

STOP BLAMING CHINA FOR THE INCREASES IN COMMODITY PRICES !

As commodity prices rise to seemingly impossible heights, the big questions are:

1. How much higher will their prices rise?
2. May one expect to see the commodity price bubble burst?
3. Is the avariciousness of the People's Republic of China (PRC) to blame for the price rises?

According to **TARGET**'s investigations, the answers would appear to be:

1. Commodity prices, in general, are more than likely to rise to much higher levels, during the next 5 years, than their present prices;
2. It is highly unlikely that there will be a pricking of the commodity price bubble, although there will, from time to time, be the natural, supply-demand price corrections; and,
3. The PRC is not, fully, responsible for the present increases in commodity prices although, in the next 5 years or so, it is on the cards that the hunger for commodities by the 1.30 billion human inhabitants of the PRC could well be part of the reason for the further gains in the prices of many commodities.

The following is **TARGET**'s reasoning for the above statements.

Since January 2000, the price of crude oil has risen by about 184 percent while the price of copper has moved up by about 312 percent.

The price of nickel, however, has beaten them all, with a gain of about 316 percent since January 2000.

It is convenient to blame the scarcity of commodities on the growth the economy of the PRC, but, actually, the growth of the PRC's economy is not the underlying reason for commodity price increases.

The PRC is the world's tailor shop, the largest manufacturer of microwave ovens, the world's biggest producer of television sets, of washing machines, of electronics of just about all kinds, even of electric toothbrushes, flashlights, shoes, condoms, etc, etc, etc.

The manufacture of the above-mentioned products and many, many more, however, is for the West, by and large, not for the domestic PRC market, although the consumers of the PRC are, also, buying them.

Consumer consumption in the West is powering the growth of the PRC economy and, in order to meet the demands of its customers, the PRC is being forced, like everybody else, to enter as large purchasers on the world's commodity exchanges in order to obtain raw materials, which are needed to feed its factories which, in turn, convert those commodities into consumer items.

So, in fact, if anybody is to be blamed for the present high prices of certain commodities, it is the West's consumer.

It is simply a matter of supply shortages, brought about by increased consumer demand, mainly from the West.

But it is highly feasible that, in the next 5 years or so, as the economies of developing nations, such as those of the PRC and India, especially – their combined human populations are known to be in excess of 2.30 billion people – there will be a partial shift from export-orientated economies to domestic, consumer-driven economies.

Then, watch out!

Developing countries, such as the PRC and India, have seen their respect economic growths far exceed the economic growths of most of the Western developed economies.

Granted: Both developing nations started from much lower bases than the bases of the developed nations of the West.

With regard to the PRC, over the past 15 years, its **Gross Domestic Product** (GDP = The annual total value of goods produced and services provided in a country, excluding transactions with other countries) has risen by about 9 percentage points, from 6 percent in 1990 to more than 15 percent in 2005.

As for India, its GDP has risen by about 1.75 percentage points over the same period of time, from about 4.25 percent to nearly 6 percent.

Since 1990, these 2 economies have consumed commodities, annually, at compound annual growth rates in excess of 10 percent.

But much, if not the lion's share of those commodities, have been re-exported in one form or another, to the West as finished goods and/or services.

It is fair to state that, up to now, the combined 2.30 billion human inhabitants of the PRC and India are not responsible for the high prices of commodities.

The per capita incomes of the PRC and India are far below those of the developed countries of the West.

Since the West is the largest consumer of processed goods and services, produced in Asia, it follows, therefore, that the West is the end-user of natural resources.

Not Asia!

The Future, However ...

But, as for the next decade, there are likely to be a number of changes.

To begin with, it is almost a certainty that the gap between the per capita incomes of the East and the per capita incomes of the West will shrink, materially.

Most pronounced will be the shrinking of the gap in per capita incomes of the PRC and India to those of the US and the most-successful economies of Western Europe.

As with any stock market, a large, capitalised company will have a bearing – a '*weighting*', if you will – on the final tally of an index at the end of a trading day, assuming that it is a constituent stock of that index, of course.

So, a tally of per capita incomes of countries of the world would result in the US and most countries of Western Europe, '*weighting*' heavily on the creation of such a hypothetical index.

Compared with the per capita incomes of countries of Asia, this '*weighting*' is unlikely to go away in a hurry, but it is quite likely to diminish in strength between today and, say, the year 2016.

Incomes of the average resident of developing countries of Asia will, inevitably, rise at a higher pace than those of the more-developed countries of the West because, among other things, the base was started at a much lower level in the first instance.

It stands to reason that, although the developed countries of the world will continue to be the largest consumers of commodities for many years to come, as the developing countries of the world, especially

those of the Asian-Pacific Region, gain a better foothold on the world's economies, there will, undoubtedly, be a scramble for many commodities in order to feed the requirements of developing nations.

This is likely to lead to intense competition between the East and the West for scarce commodities.

And this will lead to higher and higher prices for select commodities, such as iron, copper, zinc, gold, silver, etc, etc, etc.

In addition to the PRC and India, one must not forget potential emerging economies, such as Vietnam, Taiwan, South Korea, The Philippines, and Indonesia, to name but a few.

It seems obvious, from **TARGET**'s scenario, that there is going to be a very large growth in respect of the consumption of commodities in emerging nations in the next decade.

It is, also, likely that supply will not be able to keep pace with the increased demand because, inter alia, in the past, insufficient amounts of capital have been spent on consideration in respect of increasing production levels and/or discovering fresh sources of raw materials.

But not all commodities will be affected.

The present, relatively high price of crude oil has caused many countries of the world to find alternative sources of energy.

Canada is progressing with the production of crude oil from its trillions of tonnes of oil sand.

Brazil is continuing to educate its population to the advantages of using a fuel, which is a combination of fossil fuel and distillation of fuels from vegetable extracts.

The US is searching for new oil fields in Alaska and, at the same time, is promoting the use of biofuels and biogases as alternative sources of energy in order to keep the wheels of its industry turning.

Its motor-vehicle industry is pressing ahead with the introduction of hybrid motor cars, a combination of battery power and internal combustion engines, fed by fossil fuels, as well as hydrogen-powered vehicles.

Germany's Government continues to subsidise innovative energy systems, using chemical compounds which are capable of creating electricity, known in that country as voltaic energy.

All these plans and many more are aimed at having the West be less dependant on fossil fuels and, eventually, slash dependence on energy, derived from crude oil, and on imports of crude oil from the Middle East.

Substitutes for fossil fuels are fast becoming a reality.

For this reason, it appears logical that crude-oil consumption will decline over the next decade, contrary to popular belief and the era of the Arab world, holding the West to ransom, will come to an end.

In the interim and until Western technology progresses to the point of finding viable and reliable alternative sources of energy, there will continue to be heavy demand for fossil fuels.

Once again, however, it will be the West that will be the largest consumer of crude oil, by proxy, not the East: The dogs wags the tail; the tail does not wag the dog.

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