-dependent economies. With commodity prices remaining far below pre-2014 levels, most commodity-dependent countries have been struggling to return to robust economic growth.⁵ Figure 2 illustrates the broad-based economic slowdown in commodity-dependent economies, comparing average GDP per capita growth in the periods 2010-14 and 2015-19. About three quarters of countries are above the 45-degree line, indicating a growth slowdown between the two periods. Average (population-weighted) growth of GDP per capita fell from 2.9 per cent per annum in the period 2010-14 to only 0.5 per cent in 2015-19. Most worryingly, in about one third of all commodity-dependent countries, average real per capita incomes are lower today than in 2014.

What initially appeared to be a temporary negative shock to the terms of trade of commodity exporters, has in many cases morphed into a more fundamental and longer lasting economic

⁴ The downturn was most pronounced in the case of energy prices, which fell by 70 per cent between June 2014 and January 2016. For non-energy commodities, which include agricultural products, metals and minerals, the downward trend began in early 2011, with a peak-to-trough decline of about 42 per cent.

⁵ UNCTAD's State of Commodity Dependence 2019 (https://unctad.org/en/PublicationsLibrary/ditccom2019d1_en.pdf) classifies a country as commodity-dependent when more than 60 per cent of its total merchandise exports are comprised of commodities. In the period 2013-2017, a total of 92 developing and transition economies were classified as commodity-dependent.

slump. Figure 3 illustrates the persistent income losses incurred by selected countries following the commodity price shock. As shown, these countries have not been able to recover the output losses suffered. Compounding this, many of them have experienced a marked downward shift in trend growth. This suggests that potential output growth today is significantly lower than it was in 2014. As a result, the gap between the pre-crisis trend and actual output is likely to widen over time. This finding is in line with the results of previous research studies. Cerra and Saxena⁶ document large and highly persistent output losses in emerging and developing countries associated with financial crises (such as the Asian Financial Crisis) as well as some types of political crises. Ball⁷ finds significant and persistent losses in potential output from the Great Recession in most OECD countries, implying strong hysteresis effects.

These recent trends have raised the question as to why the commodity price downturn has been associated with such profound and lasting economic slumps. While the specific dynamics vary between countries, there is a common thread: Rather than simply causing a deterioration of the terms of trade, the commodity price decline has exposed major weaknesses in the economic structures of countries. Excessive reliance on commodity revenues to finance public spending has required dramatic fiscal adjustments. In many cases, governance deficits and lack of institutional capacity have prevented effective policy responses to support economic activity.

⁶ Valerie Cerra and Sweta Chaman Saxena (2008), Growth dynamics: The myth of economic recovery, *American Economic Review*, vol. 98, No. 1, pp. 439-457.

⁷ Laurence M. Ball (2014), Long-term damage from the great recession in OECD countries, NBER Working Paper No. 20185, Cambridge, Massachusetts: National Bureau of Economic Research.

Sharp declines in public and private investment have weighed on current growth, while also constraining productivity going forward. Often, these economic challenges have been exacerbated by political factors, triggering a vicious cycle of increasing uncertainty and weakening activity. The magnitude of the existing challenges not only clouds the medium-term macroeconomic outlook, but also hampers progress on the Sustainable Development Goals, especially poverty eradication. Policymakers thus face a need to prioritize difficult structural reforms in an increasingly uncertain global environment.

DEVELOPED ECONOMIES

North America: Despite strong job creation, extreme poverty has risen in the United States

On 18 September, the Federal Reserve announced its second interest rate cut since July, citing slower growth abroad and trade policy developments, which have weighed on investment and exports. While economic activity in the United States is clearly on a decelerating path, labour market indicators have remained firm. The unemployment rate continues to hover around its lowest level in decades, at 3.7 per cent. Poverty levels in the United States are closely correlated with job creation, and the steep decline in unemployment since 2010 has lifted a significant number of people out of poverty. According to national definitions, which set a much higher benchmark than the international poverty line of \$1.90 a day, the number of people living in poverty has declined by 17 per cent since 2010. Over the same period, payroll employment has increased by 14 per cent.

Social security is the single most effective policy instrument in reducing poverty in the United States, primarily targeting the retired population aged 65 and older. Meanwhile, sufficient social protection is increasingly failing to reach those at the very bottom of the income distribution, for whom the standard of living has deteriorated further over the last decade. According to the international benchmark of \$1.90 a day, the number of people living in extreme poverty has increased by roughly 1 million between 2010 and 2016.

Developed Asia: Poverty in Japan prevalent among single-parent households

According to the Japanese Government's Comprehensive Survey of Living Conditions, the poverty rate in Japan, in accordance with the OECD's definition of relative income poverty, stood at 15.7 per cent in 2015. The poverty rate edged down from 16.1 per cent in 2012. However, this does not sufficiently indicate a reversal in the long-term trend of rising inequality. The poverty rate of single-parent households stood at 50.8 per cent in 2015, while that of double-parent households stood at 10.7 per cent. Despite the Government's policy efforts, the lack of childcare services still prevents many single parents, mostly female, from accessing decent employment opportunities.

Europe: Decline in poverty, but with marked variations

In the European Union (EU28), the latest available aggregate data for 2016 indicate that 23.5 per cent of the population, or 118 million people, were at risk of poverty or social exclusion. While this constitutes a measurable decline from the peak of 123.6 million people reached in 2012, the current numbers are still higher than before the onset of the financial crisis in 2009. In terms of risk profile, women, young persons, unemployed persons and persons with a lower level of education tended to have a greater risk of poverty or social exclusion. The risks also varied geographically in terms of the degree of urbanization. For the region as a whole, about 26 per cent of the rural population was at risk of poverty or social exclusion, while the rate was slightly lower, at about 24 per cent, for urban areas. However, there were marked differences between individual countries. In large parts of Western Europe, including Austria, Belgium, Denmark, Germany and the Netherlands, the risk was most pronounced in cities. By contrast, the risk was higher in rural areas in Bulgaria, Lithuania, Latvia, Poland and Romania.

ECONOMIES IN TRANSITION

CIS: Extreme poverty not prevalent, but large segments of population remain below poverty lines

Most of the countries in the Commonwealth of Independent States (CIS) are middle-income economies and exhibit very low levels of extreme poverty. The share of the population living on less than \$1.90 a day is reported as zero or close to zero in Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, the Russian Federation and Ukraine. In Tajikistan, which remains a low-income country despite years of strong growth, around 4 per cent of the population remained below the \$1.90 income threshold in 2018.⁸ However, when applying the threshold of \$5.50 per day, the poverty ratio in some of these countries exceeds 30 per cent. According to nationally-defined poverty thresholds, which are not comparable across countries, poverty rates vary from approximately 6 to 35 per cent, with poverty especially prevalent in rural areas. Commodity dependence, insufficient output diversification, lack of formal employment and high inequality are impeding progress towards poverty eradication, along with fiscal austerity policies and episodes of high inflation that disproportionately affect the poor. In the Russian Federation, real disposable incomes have declined for several consecutive years since 2015; 12.9 per cent of the population, or 18.9 million people, lived below the national poverty line in 2018. The Government aims to cut that share by half by 2024 through faster growth and social assistance programmes. In Ukraine, affected by internal conflict, the economy contracted by a cumulative 20 per cent in 2014–2015, which had a protracted impact on population incomes. In Turkmenistan, living standards of the population have noticeably worsened in 2017–2018 as free utilities and subsidies for basic goods like flour, sugar and cooking

⁸ See: <https://www.adb.org/mobile/basic-statistics-2019/>

oil, which had been maintained for around 25 years, were abolished. A large number of households in Central Asia are at risk of falling into poverty, as they remain heavily dependent on remittances.

DEVELOPING ECONOMIES

Africa: As the number of people living in extreme poverty continues to rise, SDG 1 is becoming out of reach

The number of people living in extreme poverty—defined as living on less than \$1.90 a day— continues to rise in sub-Saharan Africa, comprising more than half of the extreme poor globally. Nigeria, Democratic Republic of the Congo and Ethiopia are among the five countries with the largest populations living in extreme poverty and are home to about 23 per cent of the world's poor. In Nigeria, the population in extreme poverty is about 85 million people, while in the Democratic Republic of the Congo and Ethiopia about 61 million and 22 million live in extreme poverty, respectively. Rising poverty has been exacerbated by the recent deterioration of growth prospects in many African countries, amid the collapse in commodity prices, political turbulences and conflicts, and weather-related disasters.

Recent UN DESA estimates⁹ indicate that extreme poverty in the continent could rise further by about 60 million by 2030. The number of people living in extreme poverty may rise even in some of the fastest growing economies of East and West Africa, amid rapid population growth. This immense challenge is compounded further as poverty can become entrenched in segments of the population along racial, ethnic or religious divides. In South Africa, for example, a middle-income country with relatively high GDP per capita, extreme poverty affects about 25 per cent of the population, with rates significantly higher for black South Africans in comparison to other groups. Against this backdrop, SDG 1—eradicating poverty in all its forms—is becoming increasingly out of reach. Making progress in reducing extreme poverty across the continent will require a substantial acceleration in economic growth, visible reductions in income inequality and adequate and effective implementation of countercyclical, redistributive and inclusive fiscal policies.

East Asia: Challenging global environment a threat to poverty eradication

As trade tensions continue to rise, downside risks to East Asia's growth outlook have increased. The new round of tariff hikes and retaliations will likely exacerbate the current weakness in the region's export performance, while disrupting regional production networks. Alongside worsening sentiments, this will dampen investment and productivity growth, hindering medium-term development prospects.

⁹ World Economic Situation and Prospects as of mid-2019, op. cit.

Importantly, the increasingly challenging environment could hamper the region's progress towards achieving the Sustainable Development Goals, particularly the goal of eradicating poverty in all its dimensions. As policymakers increasingly shift their focus towards addressing short-term headwinds to growth, there is a risk that essential resources are diverted away from what is needed to effectively tackle poverty and inequality.

While the Asian economies have achieved tremendous progress in lowering extreme poverty over the past few decades, many segments of society are still being left behind. The Asia-Pacific¹⁰ region is home to almost half of the world's poor, with an estimated 400 million people living in extreme poverty, below the threshold of \$1.90 a day. At the higher international poverty line of \$3.20 a day, the number of poor rises to 1.2 billion, accounting for more than a quarter of the region's total population. Countries with particularly high poverty rates at this threshold include Lao People Democratic Republic, as well as many of the South Asia and Pacific Island economies.

As the region strives towards eliminating poverty by 2030, policymakers need to remain steadfast in prioritizing people-centred investments, including the provision of healthcare, education, and social protection. For many economies in the region, effective policy strategies to manage rapid urbanization are also necessary to tackle the challenge of growing urban poverty.

South Asia: Poverty rates have fallen, but progress has been uneven

Poverty has been declining across South Asia, driven in large part by strong economic growth and relative macroeconomic stability, but it remains substantial in most of its major economies. Indeed, after sub-Saharan Africa, South Asia has the largest proportion of multidimensionally poor people, as defined by UNDP's multidimensional poverty index, with children being especially affected. Nonetheless, India is among the world's most successful countries at bringing down poverty, with progress particularly in many of its rural areas.

Large differences in the prevalence and severity of poverty remain between and within countries and even at the household level, caused by imbalances in nutrition, sanitation, access to education, and a range of other factors. The rural populations are typically most affected by poverty: in Bangladesh and Pakistan over 35 per cent of the rural population lives in poverty, measured against their respective national poverty lines, as compared to around 20 per cent for their urban populations. Gender imbalances are also stark in some South Asian countries. In Afghanistan, 25 per cent of boys aged 7–15 are multidimensionally poor and out of school, compared with 44 per cent of girls.

¹⁰ Refers to UN ESCAP's definition of the Asia-Pacific economies.

Years of conflict have exacerbated poverty in Afghanistan, where in 2016, 54.5 per cent lived below the national poverty line. The violence and instability in the Kashmir region and the increasing tensions between India and Pakistan could also worsen poverty especially in the border regions of these countries.

Western Asia: Poverty situation worsens in Yemen

The Yemeni economy is forecast to grow moderately in 2019, owing to the recent resumption of crude oil exports. However, both the macroeconomic and humanitarian situations remain dire, amid a worsening poverty situation. The Yemeni economy is still under severe balance of payments constraints and the exchange rate remains precariously weak. As the economy is highly dependent on imports for essential items, international donors' financial support to the Central Bank of Yemen is an essential lifeline. Moreover, the destruction of the agricultural sector by the ongoing conflict has exacerbated the situation. The country's severely damaged food supply capacity is the primary driver of the deterioration of the humanitarian situation. Many food insecurity cases are a direct consequence of armed violence and forced displacement. Others are an indirect consequence, such as the loss of income and the depletion of household savings. Particularly, the irregular payments of salaries to public sector workers have impoverished a significant number of households. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) estimates that the number of people who need assistance to survive has increased from 22.2 million in 2018 to 24.4 million in 2019.¹¹ OCHA states that the humanitarian crisis in Yemen is the worst in the world.

¹¹ United Nations Office for the Coordination of Humanitarian Affairs (2019), Humanitarian Response Plan January-December 2019, February, available from <https://reliefweb.int/report/yemen/2019-yemen-humanitarian-response-plan-january-december-2019-enar>.

Latin America and the Caribbean: Poverty rates have been rising amid weak economic conditions

The region's weak economic performance since 2014 has been associated with a deterioration in social conditions in many countries. Aggregate real output has essentially stagnated in the past five years as several large economies, including Argentina, Brazil and the Bolivarian Republic of Venezuela, have been facing prolonged economic slumps. As a result, the region's average GDP per capita has fallen by an estimated 5.2 per cent since reaching a peak in 2013. In the face of this dismal economic performance, income poverty has been rising over the past few years, partially reversing earlier declines. According to ECLAC's Social Panorama of Latin America 2018,¹² the average poverty rate increased from 27.8 per cent in 2014 to 30.2 per cent in 2017, while the extreme poverty rate increased from 7.8 per cent to 10.2 per cent. These aggregate figures, however, mask stark differences between countries. While the extreme poverty rate is below 5 per cent in countries such as Argentina, Chile, Costa Rica and Uruguay, it exceeds 15 per cent in Bolivia (Plurinational State of), Guatemala and Honduras. Rural populations, indigenous groups, children and adolescents, as well as women, are disproportionately affected by poverty. Alarming, the large poverty gaps between age groups have widened further in recent years. Between 2012 and 2017, the poverty rate among children and adolescents up to the age of 14 increased by 3 percentage points to 46 per cent. By contrast, the poverty rate among those aged over 65 fell by 2 percentage points to 15 per cent. These large disparities between groups, coupled with a continuing weak economic outlook, underscore the importance of promoting social and labour market inclusion, while also expanding income redistribution measures.

¹² Available from <https://www.cepal.org/en/publications/44396-social-panorama-latin-america-2018>