United Nations Conference on Trade and Development

Topic B: Commodity Dependent Developing Countries

“Every wise, just, and mild government, by rendering the condition of its subjects easy and secure, will always abound most in people, as well as in commodities and riches.”¹ -David Hume

Commodity dependence refers to the ratio of the value of commodity exports to the value of merchandise exports.² Commodity dependent developing countries (CDDCs) are developing states whose ratio of commodity export value exceeds 60%. This indicates that a country is overly dependent on the sales of resources that are sometimes unreliable, and makes the country especially vulnerable to shifts in commodity prices. If a country is dependent on the export revenue of a certain agricultural commodity, then drought, flood, or low yield crops are even more devastating to the country’s economy. This proposes significant hindrances to development by shackling an already developing country to dependence on raw commodities, which often means natural resources.

Background

Commodity Dependence

For countries with dependence on commodities, especially when it represents a single commodity dependence, the country is significantly disadvantaged economically, and faces inherent obstacles that keep it from engaging in the global economy in the productive way that advanced or even emerging economies are able to. Emerging economies are referred to as the “engine of economic growth,” but are only able to sustain that growth through the values-added manufacture of raw goods supplied by Commodity Dependent Developing Countries. In this way, CDDCs are missing out on revenue that is generated through the products they export. With increased economic development, CDDCs will be able to refine and manufacture their goods and increase capital flows into their economies, perpetuating a cycle of positive economic growth.

Potential Solutions

A form of economic development that is widely viewed as the ‘key’ to solving single commodity dependence is economic diversification. Diversifying an economy decreases reliance on one single commodity, and therefore decreases vulnerability to economic shocks and the ever-

fluctuating prices of commodities. There are two major categories of economic diversification, vertical and horizontal. In vertical diversification, one particular industry is being developed. For example, if the raw milk industry of a particular country is to be developed, then adding the service of pasteurization, increasing the types of milk (2%, skim, whole), and increasing milk products (cream, butter, cheese) all qualify as vertical diversification. In this example, the milk industry is widened and therefore strengthened. Vertical diversification is usually done on an industry that is already successful, in order to build upon its successes. Horizontal diversification refers to the exploration of new industries, and is strategically implemented in order to maximize economic stability. In single commodity dependent countries, other commodity related industries might be the first step towards greater economic development. In CDDCs with multiple commodity related industries, the priority approach is value added manufacturing industries, such as textiles and refined (versus crude) oil.

Obstacles to success

The intersection of commodity dependence and other disadvantageous classifications leaves a state even more vulnerable to economic shocks. CDDCs that are also either landlocked or small island developing states (SIDS) feel economic instability the most of all. Landlocked countries do not have coastline and are surrounded entirely by land on all sides. These countries currently experience a significantly decreased level of access to trade routes, as trade is conducted through waterways and oceanic travel. Whereas SIDs are able to access the coastline to engage in those trade routes; however, small island developing states are facing their own set of obstacles to development.

Most SIDS do not have adequate access to fresh drinking water, despite being surrounded by undrinkable oceanic water. SIDS are also often disarticulated, meaning the country is broken up into many small islands, instead of a single larger mainland. This understandably causes problems in transportation, communication, and unification of development strategy throughout the country’s history. There are economic classifications that denote a more disadvantageous position for development as well, such as least-developed countries, and heavily indebted poor countries.

UNCTAD Global Commodities Forum

In July 2016, Nairobi, Kenya will be hosting the seventh annual Global Commodities Forum (GCF) as a precursor to the fourteenth session of UNCTAD. The GCF brings together state governments, the private sector, civil society, and other relevant stakeholders to come up with an
agreement on innovative solutions for development issues relating to the production and trade of commodities. Inclusion of all qualified and capable participants is a priority for the GCF; at the 2015 conference 300-400 high-level representatives assembled from across several stakeholder groups, 32% from state governments, 23% from the private sector, 15% from civil society, in addition to academia and the press.

The theme of the GCF was “Breaking the chains of commodity dependence,” and focused on mitigating the negative impact certain commodity-related shocks are having on the global economy. The first shock is a growth slowdown and capital exodus from emerging economies. This is an important issue because it highlights the deceleration of economic development in developing countries, due in part to money leaving developing countries through an unbalanced trading system.

Another shock identified as a root cause of economic strife for developing countries is the blunt and sudden dip in commodities prices. The global economy fluctuates in a complicated system and developing countries are insulated from the unpredictability, oftentimes resulting in negative effects on the states most vulnerable to such fluctuations. When commodity prices fall, CDDCs are at great risk of a downward economic spiral. The final primary shock the GCF will be focusing on is a steady appreciation in value of the US dollar. With the progress in development within the world’s poorest countries slowing, global financial trends indicate a shifting of growth towards industrialized economies, namely the USA, which negatively affects the global south.

The GCF will discuss emerging economies, but the focus of the conference will be on development for CDDCs. Commodity-led development strategies will be at the forefront of talks, as CDDCs provide emerging economies raw commodities for transformation into final goods. The GCF will take place on 15-16 of July 2016, as a position setting and preparatory meeting of relevant stakeholders before the UNCTAD conference takes place on 17-22 July 2016 in the same city.

Current Issues:

Commodity Dependence and the Sustainable Development Goals

As the international community focuses its development efforts through the Sustainable Development Goals (SDGs), so too must UNCTAD address development on commodity dependence through the strategic setting of the SDGs. Earlier this year, UNCTAD released Trading Into Sustainable Development: Trade, Market Access, and the Sustainable Development Goals. 

The SDGs are first and foremost a path to achieving greater development in the areas of the world that need it the most, which certainly includes CDDCs. It is no surprise that many of

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the priority focus areas of development for CDDCs are also included as objectives within the 2030 development agenda.

International trade remains a priority approach for the implementation of the 2030 development agenda. Actions regarding international trade not only benefit the country in question with economic development, but it also fortifies markets (in this case, the commodities market), and therefore strengthens the global economy. Trade is a solution with a multi-faceted beneficial impact, but requires the cooperation of more advanced economic powers. Tariffs are another area in which the needs of CDDCs overlap with the strategies of the SDGs. By manipulating tariffs in favor of CDDCs, emerging economies will have more raw commodities for value added manufacturing, and the global economy is strengthened through an increase in capital flows to the areas that need it most.

Emerging economies are considered the engines of global economic growth, and are only able to prosper through mutually beneficial economic engagement with CDDCs. The term non-tariff measures (NTMs) refer to a wide scope of policy measures, and is as important as tariffs to economic development. UNCTAD initiates and coordinates the formation of the Multi-Agency Support Team, which identified 170 NTMs under 15 categories in its international taxonomy for NTMs. NTMs are state-owned regulatory policy measures that aim to achieve certain objectives, in this case the objectives are economic development in commodity dependence.

The final priority approach outlined in Trading Into Sustainable Development: Trade, Market Access, and the Sustainable Development Goals, is physical access to markets. It’s easy to forget the actual physical infrastructure needed to access the global economy when looking at such macro concepts as NTMs, SDGs, and even CDDCs in general. However, transportation infrastructure is crucial for every economy in the world. The tendency for CDDCs to have limited transportation infrastructure only exacerbates their already disadvantaged situation. There are other forms of infrastructure needed for physical market access as well, including energy, education, and more.

Transportation infrastructure

Looking at the current trend amongst the world market for commodities, it is increasingly becoming an environment of competitiveness. Without reliable forms of transportation, many Member States are left without adequate supplies of necessary commodities for every day consumption. Making these systems requires a significant amount of money, so therefore, countries must identify their areas of priority and the

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type of transportation system that would bring about the most gains in commodities. For example, the recent look into the cocoa industry of Indonesia demonstrates the need for a reliable sector of transportation. Facing a large expansion program of its smallholder cocoa subsector on the island of Sulawesi, it was guaranteed a significant increase of production from 201,000 tons of the product as of 1993. Of concern was whether or not large industrial vehicles would be able to travel on roads to transport the cocoa; this was based on the country’s previous failures at citizen migration that was encouraged to lessen the already crowded island of Java. This policy failed because of the lack of attention given to the transportation system. This is reflective of the mining operations that are being undertaken in different African countries; without adequate transportation systems where deposits of base metals are will remain ignored unless something is done to create a new system.

Tariffs, Subsidies, and Technical Barriers

Currently, access to markets and their commodities that are produced in developing countries experience hindrance as a result of protections that are implemented by developed states. Subsidies, trade barriers and tariffs contribute to the lack of global trade liberalization in agricultural products and much needed commodities. Tariffs on agriculture are estimated to be two to four times higher than tariffs on manufacture goods. Meat, sugar, cereals, oilseeds, olive, tropical fruits, groundnuts, and fish are among those agricultural commodities that are subject to unreasonably high tariff peaks. Subsidies continue to create major distortions in the commodity market. Prices decline as a result of their implementation. Subsidies on exported goods and their domestic support base depress international prices, thereby eroding the much needed incomes and market shares of efficient producers for developing countries where subsidies are not provided. High subsidies are on items such as sugar, rice, milk, cotton, wheat, and meat.

Another detriment to commodity trading are technical barriers in the form of sanitary and phytosanitary standards; these are commonly known as food safety and agricultural health. Increasing standards such as these are developed with no involvement from developing countries; to make matters even more complicated, developing Member States are unable to enact such regulations because of the unreasonably high level of cost in order to comply with such regulations. Such complexity and lack of harmonization can make trading efforts nearly impossible for LDC’s.

Future Outlook:

Trends and Prospects

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11 Ibid.

12 “Eleventh Meeting of the Intergovernmental Follow-Up and Coordination Committee on Economic Cooperation Among Developing Countries.” <http://www.g77.org/ifcc11/docs/doc-04-ifcc11.pdf>
In many commodity markets, there is a downward pressure over the course of several years, despite short-term fluctuations. This shift continues to have a significant impact on the economies that rely on commodities. Caused in large part by imbalances between supply and demand that push prices down, this shift serves as an economic shock that devastates commodity dependent countries. In order to combat this negative shift in commodity markets, the international community must work together to strengthen commodity based industries, such as the agricultural sector, minerals, ores and metals through both horizontal and vertical economic diversification to build market resilience in commodity dependent countries.

Focus Questions:

1.) Is your state a commodity dependent state?
2.) What has your state done to promote both types of economic diversification?
3.) What has your state done to help other Member States dealing with this issue?
4.) Does your state have an adequate transportation infrastructure in place to transfer much needed commodities?
5.) Has your state experienced a decrease in commodities as a result of tariffs, subsidies, or technical barriers of food safety and agricultural health?
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