



Introduction

Background

The antecedent to the present work is Marian Radetzki's book *A Guide to Primary Commodities in the World Economy*, published by Blackwell in 1990, three decades ago. In that book Radetzki presented the gist of what he had learnt over the 30 preceding years of active study and research on international primary commodity markets. The timing of that publication was clearly inopportune. Though the book received positive reviews, it aroused only limited attention. Through the 1980s and 1990s, primary commodity markets were in the doldrums. Supply conditions for most commodities were quite relaxed most of the time, and prices remained suppressed. The advanced economies were in a process of dematerialization, where declining volumes of raw materials were needed per unit of value added. This suppressed demand growth and reduced the significance of commodities in their macro-economies. In these circumstances, security of supply assumed a low priority for users. Producers struggled with excess capacity and weak profitability. Speculators' interest was muted by the relative market calmness and declining prices. Noncommercial investors such as pension funds and mutual funds had little incentive to engage in longer-term commodity placements. These actors instead directed their capital flows to fields like information technology and sophisticated services, where markets appeared to provide a better profit potential.

Against this background, interest in commodities dwindled among public policy makers and media, but also in the academic community. Researchers found more fertile ground for their efforts in other sectors of the economy, while students' attention moved elsewhere. Commodities was simply not a rewarding career area.

This situation changed dramatically a few years into the twenty-first century, when the most powerful and unusually enduring

commodity boom began. Prices of most commodities in all categories, fuels as well as minerals, food products and agricultural raw materials, exploded. Existing production capacity, dilapidated through years of negligence due to low prices, could simply not satisfy the speedy demand expansion resulting from spectacular economic advances in the emerging world, with China in the vanguard, passing through an especially commodity-intensive phase of their economic development. Earlier attitudes of complacency among consumers were replaced by worries about security of supply, with the realization that ample availability of commodities is indispensable, and that even prosperous, dematerializing economies cannot survive without safe raw-material inputs. Producers of commodities, in contrast, experienced an unexpected and extraordinary profit surge. Investments in capacity growth were stimulated by the high prices, to the extent of exhausting the immediate availability of many investment inputs.

The rising commodity prices galvanized the managers of hedge funds, pension funds and other capital portfolios to invest in commodities, both as a means of diversification and for the prospect of significant profit opportunities. Speculators also reentered the commodity markets on a large scale.

From 2005 onwards, primary commodities became truly hot stuff, with current events in the commodity markets regularly displayed on the first pages of newspapers and magazines, and figuring prominently on TV screens. In the midst of the commodity boom, 2008 was then a highly opportune time to see a new version of Radetzki's book, this time titled *A Handbook of Primary Commodities in the Global Economy* and published by Cambridge University Press (the first edition for this publisher).

The exceptional prices of most commodities persevered for a few more years after the book's publication, the constant price indexes for each major category reaching a peak around 2011. Substantial price falls were subsequently recorded, as massive new capacity, whose establishment was triggered by the boom, went into production, while at the same time the explosive global demand expansion was suppressed by a sizable downward adjustment in the economic growth pace of China and several other emerging economies. In consequence, by January 2015, the price index of all primary commodities was 40% below the peak of four years earlier.

January 2015 was also the time when Cambridge University Press approached Radetzki about a new edition of the *Handbook*. The year 2016, the planned publication date for this second edition (available in the market only in 2017), may have been slightly less exhilarating than 2008, but there is little doubt that a number of exciting stories worthy of sharing with a wider audience had emerged since the preceding edition. To mention just a few: the dominant role of China as commodity consumer had only recently been fully acknowledged; price transparency had been greatly improved by the relentless progress of commodity exchanges; resource nationalism had been on the rise, stimulated by the high prices of past years; and the emergence of shale oil and shale gas had given a new perspective to fuels markets and on sustainability and depletion.

There was dual authorship this time. Radetzki, having reached an impressive age, invited Linda Wårell, a knowledgeable and versatile fellow professor at Luleå, to share the workload, and her acceptance no doubt contributed to a broadened and refreshed problem treatment.

Content

Much of the value of the book, nowadays a true classic in the field of primary commodity analysis, consists of the wealth of data on commodities and their markets that it contains. Understanding this, Cambridge decided in 2019 to publish a third edition (to reach the market in 2020) with only limited change from the second in terms of content, but updated with the most recent numbers throughout. This time an even greater burden of work fell on Wårell, with Radetzki's role limited in the main to a scrutiny of what she delivered. No doubt she will be the sole author when a decision is taken to publish a future, fourth edition. Such a decision will unquestionably come in some years' time, given that the *Handbook* has met with hardly any competition during its 30-year life.

The text that follows provides a comprehensive overview of pertinent issues relating to primary commodities in the global economy. The basic structure of all earlier editions has been retained because we believe that it continues to be valid and appropriate. These are the major components in that structure:

- the geography of commodity production and trade;
- the distortions of production location and comparative advantage caused by protectionist trade policies;
- the institutions of price formation, the causes of short-run price instability and long-run price trends;
- the role of commodity exchanges;
- fears of and measures to ensure the importers' supply security;
- prospects for successful, monopolistic producer collusion;
- trends in and implications of public ownership;
- issues raised by a very high national dependence on commodity production and exports.

The subject of primary commodities in the global economy is vast, and not all its aspects can be treated within the confines of a single tome. In all editions, the focus of the *Handbook* has been on the economics of commodity production and trade in a somewhat narrow sense, while issues related to, for example, employment, skill creation in the sector or regional development do not receive any detailed attention.

The Readership

The subject treatment is firmly based on standard economic theory and economic logic, but we have consciously avoided technical jargon and algebra. Readers with only basic training in economics should therefore find the text fully accessible.

Despite the omissions mentioned above, the book offers a comprehensive explication of the commodity world in the international economy, and we have always been aiming at a broad readership. While experts in a particular aspect of that world will probably not gain any substantive new insights in their specialization, we are convinced that reading this book will provide them with a valuable context from which to pursue further work in their chosen field.

The following categories of readers should find the book of interest:

- students in economics, finance, business administration and related disciplines, with an interest in primary commodity markets;
- researchers that have chosen a specific commodity or a specific commodity-related issue as their area of specialization, who desire a snapshot overview of the entire commodity economics field;

- executives responsible for marketing or investment decisions in firms that produce and export primary commodities;
- executives responsible for purchase management strategies and their execution in firms whose production relies heavily on raw materials inputs;
- members of the financial community with an interest in primary commodities for the purpose of speculation or as an object for financial investment – such individuals would be found on the commodity exchanges and in organizations that manage capital portfolios, such as hedge funds, pension funds and mutual funds, but also in financial institutions, for example investment banks, that develop and market instruments for commodity placements;
- government officials in nations heavily dependent on primary commodity production and exports – Chile, Peru, Botswana, Ghana, Mongolia and Papua New Guinea provide examples, but there are many more;
- government officials in countries that rely heavily on commodity imports ought to have an equally strong interest in the analyses in this book – this country group would comprise China, the EU, Japan and the USA;
- finally, the book should find many additional readers among the broad general public concerned about rising prices and the future availability of commodities.