

Five mega trends set to drive commodities

The Indian economy is set to become more commodity-intensive. Sustainable policies are the need of the hour

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It is by now well recognised that India's growth over the next two decades or so will be largely driven by a variety of commodities including energy products (conventional and non-conventional), metals (industrial, base and precious), polymers and of course, agricultural goods.

The commodity intensity of India's growth is inexorable. The country will continue to be a producer, processor, consumer, exporter or importer of a wide range of commodities; and the volumes will continue to expand. In some way, India is set to go the China way.

Indeed, there are five mega trends that will potentially accelerate the country's commodity-driven growth. In this process, some commodities will gain prominence while some will lose consumption volumes. Here's how.

Energy transition

India is committed to decarbonise by moving away from polluting fossil fuels towards renewables to become net-zero by 2070. This would mean the country will gradually reduce its dependence on crude oil and coal. It is already a large producer, importer and consumer of coal. It is a modest produ-

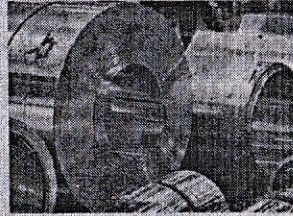
cer but large importer and consumer of crude oil.

As the nation moves toward renewables, the composition of the basket of energy products will undergo changes. There will be a steady reduction in import and consumption of polluting fossil fuels. At the same time, renewables — solar energy, wind energy, nuclear energy, biofuels and so on — will gain importance.

The transition towards renewable energy will inevitably mean more investment in energy infrastructure for renewables which in turn would translate to higher consumption of key materials such as steel, copper and aluminium. Demand for these materials is sure to surge as we make progress in our energy transition endeavour over the next several years.

Electrification: The country will inevitably move towards greater electrification for a wide variety of economic activities including, in the main, electric mobility. The way forward is electric vehicles (EVs) including cars and trucks as well as electrified railways.

By nature, devices for electric mobility are commodity intensive, especially metals intensive. There will be greater demand for industrial metals including steel, copper, aluminium, nickel, cobalt, lithium,



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palladium and so on.

Electrification will also mean solar panels, construction of power grids and charging infrastructure for EVs, for instance. These also will involve use of metals.

Rapid urbanisation: This mega trend is something none can stop. Migration of people from rural to urban areas mainly in search of livelihood is a global phenomenon. Development of urban areas would necessarily mean consumption of a range of commodities for building urban infrastructure including residential and commercial properties, roads, bridges, water supply, drainage and other civic amenities.

All these call for consumption of vast quantities of commodities such as steel, zinc, aluminium, copper, cement and many more. As a thumb rule, commodities account for as much as 70 per cent of any infrastructure project cost.

Climate change: The effect of global warming and climate change cannot be wished away. The world continues to witness weather aberrations like frequent droughts, floods, hurricane, heat waves and so on. These evolving weather events not only adversely impact human life but also hurt economic activity, damage agricultural crops, disrupt mining and similar operations.

Adverse weather events resulting from climate change can potentially damage agricultural crop prospects in many countries and compromise food security. So, the world needs adaptation and mitigation measures including resilience through climate smart agriculture. Large amounts of research dollars are required to mitigate the risks of climate change. The world food systems need to remain vigilant.

In our country, the challenge of land constraints and water shortage is further exacerbated by climate change. Some of our key crops like wheat and maize are at the limit of heat tolerance. So, agriculture sector stakeholders cannot afford to ignore the looming risk.

Resource nationalism: Given the emerging global scenario where resource rich nations are sure to benefit from resource crunch elsewhere, one can safely ex-

pect resource nationalism to take hold. Countries are going to exercise increased levels of caution in releasing scarce resources such as rare earths and minerals for the world market. In metals and minerals, in particular, the existing supply chains are dominated by China.

These are some key emerging global mega trends that stakeholders in the commodity value chain must keep an eye on. Policymakers too have to take on board these mega trends as plans and investments can get stymied if the emerging mega trends are not factored in.

India cannot live in isolation. Our economy is integrating with the global economy through trade and investment routes. Similarly, our markets are integrating with the global market. Any development in the world market can willy-nilly impact our economy.

The point that India's growth in the next 2-3 decades will be significantly commodity intensive should alert policymakers to pay great attention to the sector and design growth-oriented and sustainable policies from a long-term perspective.

The writer is a policy commentator and commodities market specialist. Views expressed are personal