Introduction

Commodity dependence is a major economic problem surrounding many Least Developed Countries (LDCs). Commodity dependence is characterised by high degree of concentration of exports in primary commodities, often dominated by one product. The dependence on primary commodity is both structural and cyclical in nature. Empirically, commodity dependent countries are defined as those with export ratio of primary commodities over merchandise goods equal or above of 60 per cent (Food and Agricultural Organisation, 2016). According to UN-OHRLLS’s report titled ‘The State of Least Developed Countries 2016’, majority of the LDCs (38 of the 47 for which data are available) are heavily dependent on commodity export, with commodities accounting for more than two thirds of merchandise exports in 2013-15.

`Commodity dependence is one of the eight priority areas of action committed in the Istanbul Program of Action for the LDCs (IPAL-2015) (United Nations, 2016). LDCs are defined as those whose export ratio of primary commodities over merchandise goods equal or above of 60 per cent (United Nations, 2017).` 

Decreasing export revenues due to falling commodity prices accompanied with smaller decline in raw materials, metals and oil, declined rapidly since 2014, after the boom in 2011. It is predicted that prices will remain at lower levels in the short to medium term.

Decline in export revenues caused by fall in commodity prices adversely impact domestic resource generation and mobilization for structural transformation and building productive capacities. Particularly, it has negative impacts on investment, government revenues and external debt. For instance, the Central Bank of Mauritania reported a decrease in official reserve assets by more than a third from 2013 to 2015. This posed a serious threat to the external position, fiscal balance and growth prospects.

State of Commodity Trade in the LDCs

LDC’s high dependence on commodity exports makes them prone to exogenous trade shocks such as commodity price volatility. Prices of commodities, including those of food, agricultural raw materials, metals and oil, declined rapidly since 2014, after the boom in 2011. It is predicted that prices will remain at lower levels in the short to medium term.

Trade shocks associated with commodity price volatility can have a continuous adverse balance of payments, which seriously impairs the government’s ability to fund for the attainment of SDGs by 2030. For instance, government budget deficits in Africa doubled on average from 6.9 per cent from 2013 to 2015 for the period of commodity price boom. For instance, during the 1970s, many governments in LDC economies also experience difficulties in managing expenditure and investment during the period of commodity price boom. For instance, during the 1970s, many governments in LDC economies also experience difficulties in managing expenditure and investment during the period of commodity price boom. For instance, during the 1970s, many governments in LDC economies also experience difficulties in managing expenditure and investment during the period of commodity price boom.

For instance, government budget deficits in Africa doubled on average from 6.9 per cent from 2013 to 2015 for the period of commodity price boom.
Multilateral trade preference schemes provided to LDCs have certainly enhanced their commodity price volatility. However, Duty Free Quota Free (DFQF) preference schemes could be less effective and even disadvantageous if they encourage an inefficient allocation of resources in sectors in which the preference receiving countries do not have comparative advantages (Ganong and Priyadarsi, 2016). For example, the positive effect on primary product export appears to be far higher than that on manufacturing exports.

Besides, the design of DFQF scheme itself needs corrections. The 2005 WTO Ministerial Conference in Hong Kong decided that members facing difficulty in providing full DFQF access shall provide DFQF access for at least 97 per cent of products originating from LDCs. This provision has been used by developed and developing countries such that the 3 per cent excluded from DFQF consists between 90 and 98 per cent of all exports from LDCs. To make things worse, subsidies are provided by those countries on the same 3 per cent of the products. For example, India’s Duty Free Tariff Preference (DTTP) scheme excludes a number of products of key interest to African LDCs, such as fruits and vegetables, nuts, coffee, tea, tobacco and tobacco products. Similarly, the United States’ African Growth and Opportunity Act (AGOA) although provides duty-free treatment on 1,835 products, including apparel, it does not include textile products, leather products, footwear and a wide range of agricultural products, which are more value-adding products. Also, almost 90 per cent of all imports recorded under AGOA are oil. While 99 per cent of all imports recorded under AGOA are in oil. Most Favored Nation duties on AGOA-excluded products average over 30 percent. Similarly, in 2011, while 99 per cent of all LDC imports into China were under the duty-free scheme, China imported little beyond 90 per cent DFQF should be provided to LDCs, subsidies and domestic protection should be reduced, and rules of origin need to be relaxed to enable LDCs to find alternative exports.

Hence, trade preferences so far have not been very successful in stimulating higher value-added exports from LDCs. To address this problem, LDC Watch strongly advocates that 100 per cent DFQF should be provided to LDCs, subsidies and domestic protection should be reduced, and rules of origin need to be relaxed to enable LDCs to find alternative exports. However, at multilateral platform, no real advances have been made on the issue of cotton export diversification and mitigation of the effects of commodity price volatility (Programme of Action). In this regard, LDC Watch requests WTO member countries to increase their contributions to the second phase of Enhanced Integrated Framework (EIF) that runs from 2016 to 2022. EIF is a multi-donor programme with an objective of helping LDCs play a more active role in the global trading system. LDC Watch reiterates that donor countries should provide additional Aid for Trade (AfT) funding in the area of infrastructure development, productive capacity, trade finance, connectivity and costs of adjustments.

External assistance, however, cannot be effective unless it is integrated to support LDC’s national agenda of improving general economic and social infrastructure, developing regulatory and financial instruments, and technical assistance for exporting new products, as envisioned in both IPoA and SDG. In this regard, we also urge LDC governments to articulate their own trade policies based on their comparative advantages aiming at long term economic transformation and the development of supply capacity. Ultimately, LDCs and the relevant development partners must realize that diversification is the only permanent way to make a breakthrough from the problem of commodity dependence, and the concerted efforts should be aligned towards the same.

Commodity Dependency: From the Perspectives of UNCTAD, IPoA and SDG

UNCTAD emphasises on the importance of adopting measures to stabilise international commodity markets; one way being improvement in commodity market regulation. It believes that minimising volatility in commodity market would reduce uncertainty in LDC export revenues and negative impact on trade deficit. Meanwhile, IPoA calls on LDCs to establish and strengthen national commodity management strategies and commodity-specific policies aimed at enhancing productivity, vertical diversification, and value addition. For the purpose, IPoA advocates a need for concerted measures and actions from development partners to support efforts by LDCs to reduce their dependency on commodity exports. IPoA emissions attaining this through export diversification and mitigation of the effects of commodity price volatility (Programme of Action) for the Least Developed Countries for the Decade 2011-2020, 2011).

While there is no separate goal on commodities among SDGs, Goal 2.2 states that measures need to be adopted to ensure the proper functioning of food commodity markets and their derivatives to help limit extreme food price volatility. Similarly, Goal 8.b mentions the need for industrial diversification and value addition through technology development, research and innovation, supported by conducive policy environment: (Transforming our world: the 2030 Agenda for Sustainable Development, 2015).

Conclusions:

- Even though multilateral platform, no real advances have been made on the issue of cotton export diversification and mitigation of the effects of commodity price volatility.
- LDC watch would also like to draw the attention of international community towards specific trade and investment measures meant to help LDCs achieve the objectives of the Istanbul Program of Action (IPoA), such as to double the share of LDCs in global exports to 2 per cent by 2020. Donor countries should allocate at least 0.2 per cent of their Gross National Income (GNI) as Official Development Assistance (ODA) to LDCs, as contained in the ‘Political Declaration’ made at the mid-term review of the IPoA in May, 2016. In addition, LDC Watch requests WTO member countries to increase their contributions to the second phase of Enhanced Integrated Framework (EIF) that runs from 2016 to 2022. EIF is a multi-donor programme with an objective of helping LDCs play a more active role in the global trading system. LDC Watch reiterates that donor countries should provide additional Aid for Trade (AfT) funding in the area of infrastructure development, productive capacity, trade finance, connectivity and costs of adjustments.
- External assistance, however, cannot be effective unless it is integrated to support LDC’s national agenda of improving general economic and social infrastructure, developing regulatory and financial instruments, and technical assistance for exporting new products, as envisioned in both IPoA and SDG. In this regard, we also urge LDC governments to articulate their own trade policies based on their comparative advantages aiming at long term economic transformation and the development of supply capacity. Ultimately, LDCs and the relevant development partners must realize that diversification is the only permanent way to make a breakthrough from the problem of commodity dependence, and the concerted efforts should be aligned towards the same.