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 often accompanied with high magnitude of imports. Empirically, commodity dependent countries are defined as those with export ratio of primary commodities over merchandised 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' is one of the eight priority areas of action committed in the Istanbul Program of Action for the LDCs for the decade 2011-2020 (IPoA). IPoA has identified many commodity-dependent LDCs out of which most rely either on agriculture or on extraction of a few natural resources and primary products for export. Primary commodities, including oil, minerals, precious stones and non-monetary gold, accounted for almost 80 per cent of LDC exports over the past years (UN-OHRLLS, 2016).

It is a core problem among many LDCs that their productive base is dominated by natural resource based factors which face a number of difficulties including volatility of markets and prices, competition from global suppliers, and challenges in participating in value chain.

State of Commodity Trade in the LDCs

LDCs' high dependency on commodities 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.

Decreasing export revenues due to falling commodity prices accompanied with smaller decline in imports has led to an almost doubling of merchandise trade deficit of LDCs from $36 billion in 2014 to $65 billion in 2015 (UN-OHRLLS, 2016). It has brought heavy deficit in fiscal and current account balances, thus putting downward pressure on exchange rates in the commodity exporting countries. As a result, 13 LDCs experienced a decline in their per capita Gross Domestic Product (GDP) in 2015. So, the economic growth in the LDCs has been in a steep decline since 2012 posting average growth rate of low 3.6 per cent in 2015-the weakest since 1994 (UN-OHRLLS, 2016). This is very low against the economic growth rate target of 'at least 7 per cent per annum' proposed by the Sustainable Development Goal (SDG) and the IPoA. GDP growth in the LDCs is forecast to reach only 5.2 per cent and 5.5 per cent in 2017 and 2018 respectively (United Nations, 2017).

LDCs' twin problems associated with commodities are: dependence on primary commodities and concentration of exports on a few commodity products. Commodity dependence rose in 23 LDCs between the periods 2001-2010 and 2011-2014. However, during the same period, there has been some progress made by LDCs on reducing dependence on commodities. Countries like Comoros, Bangladesh, Bhutan, Nepal, Uganda and Solomon Islands significantly reduced the share of commodities in their respective export baskets. Besides the dependence on primary commodities, concentration of exports on a few products also further exacerbates the problem. LDC exports remained highly concentrated with almost 70 per cent of merchandise exports depending on three main products in 2014. There are only few cases of exports of products with higher value addition and produced through the use of more advanced technology. Additionally, commodity dependent LDCs have also been historically most susceptible to civil conflict (Page & Hewitt, 2001). On a positive side, over half of the LDCs (26 of 48) have reduced their product concentration from 2011 to 2014. LDC exports have also diversified their markets beyond developed countries with 57 per cent going to developing countries in 2014 (23 per cent to China alone) and 5 per cent going to other LDCs (UN-OHRLLS, 2016).

Nevertheless, commodity dependence will remain a major feature of several LDCs, mainly Angola, Equatorial Guinea and Timor-Leste, even after graduation, posing post-graduate challenges. Moreover, commodity exports are expected to play a major role in generating export revenues in most of the pre-2025 graduates, except for the manufacture exporters (Bangladesh and Bhutan) and the service exporters (Nepal, Sao Tome and Principe, and Vanuatu).

Effects of Heavy Dependence on Commodity Export

1.Fiscal pressure

Countries like Angola have not built sufficient fiscal buffers when commodity prices were high. LDCs importing oil like Nepal have, however, benefited from the drop in commodity prices. But country like Zambia, which is hugely dependent on the export of a single commodity copper, has beena victim to both lower import prices and falling commodities exports.

Decreased 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 national debts. For example, in 2014, the government of Republic of the Congo had to lower the oil price up to $70 per barrel amidst the falling commodity prices. Consequently, the 2015 IMF Staff Report revealed that there was no fiscal surplus in 2014 in Congo, where oil accounted for almost 85 per cent of exports. As a result, for the first time in ten years, the country had a deficit equal to 8.5 per cent of Gross Domestic Product (GDP). Likewise, due to fall in iron ore prices, 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 sustainability of Mauritania's external position, fiscal balance and growth prospects.

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 African LDCs ramped up investment, spending and borrowed heavily on the anticipation of continuing high commodity prices, which contributed to the debt crises of the 1980s. Besides, many of these projects were of low quality because they were designed hastily or under political pressure, or had to be forgone when funding dried up.

2. Difficulty in attaining SDGs

Trade shocks associated with commodity can exhaust the current account balance of LDCs, 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 to 6.9 per cent from 2010 to 2015, mostly due to fall in commodity prices (Lebada, 2016). There is high risk that if the current state of lower commodity price continues, countries dependent on commodity export may not be able to allocate adequate budget on education, health, and climate change adaptation, and the progress in poverty alleviation may slow down.

3. The vicious cycle of commodity trap

Heavy dependency of LDCs on commodity production and trade for employment, income, savings and foreign exchange results in a commodity trap. This brings difficulties for LDCs to upgrade within global value chains and is often locked into specialisation in primary commodities and low-value-added products. The commodity trap is persistent and breaking it requires the state to bring about significant macroeconomic and structural adjustments, which in turn may lead to financial distress, increase in external financing costs and increased threat of debt crisis (Swaray, 2005).

Call for Action and Way Forward

- Increasing the volume of sales to counterbalance the fall in commodity prices may not be a sustainable way to mitigate the problem. Therefore, the long-term strategy must entail reducing dependence on commodities and move into different variety of export basket, which should include manufactures, services or non-traditional commodities. Diversification of export products beyond primary commodities, and diversification of end markets towards regional markets and particularly domestic markets encouraging local value addition are the two important strategies to be implemented to get rid of commodity-trap.

  However, LDCs alone do not have an adequate productive capacity, good infrastructure or knowledge base to pull them out of the vicious cycle of commodity dependence. For this, IPoA calls for sincere and coordinated support to LDCs by developed countries and development partners. LDC Watch calls for external support to LDCs in managing their natural resources and diversifying their commodity base through transfer of technology.
- Financial instruments, such as futures, swaps and options, exist in developed countries for some commodities which allow producers to transfer some short-term price risk to the market. However, using financial instruments requires some institutional pre-requisites and training, which poor LDCs may find difficult to provide. Assistance from countries with financial resources and experience can speed the development of national markets or ease the use of international markets. Such assistance could be targeted towards regulatory reform, capacity building and upgrading of infrastructures. This will help to mitigate price risk in the short term.
- Amidst the falling commodity export revenues and increasing trade deficits, LDC Watch calls on World Trade Organization (WTO) to ensure the implementation of the decisions favouring LDCs that were agreed on at the WTO's 10th Ministerial Conference that was held in Nairobi, Kenya in December, 2015. The relevant issues discussed at MC10 include preferential rules of origin for LDCs, implementation of preferential treatment in favour of service trade, and the long-pending issues of cotton export (South Center, 2016). These MC10 outcomes are of critical importance to LDCs for the purpose of export diversification. The provision of LDC Service Waiver that was adopted at 8th Ministerial Conference in 2011 has not been implemented yet. LDC Service Waiver provision entails WTO members to allow preferential treatment for services and service suppliers from LDCs. The decision taken at MC10, however, signaled a reassurance to LDCs that the provision will be timely brought into operation. However, LDC Watch demands that such reassurance should be accompanied with some legal commitments.
- Non-tariff barriers, including subsidies and Sanitary and Phytosanitary (SPS) measures, have been impeding global trade hampering LDCs' export potential. One such looming problem is the subsidy provided by developed and developing countries in cotton. Large cotton subsidies, mainly in the United States, the European Union and China, adversely contribute to downward pressure on world cotton price. Such policy of subsidies in the developed and developing countries has caused overproduction and export dumping, pushing millions of families in cotton-dependent African LDCs to poverty.

However, at multilateral platform, no real advances have been made on the issue of cotton trade, though the issue has repeatedly been raised by the four cotton exporting LDCs, namely Benin, Burkina Faso, Chad and Mali – collectively known as the Cotton 4 or C-4. The C-4 is demanding a swift conclusion of multilateral negotiations to curb the market distorting effects of domestic support schemes, tariffs and export subsidies. LDC Watch urges WTO members to take definite action towards the elimination of domestic support and subsidies on export in the upcoming 11th Ministerial Conference to be held in Buenos Aires, Argentina in December, 2017.

- Multilateral trade preference schemes provided to LDCs have certainly enhanced their exports in the short term. 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 (Gnangnon & Priyadarshi, 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 (DFTF) scheme excludes a number of products of key export interest to African LDCs, such as fruits and vegetables, nuts, coffee, tea, maize and tobacco products. Similarly, the United States' African Growth and Opportunity Act (AGOA) although provides duty-free treatment on 1,835 products, including apparels, 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 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 oil and a few other commodities from African LDCs (Ancharaz & Laird, 2013).

  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 be relaxed to enable LDCs to find alternative exports that are not part of 3 per cent. On this context, IPoA also calls for making substantial efforts for an early and successful conclusion of the Doha Development Agenda (DDA) by lowering trade barriers and facilitating increased global trade.

- Equally critical is that UNCTAD push for the rapid implementation of the 'LDC package' announced during the Addis Ababa Action Agenda (AAAA), which is of utmost importance to finance sustainable development. Besides, if the current fall in global commodity price continues, debt crisis in many commodity-dependent LDCs will be imminent. In this regard, UNCTAD must support and advocate for the total and unconditional cancellation of all bilateral and multilateral LDC debts in order to prevent debt crisis. It should also advocate for price stabilisation through the regulation of commodity derivative markets. It must press for introduction and effective implementation of compensatory finance for the balance of payments to provide some relief to LDCs against the exogenous shock 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 midterm 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 infrastructural development, productive capacity, trade finance, connectivity and costs of adjustments.

  External assistance, however, cannot be effective unless it is integrated to support LDCs' national agenda of improving general economic and social infrastructure, developing regulatory and financial institutions, 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 envisions 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.c. 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 9.b. mentions the need for industrial diversification and value addition in commodities through technology development, research and innovation, supported by conducive policy environment (Transforming our world: the 2030 Agenda for Sustainable Development, 2015).

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Photo courtesy: Robin Hammond, National Geographic Creative
Publication date: *June 2017*

LDC Watch Position Paper

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