



**United Nations
Conference
on Trade and
Development**

Distr.
GENERAL

TD/B/50/6 and Corr.1
28 July 2003

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fiftieth session
Geneva, 6-17 October 2003
Item 4 of the provisional agenda

**ECONOMIC DEVELOPMENT IN AFRICA:
ISSUES IN AFRICA'S TRADE PERFORMANCE**

Report by the UNCTAD secretariat

Executive Summary

Africa's share in world trade has been falling consistently since 1980. The continent remains heavily dependent on the export of a few primary commodities, most of which have suffered a secular decline in prices leading to large terms-of-trade losses. Unlike other developing regions, the continent has by and large not been able to diversify into manufactures or market-dynamic products and has even lost market shares for its traditional exports. Market-oriented policies have not been able to reverse the situation. In addition to the provision of better market access and reductions in subsidies for products competing with African exports, external resources are required to compensate for losses and to fill the resource gap in order to ensure adequate investment in the development of human and physical infrastructure, institution building and diversification.

CONTENTS

	<i>Page</i>
1. Introduction.....	3
2. Structure of trade and Africa's performance	3
(a) Dynamic products	7
(b) Market access.....	9
3. Price volatility and terms of trade losses	10
(a) Impact on African economic performance	11
4. Who benefits?	14
5. Past policy responses	15
(a) International commodity agreements and compensatory financing schemes...	15
(b) Domestic stabilization schemes	16
(c) Commodity price risk management	16
6. Policy issues.....	17

1. Introduction

1. The emphasis on trade liberalization and export orientation in the past decade has led to a phenomenal growth in world merchandise trade, which has consistently grown faster than output.¹ Africa has also witnessed some increase in its trade relative to GDP, despite the general assertion that Africa is trade-averse. Trade (merchandise imports plus exports), as a share of GDP for Africa (excluding South Africa and Nigeria), increased from 45 to 50.4 per cent between 1980/1981 and 2000/2001. However, on the whole, Africa's share in world exports fell from about 6 per cent in 1980 to 2.0 per cent in 2002, and its share of world imports from about 4.6 per cent in 1980 to 2.1 per cent in 2002. This phenomenon has as much to do with the structure of international trade as with the composition of merchandise trade of Africa, the trade policies applied in the continent in the past 20 years, and market access and agricultural policies in industrial countries.

2. More than any other developing region, Africa's heavy dependence on primary commodities as a source of export earnings has meant that the continent remains vulnerable to the vagaries of the market and weather conditions. Price volatility arising mainly from supply shocks and the secular decline in real commodity prices and the attendant terms-of-trade losses have exacted heavy costs in terms of incomes, indebtedness, investment, poverty and development. Previous UNCTAD reports on economic development in Africa have discussed extensively some aspects of these issues, including capital flows and debt, overall economic performance and prospects of the region, and adjustment and poverty alleviation.

3. This year's report attempts to place in perspective the reasons for the poor performance of Africa and the declining shares of the continent in world trade. It reviews the structure and composition of Africa's trade, and the associated problems of commodity dependence; it also discusses the factors influencing both Africa's ability to diversify into more market-dynamic sectors and its competitiveness, even in its traditional exports. Finally, it discusses national and international policy measures that may be needed to help Africa overcome some of the hurdles it faces.

2. Structure of trade and Africa's performance

4. The structure of developing country exports, taken as a whole, has changed significantly over the past two decades. Currently, about 70 per cent of these exports are manufactures.² This is in sharp contrast to the situation two decades ago when primary commodities accounted for three-quarters of developing country exports. These figures, however, hide significant variations among developing regions. Africa hardly benefited from the boom in manufactured exports. At 30 per cent in 2000, the share of manufactured exports in total merchandise exports of Africa had increased by only 10 percentage points compared to 1980 shares.

Table 1
Shares of developing regions in world trade, 1980–2002
(Percentages)

Region	1980	1985	1990	1995	2000	2001	2002 ^a
	Exports						
World	100	100	100	100	100	100	100
Developing Africa ^b	5.9	4.2	3.0	2.2	2.2	2.1	2.0
North Africa ^c	2.1	1.7	1.0	0.7	0.7	0.6	0.5
Sub-Saharan Africa ^d	3.7	2.5	1.9	1.5	1.5	1.5	1.5
Developing Asia	17.9	15.6	16.9	21.6	24.3	23.7	23.3
Developing America	5.5	5.6	4.2	4.4	5.5	5.5	5.9
	Imports						
World	100	100	100	100	100	100	100
Developing Africa ^b	4.6	3.6	2.9	2.5	2.1	2.2	2.1
North Africa ^c	1.4	1.6	1.2	0.9	0.7	0.8	0.7
Sub-Saharan Africa ^d	3.1	2.1	1.6	1.6	1.3	1.4	1.4
Developing Asia	13.1	15.2	15.9	21.9	21.1	21.0	20.8
Developing America	6.1	4.2	3.7	4.7	5.7	5.8	5.7

Source: UNCTAD, *Handbook of Statistics*.

^a Estimates

^b Including South Africa

^c Excluding Sudan

^d Sub-Saharan Africa including Sudan and South Africa

5. The continent's share in world merchandise exports fell from 6.3 per cent in 1980 to 2.5 per cent in 2000 in value terms. Similarly, its share of total developing country merchandise exports fell to almost 8 per cent in 2000, nearly a third of its value in 1980, while the share of manufactures remained a little below 1 per cent. Latin America's share of merchandise trade has remained by and large unchanged, while its share of manufactures has risen from 1.9 to 4.6 per cent of global exports. Among the developing country regions, Asia's performance has been important in respect of both total merchandise exports and manufactures. Its share of global merchandise exports increased from 18 per cent in 1980 to 22 per cent in 2000, while its share of total developing country merchandise exports increased from almost 60 to 72 per cent over the same period. Similarly, its share in global manufactures trade increased threefold, reaching 21.5 per cent in 2000 (table 2).

6. The value of Asia's total exports recorded a 7 per cent average annual growth rate over the period under review, compared to a mere 1 per cent for Africa. While the value of Asia's non-fuel commodity exports rose by 5 per cent per annum, those of Africa rose by only 0.6 per cent. Africa recorded the worst performance in terms of the annual growth rate of merchandise exports, as well as in the other categories of exports – primary and non-fuel primary commodities, and manufactures (table 3).

Table 2
Export structure of Africa and other regions by product categories
(Value - per cent growth, 1980–2000)

	1980		2000	
	Merchandise ^a	Manufactures ^b	Merchandise ^a	Manufactures ^b
Africa				
% of global exports	6.3	0.8	2.5	0.8
% of developing countries' exports	20.3	7.8	7.9	3.0
Developing America				
% of global exports	5.9	1.9	5.9	4.6
% of developing countries' exports	19.1	18.1	18.9	16.8
Developing Asia				
% of global exports	18.1	7.1	22.4	21.5
% of developing countries' exports	58.5	66.9	72.0	79.0
Memo Item				
Developing countries (% of global exports)	31.0	10.6	31.1	27.2

Source: UNCTAD secretariat computations based on United Nations Statistics Division data.

^a SITC 0-9

^b SITC 5-8, less 68

Table 3
Export growth of Africa and other economies by product category (1980–2000)
(Annual average growth rate in per cent)

Regions	All merchandise	Primary commodities ^c	Non-fuel primary commodities	Manufactures
Developed countries^a	5.9	3.3	2.9	6.4
Developing countries^b	6.0	1.4	3.3	12.4
Africa	1.1	0.6	0.6	6.3
America	5.9	2.2	2.9	11.5
Asia	7.1	1.3	5.0	13.6
<i>Sub-Saharan Africa^b</i>	<i>1.3</i>	<i>1.3</i>	<i>0.4</i>	<i>5.6</i>

Sources: UNCTAD secretariat computations based on United Nations Statistics Division data.

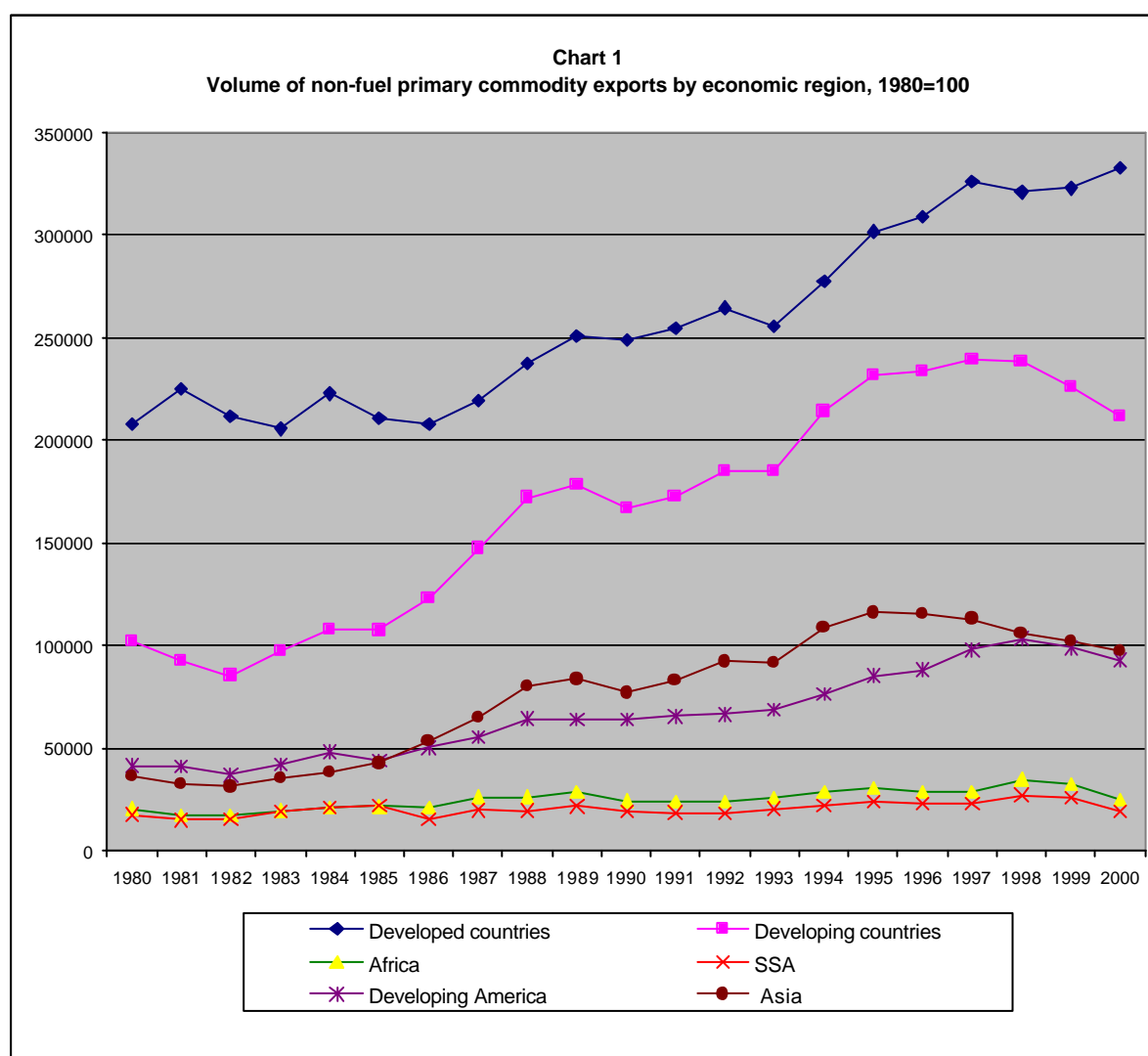
^a Less South Africa.

^b With South Africa.

^c Primary commodities (0–4) sections of SITC Revision 3.

7. While the value of Africa's manufactures increased by 6.3 per cent annually, this seemingly high growth rate is about half the growth rate recorded by Asia (14 per cent) and Latin America (about 12 per cent) and is from a relatively low base. It is also the result of significant growth in labour-intensive and resource-based semi-manufactures from a few countries, in particular Mauritius (garments) and Botswana (rough diamonds). The former increased the value of its manufactured exports from US\$ 115 million to US\$ 1.2 billion between 1980 and 2000, while Botswana, which earned nothing from manufactures in 1980, exported US\$ 4.6 billion worth of manufactures in 2000. There were also increases in the value of manufactured exports from Lesotho, Namibia and Swaziland in sub-Saharan Africa, and from Morocco and Tunisia in North Africa. The North African countries increased the value of their manufactured exports from under US\$ 1 million in 1980 to almost US\$ 5 billion in the case of Morocco and US\$ 4.5 billion in the case of Tunisia in 2000. On the other hand, there were steep falls in the value of manufactured exports from Nigeria, the Democratic Republic of the Congo, Sierra Leone and Zambia over the period.

8. Even though Africa has remained commodity-dependent, it has fallen behind other regions of the world in exports of non-fuel primary commodities (chart 1).



Source: UNCTAD database.

9. The trends discussed above indicate that most African countries have been losing market shares in commodity exports to other developing countries, while at the same time most have been unable to diversify into manufactured exports. Africa's difficulties in maintaining market shares for its traditional commodities derive from its inability to overcome structural constraints and modernize its agricultural sector, combined with the high cost of trading.³ Africa has not been able to increase the productivity of its agriculture because of low investment in the sector. As a result, it has lost its competitive advantage in producing cocoa, tea and coffee vis-à-vis the new and more efficient producers in Asia and Latin America. The loss of market shares for cotton and sugar is largely due to high subsidies and domestic support for less competitive producers in the United States and Europe.

10. Africa has also not been able to tap into cheaper finance, efficient logistics, and increased capital resources and skills, which play a key role in international trade. At the distribution and marketing level, trade is increasingly dominated by supermarkets, global spread of consumption patterns and new demands linked to production technology. The continent also has difficulties in meeting market exigencies such as the Hazard Analysis and Critical Control Point (HACCP) and sanitary and phytosanitary (SPS) measures arising from WTO disciplines for food exports or additional national requirements.

11. Furthermore, structural changes have increased the premium on, *inter alia*, accurate market information, timely delivery and packaging, which have become critical for gaining competitive advantage in global markets. The African continent thus has a great competitive disadvantage due to its weak and unreliable transport and communication links and its tardiness in information technology compared to other developing country regions. African countries also lack a strong institutional capacity to provide the necessary support services to its producers and exporters.

(a) Dynamic products

12. The most dynamic products in world trade are manufactures. While the majority of these are high-tech products, some labour-intensive manufactures, notably clothing, have seen rapid growth in world trade as a result of the spread of international production networks and subcontracting (see *Trade and Development Report 2002*). In Africa, undergarments (SITC 846) are the only important export item among the most dynamic products in world trade (table 4). However, its share in total African exports is only 1.7 per cent. Moreover, two countries (Mauritius and Swaziland) account for over 85 per cent of total exports of this product.

13. Seventeen of the 20 most important export items of Africa are primary commodities and resource-based semi-manufactures. On average, world trade in these products has been growing much less rapidly than manufactures. However, trade in some non-traditional commodities has seen considerable expansion over the past two decades. Of such commodities, three are among the 20 most important export items of sub-Saharan Africa (namely fish and crustaceans, SITC 034, 036 and 037), accounting for 8.5 per cent of total African export earnings in 2000. World trade in other primary commodities that account for an important proportion of total exports of Africa, particularly agricultural products such as coffee, cocoa, cotton and sugar, has been sluggish, with the average growth of trade in such products in the past two decades barely reaching one-third of the growth rate of world trade in all products (i.e. 8.4 per annum over 1980–2000).

Table 4
Twenty leading non-fuel exports of sub-Saharan Africa
(Shares in per cent)

SITC code	Leading exports	2000 shares in SSA exports	Rank ^a	Growth in export value ^b	Main exporting countries in SSA and shares (in 2000 year)
667	Pearls, precious and semi-precious stones, unworked or worked	15.3	103	7.8	Botswana(67.2) Namibia(8.3)
072	Cocoa	6.6	208	1.6	Angola(10.2) Congo, D.R.(6.8)
263	Cotton	5.5	193	3.1	Côte d'Ivoire(70.3) Cameroon(7.2)
034	Fish, fresh (live or dead), chilled or frozen	5.0	75	8.7	Ghana(21.1) Togo(0.3)
071	Coffee and coffee substitutes	4.7	209	1.2	Mali(21.7) Côte d'Ivoire(12.0)
247	Wood in the rough or roughly squared	4.0	183	3.6	Zimbabwe(14.5) Chad(11.7)
121	Tobacco, unmanufactured; tobacco refuse	3.9	192	3.1	Namibia(31.8) Senegal(13.6)
287	Ores and concentrates of base metals, n.e.s.	3.8	180	3.7	Mauritania(19.2) Tanzania(9.5)
061	Sugar, molasses and honey	3.0	206	2.0	Côte d'Ivoire(25.7) Kenya(13.0)
248	Wood, simply worked, and railway sleepers of wood	2.8	139	6.4	Ethiopia(21.6) Uganda(10.6)
074	Tea and maté	2.5	195	3.0	Gabon(42.7) Equa. Guinea(14.6)
057	Fruit and nuts (not including oil nuts), fresh or dried	2.4	132	6.6	Congo(17.0) Cameroon(8.9)
036	Crustaceans and molluscs, fresh, chilled, frozen, salted, in brine or dried	1.9	77	8.5	Zimbabwe(64.4) Tanzania(4.2)
846	Undergarments, knitted or crocheted	1.7	5	13.4	Malawi(25.3) Uganda(2.9)
845	Outergarments and other articles, knitted or crocheted	1.7	50	9.7	Botswana(38.0) Congo, D.R.(6.4)
037	Fish, crustaceans and molluscs, prepared or preserved, n.e.s.	1.6	89	8.1	Guinea(34.4) Gabon(5.7)
11	Meat, fresh, chilled, frozen	1.4	142	6.3	Mauritius(38.2) Zimbabwe(16.4)
292	Crude vegetable materials n.e.s.	1.3	110	7.3	Swaziland(19.4) Malawi(6.8)
684	Aluminium	1.2	83	8.4	Côte d'Ivoire(36.7) Ghana(12.6)
842	Outergarments, men's, of textile fabrics	1.2	51	9.7	Cameroon(35.9) Congo(4.6)

Source: UNCTAD secretariat computations based on United Nations Statistics Division data.

^a Product groups ranked by growth in export value, 1980-2000.

^b World annual average growth rate.

14. This analysis reveals that SSA barely participates in trade in market-dynamic products, which suggests that global demand for most of its main non-fuel commodity exports is sluggish, a situation aggravated by high price volatility and declining real prices. Unfortunately, the continent's dependence on these commodities is unlikely to be reduced significantly in the short and possibly medium run. This underscores the need for more concerted and innovative measures to reduce the problems associated with such dependence, in particular within the new multilateral trade context.

15. Africa's difficulty in breaking into trade in market-dynamic products is also related to the significant changes that have occurred in recent years in international trade in agricultural products. World trade has shifted away from traditional commodity exports to non-traditional ones, such as fruits, vegetables, fish and seafood, which have high income elasticity and lower rates of protection in industrial and large developing countries. While there have been significant declines in trade ranging from 18 to 11 per cent between 1980/1981 and 2000/2001 for coffee, cocoa, tea, sugar and sugar products and textile fibres, international trade in fruits and vegetables has increased by 15 per cent, fish and seafood by 12 per cent and alcoholic and non-alcoholic drinks by 10 per cent. Developing country exports of temperate products (milk, grains and meats) have also increased marginally, mostly to other developing countries with much lower rates of tariff and non-tariff barriers.

(b) Market access

16. Market access remains a problem, as most of the tariff peaks are in agriculture, including processed products, and most post-Uruguay Round tariffs⁴ escalate between raw and semi-finished as well as between semi-finished and finished products, with a greater impact on more advanced stages of processing. Coffee beans and final processed coffee, for example, are subject to tariffs of 7.3 per cent and 12.1 per cent respectively in the European Union, 0.1 per cent and 10.1 per cent in the United States, and 6.0 per cent and 18.8 per cent in Japan. In the case of cocoa, tariffs at the raw, intermediate and final stages are 0.5 per cent, 9.7 per cent and 30.6 per cent respectively in the EU and 0.0 per cent, 0.2 per cent and 15.3 per cent in the United States. Japan accords tariff-free treatment to raw cocoa beans, but cocoa products exported at the intermediate stage are subject to a 7.0 per cent tariff while final cocoa products are levied at 21.7 per cent.

17. Average agricultural tariffs are also much higher than tariffs on manufactures despite the conversion of NTBs to tariffs (so-called "tariffication") during the Uruguay Round. In the Quad countries (Canada, the EU, Japan and the United States), for example, of tariffs covering 86.1 per cent of tariff lines, agricultural tariffs average 11 per cent compared to 4.0 per cent for manufactures. The difference between tariffs for agricultural and manufactured products is much higher in the EU, where the tariff on agriculture is 19 per cent as against 4.3 per cent for manufactures. Corresponding figures for large middle-income countries⁵ are 27.4 per cent for agricultural products and 13.1 per cent for manufactures, with coverage of 90.7 per cent of tariff lines. Furthermore, although tariffs are on average much lower in industrial countries than in developing countries, industrial country tariffs display high peaks (or high protection) for specific products. Tariffs peak at about 1,000 per cent in the Republic of Korea, 506 per cent in the EU and 350 per cent in the United States.

18. The introduction of the African Growth and Opportunities Act (AGOA) in 2000 and Everything but Arms (EBA) in 2001 by the United States and the EU respectively is a

welcome development in market access for African countries. However, an analysis of EBA in 2001 revealed little use of the scheme owing in part to the fact that the beneficiaries continued utilizing Lomé protocols which arguably have less restrictive rules of origin than the former (Brenton, 2003). An assessment of AGOA reveals that the additional benefits represent a modest expansion over the preferential treatment that SSA countries already enjoyed under the generalized system of preferences (GSP) (UNCTAD, 2003:2). On the other hand, it is contended that, had it not been for the restrictive rules of origin governing market access under AGOA, its medium-term benefits would have been five times greater (Mattoo et al., 2002).

3. Price volatility and terms-of-trade losses

19. African countries depend heavily on a few commodities, which have suffered from both price volatility and secular decline since the 1960s. Price volatility for commodities like coffee, cocoa and tea is mainly induced by supply shocks resulting from weather conditions. In recent years, El Nino has exacerbated supply shocks, with significant effects on real commodity prices (Brunner, 2000). For example, frosts in Brazil in 1975, 1985 and the mid-1990s exerted upward pressure on coffee prices. This situation is not helped by the fact that commodity production (particularly tree crops) does not lend itself to making quick adjustments to supply in order to meet shortfalls in supply or changes in demand. Most often, the time lag in the adjustment of supply to changed demand conditions aggravates the problem of slump, as supply becomes pro-cyclical (that is, it is increased just at the time when demand decreases). Part of the volatility in recent times could, however, be attributed to speculation in the commodity futures markets.

20. Secular decline in real prices emanates mainly from gluts in commodity markets. For those commodities produced in the north, for instance cotton, groundnuts, sugar and wheat, subsidies and other domestic support for farmers underscore the significant increases in the marketed surplus. For example, EU agricultural policies stimulate output for export or reduce import needs. EU wheat exports rose by 55 per cent to 22 million tons (increasing the EU's global market share by 6 percentage points to 20 per cent) between 1980/1981 and 1991/1992. The United States' subsidies for cotton production amount to US\$ 3-4 billion annually, and with about 40 per cent of production exported, the United States is the biggest world exporter of cotton.

21. In the case of tropical beverages such as coffee, cocoa and tea, overproduction stems partly from increased productivity due to technical advance by some traditional producers in Latin America and Asia, as well as expansion of land allocated to production, for instance in Brazil. New producers have also come on-line for some of these commodities in Asia: for example, cocoa in the 1970s/1980s (Malaysia) and tea and coffee in the 1980s/1990s (Viet Nam and Indonesia). Low-quality coffee beans have also aggravated the excess supply problem, as new blending techniques currently available enable roasters to use cheaper and lower grade coffee that would not have been traded 10 years ago.

22. Other factors impacting on real prices of commodities include new engineering practices and new synthetic and composite materials which have displaced traditional natural materials in a variety of end-uses, and the failure of the international community to support

price stabilization through commodity agreements as exporters adjust to a more competitive trade regime (Reinhart and Wickham, 1994:203).

23. Real prices of non-fuel commodities were relatively stable in the late 1950s and early 1960s, peaking in 1966. The highest peak registered to date was in 1974, which was preceded by a rise in non-fuel commodity prices accompanied by the oil shock. The second half of the 1970s and 1980s witnessed a volatile but generally declining trend, with peaks in 1988 and 1997 preceding the slump of more than 20 per cent (compared with 5 per cent for manufactures) in US dollar prices during the period 1997–1999 in the wake of the Asian crisis (Page and Hewitt, 2001: 5).

24. UNCTAD's analysis of real commodity prices of 15 products of export interest to Africa between 1960 and 2000 suggests that bananas, copra, coconut, copper, cotton, coffee, cocoa, fish-meal, gold, sugar, tea and white pepper suffer from high price volatility. The standard deviations of deviations of price from trends (i.e. estimated using the Hodrick-Prescott filter) are more than 10 per cent for all these commodities. In addition, the real prices of copra, coconut, cotton, coffee, cocoa, gold, tea, sugar and white pepper depict declining trends (chart 2), while those of copper and bananas are more or less stable and that of fish-meal has been rising. Non-coniferous wood and tropical logs and iron ore display medium volatility (that is, a standard deviation of deviations of between 5 and 10 per cent from the trend). The first two commodities exhibit a rising price trend, while the real price trend of iron ore has been more or less stable (table 5).

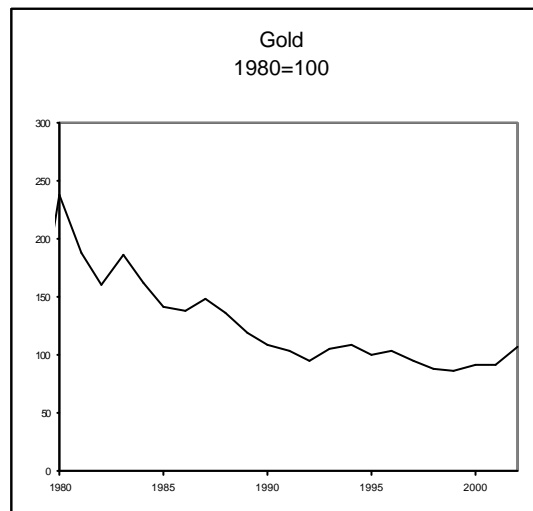
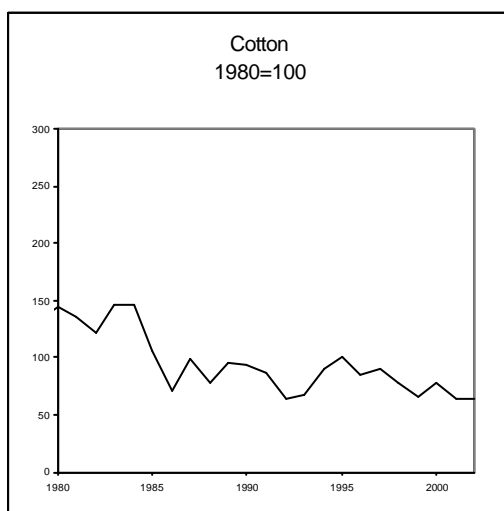
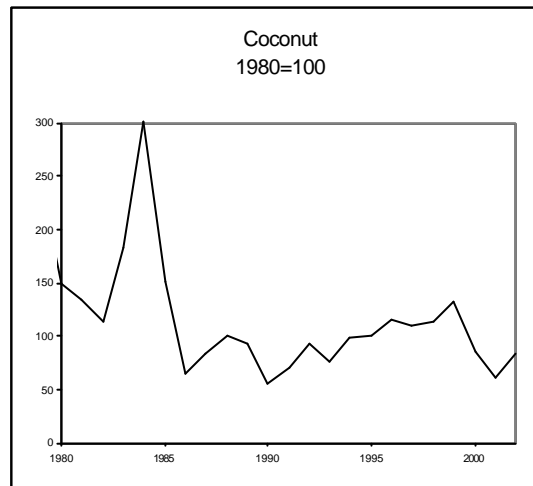
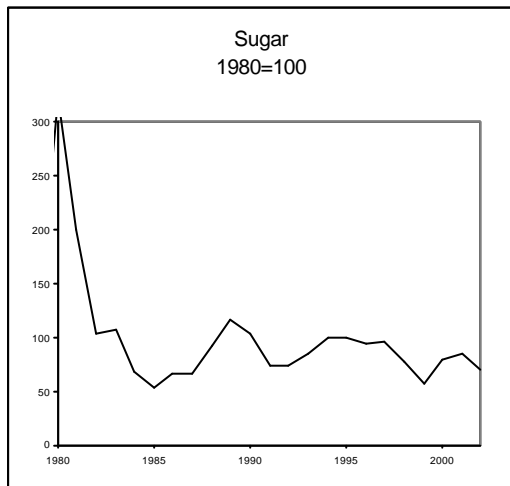
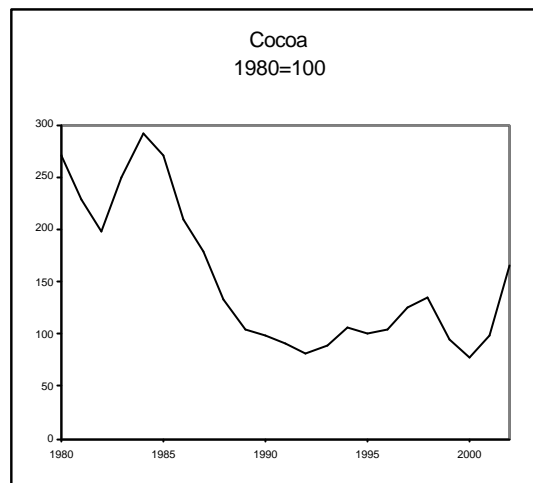
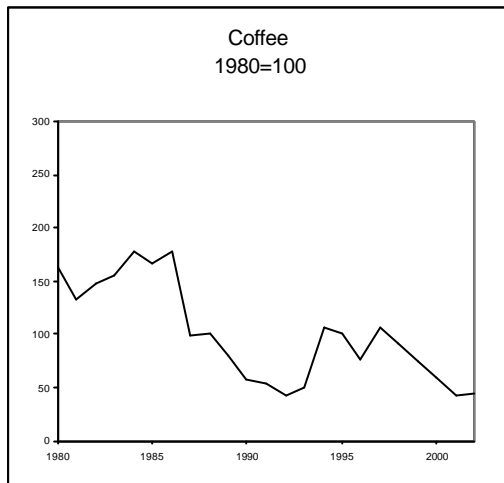
25. On the whole, problems due to declining terms of trade for SSA commodity-dependent countries are exacerbated by the high price volatility of their major exports such as coffee, cocoa, gold, tea and cotton. The extent of fluctuations in real export prices of SSA compared to the other regions has been summed up in an IMF/World Bank document as follows: "Sub-Saharan exports experienced roughly twice the volatility in terms of trade than East Asia's exports did in the 1970s, 1980s and 1990s, and nearly four times the volatility ... that the industrial countries experienced" (cited in UNCTAD, 2001: 38).

(a) *Impact on African economic performance*

26. Volatility of commodity prices aggravates difficulties in macroeconomic management and frustrates investment efforts because of uncertainty about overall economic conditions, including exchange rates, return on investments and import capacity, particularly of critical imports such as oil.⁶

27. Between 1997 and 2001, the UNCTAD combined price index in US dollars fell by 53 per cent. That is, commodities lost more than half of their purchasing power in terms of manufactured goods: African commodity exporters would have had to double their export volumes in 2001 to maintain their foreign exchange income at 1997 levels. Tropical beverages and vegetable oil seeds and oils, which comprise about one-fifth of non-fuel commodity exports of Africa, registered the highest rates of decline in real prices.

Chart 2
Prices of selected African commodity exports, 1980-2000



Source: UNCTAD secretariat estimates based on UNCTAD Commodity Price Bulletin.

Note: Price indices deflated by unit value indices of manufactured exports of developed economies, Annual data.

Table 5
Real price trends and volatility of selected commodities

Price volatility	Price trends		
	Falling	Stable	Rising
High^a	Copra Coconut Cocoa Cotton Coffee Tea Sugar Gold White pepper	Copper Bananas	Fish-meal
Medium^b		Iron ore	Wood/tropical logs
Low^c			

Source: UNCTAD database.

^a Standard deviation of deviations of more than 10 per cent from trends (using Hodrick-Prescott filter).

^b Standard deviation of deviations between 5 and 10 per cent from trends.

^c Standard deviation of deviations of less than 5 per cent from trends.

28. A major explanation for the poor economic performance of the region in the past two decades and a half is the significant loss of resources due to adverse terms of trade. World Bank estimates suggest that the cumulative loss resulting from adverse terms of trade over a period of almost three decades (1970–1997) for African non-oil-exporting countries (excluding South Africa) amounted to 119 per cent of the combined GDP of these countries in 1997, 51 per cent of cumulative net resource flows, and 68 per cent of net resource transfers to the region (World Bank, 2000, pp. 21–22). Research carried out by UNCTAD indicates that if SSA terms of trade had remained at 1980 levels, the share of the sub-continent in world exports would have been double its current level. Also, coffee and sugar producing countries (in the case of the latter, those exporting to the free market) would have earned an additional US\$ 19 billion and US\$ 1.4 billion respectively, and West African cotton-producing countries would have earned an additional US\$ 1 billion if prices for these products during 1999–2002 had remained at 1998 levels (when they were historically average). But for the decline in the terms of trade and associated losses for non-oil-exporting countries, the investment ratio would have been up by 6 percentage points per annum, income growth would have been 1.4 per cent higher, and the current level of per capita income would have been as much as 50 per cent higher (UNCTAD 2001: 6; 2002c: 5).

29. Furthermore, terms-of-trade losses have also contributed to the debt overhang of African countries. The IMF notes that “almost all countries hit hardest by falling commodity prices are also among the world’s poorest. All but two (Brazil and Chile) are classified as low income countries by the World Bank; over half are sub-Saharan Africa; and sixteen are Heavily Indebted Poor Countries” (IMF, 2000:112, in Page and Hewitt, 2001: 4).

30. According to a recent IMF/World Bank publication, a substantial drop in the prices of their key export commodities explains the deterioration in the debt-to-export ratios of 15 highly indebted poor countries (HIPCs), of which 13 are African. The report indicated that, on average, the export price index of these countries fell by 4.8 per cent, compared to a decline of 1.1 per cent in other HIPCs where debt indicators did not worsen, and that the exports of these countries are concentrated heavily in cotton, coffee, cashews, fish and copper – commodities that experienced large price reductions in 2001. It concluded that the terms of trade declined by 1.5 per cent for HIPCs with the worse debt ratios (IMF and World Bank, 2002a: 26). In 2001, for example, the price of coffee, which is the main export in five HIPCs, fell by 35 per cent. Large price falls were also recorded for other commodities that were the primary exports of at least one HIPC; cotton fell by 19 per cent (Benin, Burkina Faso, Mali, and Chad), cashews by 69 per cent (Mozambique and the United Republic of Tanzania), fish by 21 per cent (Senegal) and copper by 13 per cent (Zambia).

31. It is therefore not surprising that 10 African countries⁷ that had been seriously affected by export price declines have currently been projected to have the net present value (NPV) of debt-to-export ratios above the sustainability threshold at their completion point under the enhanced HIPC Initiative. Uganda, one of the six African countries currently at completion point, has already found itself in an unsustainable debt situation on account of steep declines in the price of coffee (IMF and World Bank, 2002b: 17-18), and completion point debt relief for Burkina Faso had to be topped up by US\$ 129 million because of the decline in the price of its main export, cotton. On average, HIPCs with deteriorating debt indicators have higher export commodity dependence, and their exports display a much greater volatility relative to other HIPCs (IMF and World Bank, 2002a: 26).

32. Commodity price trends also impact on the incidence of poverty via knock-on effects on employment opportunities and incomes of commodity producers.⁸ The net effect of the secular decline in prices, however, depends on the extent to which world market prices are transmitted to producers and whether higher export volumes (for example, through productivity and yield improvements) make up for falling prices. Most developing countries are not in a position to manage these shocks because of the lack of instruments and technical expertise deriving from their low levels of development. In sub-Saharan Africa, for example, agricultural productivity is too low, so countries cannot compensate for lower commodity prices by increasing the volume of exports. Despite the macroeconomic policy reforms undertaken under structural adjustment programmes, SSA economies are not in a position to manage commodity price booms (and slumps) any better than they were in the 1970s. On the contrary, the capacity of Governments to mediate these shocks has been severely undermined by some aspects of these reforms.

4. Who benefits?

33. While African producers have incurred losses in foreign exchange earnings, traders and firms in the higher steps of the value chain have been reaping significant benefits. According to the International Coffee Organization (ICO), for example, in the early 1990s earnings by coffee-producing countries (exports f.o.b.) were some US\$ 10–12 billion, while the value of retail sales was about US\$ 30 billion. Today, the value of retail sales is US\$ 70 billion, while producers receive only US\$ 5.5 billion. With an estimated 125 million people

in the developing world dependent on coffee production for their livelihoods, the impact of such a price decline has been devastating in terms of social dislocation, including social exclusion and poverty.

34. A value chain analysis of the coffee market reveals that, since 1985, a growing share of total incomes in the chain has accrued to economic agents in the importing countries. The asymmetrical character of power in the coffee value chain explains the unequal distribution of total incomes. “In the producer countries it [power] is very weak – farming is highly fragmented and the destruction of marketing boards further reduces the capacity of farmers to raise their share of value chain rents. At the importing end of the chain, there are three major residues of power – importers, roasters and retailers. They compete with each other for a share of value rents, but combine to ensure that few of these return to the farmer or producer country intermediaries or governments” (Fitter and Kaplinsky, 2001:16).

35. The World Bank⁹ reckons that, in 2002, the world market price of cotton would have been more than 25 per cent higher¹⁰ but for the direct support of the United States for its cotton producers. Furthermore, various estimates suggest that, in 2002, cotton subsidies by the United States and the EU have caused a loss of up to US\$ 300 million in revenue to Africa as a whole, which is more than the total debt relief (US\$ 230 million) approved by the World Bank and the IMF under the enhanced HIPC Initiative to nine highly indebted cotton-exporting countries in West and Central Africa in the same year.¹¹ The cost of lower cotton prices to Mali, according to Oxfam, amounted to \$43 million in 2001. This is exactly the amount of debt relief received by Mali from the World Bank and the IMF in the same year under the enhanced HIPC Initiative. In Benin, Mali and Burkina Faso, about 11 million people depend on cotton as their only source of income, and in Benin, for example, lower cotton prices have been associated with a 4 per cent rise in poverty in 2001.

36. European Union reforms of the Common Agricultural Policy (CAP) announced recently, involving moving away from production- and price-linked subsidies, are a welcome development. It is, however, too early to ascertain the impact of the reforms on output and prices, or how soon it would be extended to products like sugar, tobacco and cotton, which are important exports for some African countries. Farm support systems in OECD countries are having serious consequences in Africa for the poverty reduction objective of the Millennium Development Goals. It is unlikely that the current CAP reforms will change this situation even if they lead to cuts in subsidies. They are focused on domestic support, not trade, and contain no new provisions about tariffs or improving market access for African agricultural exports.¹²

5. Past policy responses

(a) International commodity agreements and compensatory financing schemes

37. In the past, the international community’s response has essentially been within the context of commodity price stabilization and compensation for loss of export earnings emanating from commodity price shocks. Commodity price stabilization was a major international concern as early as the negotiations leading to the Havana Charter. Later, a major plank of this response was the adoption of the Integrated Programme for Commodities at UNCTAD IV launching negotiations on a basket of commodities, followed by the negotiations leading to the establishment of the Common Fund for Commodities (CFC);

compensatory financing mechanisms, such as the EU's Stabilization of Export Earnings (STABEX) and the IMF's Compensatory Financing Facility, were designed to compensate for shortfalls and short-term price shocks.

38. However, with the emergence of market-oriented policies in the early 1980s, intervention in markets (at least for developing countries) was no longer deemed acceptable, or indeed feasible. Instead, the free play of market forces combined with price liberalization was held up as promising the most efficient allocation of resources and welfare gains. As a result, the negotiation of commodity agreements with economic clauses came to a halt. With the advent of a global recession in the 1980s, some existing commodity agreements such as tin, sugar and rubber were discontinued under the pressure of depressed prices, while economic clauses in agreements such as coffee and cocoa were removed. Thus, the function of the first window of the Common Fund, which was designed to lend to international commodity agreements for the purchase of buffer stocks, was rendered obsolete even before the agreement came into force in 1989. Compensatory financing facilities have not fared any better, with many commodities suffering from secular price declines and because of the fact that they were cumbersome, pro-cyclical or too expensive to use.

(b) Domestic stabilization schemes

39. Crop marketing boards and *caisses de stabilisation* mediated between world markets and producers in many commodity-exporting African countries. They offered support (administered) prices, announced at the beginning of each harvest season, to producers and operated (or were supposed to operate) on the basis of buffer funds. In several cases, they also provided ancillary services, such as extension and rural infrastructure, including, in some cases, health and educational facilities as well as input provision, product distribution and credit.

40. These institutions were dismantled within the context of structural adjustment programmes, thereby exposing commodity producers to the vagaries of world commodity markets. The post-adjustment experiences have been mixed, but on the whole, real producer prices have reflected the declining pattern of world market commodity prices (UNCTAD, 2002a, p. 141). The domestic terms of trade have turned more against farmers in those countries that have liberalized, and the shift from public to private marketing agents has not increased the proportion of export prices passed on to producers. Farmers have also suffered negative consequences because key production and marketing costs have risen rapidly, prices of fertilizers and transport costs have soared, and lower wages have not helped as hired labour accounts for less than 20 per cent of the total labour force (UNCTAD, 1998: 165–176). Consequently, SSA producers are less able to protect themselves from falling commodity prices.

(c) Commodity price risk management

41. Against the background of the limited progress made by both domestic and international price stabilization schemes to address the commodity problems of developing countries, attention has of late focused on the use of market-based mechanisms, such as forward, futures and option contracts as well as swaps, for managing commodity price risks. It is doubtful, however, if the futures markets are as suitable for addressing problems emanating from price variability as they are for the reduction of uncertainty in revenue flows. As observed by Tomek and Gray (1970, quoted in Gilbert, 1996:17), commodity futures

prices are only slightly less variable than cash prices. The futures market is certainly not the correct instrument to address the issue of long-term decline in commodity terms of trade for commodity-dependent countries. It is best suited to managing risks resulting from short-term movements in prices.

6. Policy issues

42. While policy responses should take into account the characteristics of the commodity and trends in its global markets, two main issues need to be underscored. First, more than any other developing region, Africa is heavily dependent on the export of commodities, although paradoxically its share in world exports has declined in the last two decades. Second, the majority of Africa's non-fuel commodity exports have been subject both to high price volatility and a secular decline in real prices. The continent has therefore been caught up in a downward spiral where such dependence and its attendant ramifications have become a structural feature of many of Africa's economies. Commodity exports are not generating sufficient resources for investment for diversification and for human and physical infrastructure needed to reduce the external vulnerability of the region to sharp swings in commodity prices as well as to secular decline in terms of trade. Hence, the "commodity trap" in which these countries are caught has become essentially a "poverty trap". For African countries, for which commodity exports represent well over 70 per cent of foreign exchange income, the problem becomes essentially a developmental one. Solutions centred on specific commodities can help in alleviating some of the constraints faced by these countries, but the policy challenges of commodity dependence require action on several fronts with the objective of addressing the structural constraints of African economies.

43. The preceding analysis suggests a bigger role for the state than is currently recognized in addressing commodity dependence in African countries. Governments have a critical role to play in providing extension services and reducing dependence by creating conditions that promote horizontal and vertical diversification towards higher-value-added products. Similarly, Governments are best placed to coordinate an integrated programme of "supply-side responses" effectively, as well as undertaking quality control. It is therefore essential that institutional capacities be reinforced.

44. A horizontal diversification programme must incorporate more dynamic, higher-value-added products such as fruits, vegetables, fish and seafood, as well as temperate products such as grains and meats, which are unrelated to existing or traditional exports, in order to attain a balance between commodities subject to persistent and short-lived shocks.¹³ Its success will be dependent on enhanced farmer access to agricultural inputs, including improved seeds and credit, efficient extension services and better cultivating techniques, good rural infrastructure and improved access to land with secure titles. In the case of vertical diversification, the state has to facilitate quality and technological upgrading, including through the promotion of linkages with foreign markets. Measures such as tariff rebates, tax exemptions, preferential credits and export credit insurance will be invaluable to promoting exports.

45. Institutional capacities must also be enhanced for the provision of public goods and services that address market imperfections, including eliminating segmentation of rural and urban markets and linking them to regional and global markets. Improvements in ports, cargo-handling facilities and telecommunications infrastructure, together with the removal of

non-physical barriers to transportation (e.g. harmonization of customs and transit documentation), should reduce costs and increase the competitiveness of exports, in particular for landlocked African countries.

46. Rationalization of agricultural production is a means employed by many developed countries in the past. The success of such programmes will hinge on the capacity of Governments to mobilize adequate financial resources both at home and abroad to compensate those producers who may be forced to reduce production and encourage related crop diversification or substitution programmes.

47. Land should not be a binding constraint on agricultural production in most African countries, just as scale diseconomies should not be an immediate constraint on labour productivity, which could be increased several-fold by training the labour force, by conducting agricultural research, and by more intensive and appropriate use of biotechnology. Unlike other countries and regions (for example, Asia), which are already at or approaching scientific and technological frontiers and limits of natural resource endowments, opportunities exist in SSA countries which are furthest from frontier levels to enhance agricultural productivity significantly. Demand for food and feed grains will continue to increase in Asia and major oil-exporting countries. For example, during the 1990s, 56 per cent of the growth in developing country agricultural trade was accounted for by sales to other developing countries and 44 per cent by sales to industrial countries. With increasing trade liberalization, African countries would find it advantageous to expand their exports of commodities in line with their comparative advantage of climate and other resources (see, for example, Ruttan, 2002).

48. The great potential for intra-African trade, which could create additional markets for African exports, has yet to be exploited. This has long been recognized, but efforts aimed at promoting it have met with limited success. Promoting regional economic integration through enhanced regional and intra-African trade is one of the major objectives of the New Partnership for Africa's Development (NEPAD), and one can only hope that some tangible results will now be achieved, considering the strong support for NEPAD in the international development community. UNCTAD's analysis of trade between the Southern African Customs Union (SACU) and the Southern African Development Community (SADC), for example, reveals great potential for increasing trade in primary commodities, including meat, tropical beverages, cotton, diamonds and non-ferrous metals. The analysis also suggests that a few resource-intensive basic manufactures, such as cotton yarn, cement and some types of woven fabrics, could also be traded.

49. Problems stemming from commodity trade relations are manifested at the multilateral level, hence domestic policy packages are unlikely to be effective without a complementary package from the international community.

50. To the extent that more advanced developing countries in Asia and Latin America with a relatively diversified economic base move from low-value agricultural commodities towards labour-intensive manufactures and higher-value-added dynamic products, a space would be created for the poorer countries in the production and export of agricultural commodities, including processed products. This depends, *inter alia*, on increased market access for these products. Furthermore, non-tariff measures such as sanitary and phytosanitary (SPS) technical barriers to trade (TBT), requirements and other contingency trade-protection measures should be applied in a manner that does not unnecessarily hinder

the exports of African countries. Such a process would be facilitated by greater liberalization of OECD domestic agricultural markets through a significant reduction, and finally elimination, of massive agricultural subsidies and support for commodities such as cotton, groundnuts and sugar, which are of export interest to Africa. In the meantime, a mechanism is required at the international level to ensure that countries providing subsidies to their producers should compensate African countries for income losses arising from such subsidies on a pro rata basis.

51. The international economic environment has changed significantly since the NIEs embarked on their industrialization programmes. African countries now have to operate within the framework of WTO disciplines (backed by a rigorous enforcement mechanism), which limit the use of instruments deployed by the NIEs, the special and differential treatment measures notwithstanding.¹⁴ It should nevertheless be possible to envisage derogations, in the context of WTO negotiations, from some of these disciplines to support development programmes, if their objectives are clearly defined. Similarly, Africa could use the WTO system to its advantage by judicious schemes of tariff reductions (or rationalization) within the context of regional economic groupings that enhance market access within the continent.

52. The persistence of the problems of commodity dependence in the past three decades suggests that markets have not been able, and cannot be expected, to solve the problem. It could also be argued that the limited and somewhat half-hearted support of the international community for the traditional price support and stabilization schemes was an important factor in their demise.

53. As discussed in previous UNCTAD reports, the present conditions in Africa are not so different from those of the second-tier NIEs in the mid-1970s (UNCTAD, 1998, box 8, p. 213), except perhaps for education and higher levels of accumulation. Addressing the secular decline in real commodity prices would require a domestic and international policy package aimed at the structural transformation of African commodity-dependent economies within the context of an improved system of resource allocation. Although essential, such transformation cannot be undertaken solely through the provision of better market access and reduction of subsidies.

54. African countries require sufficient resources in order to invest in improving human and physical infrastructure and undertake institution building. Thus, support by the international community should be combined with a judicious set of policies designed to help African countries through the provision of much increased levels of official flows in order to help bridge the savings and investment gap, as well as the provision of a permanent exit solution to the debt problems of Africa.

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Notes

¹ See *Trade and Development Report 2003*, chap.3.

² It has, however, been observed that most of the manufactures of developing countries are concentrated in low-skill, low-value-added products (see UNCTAD, 2002b: 74).

³ See, for example, UNCTAD, 1999a, pp 3-8.

⁴ Data on tariffs is from the WTO Integrated Data Base (MFN Applied Tariffs).

⁵ This group comprises Brazil, China, India, Republic of Korea, Mexico, Russian Federation, South Africa and Turkey.

⁶ For example, between 1998 and 2000, the prices of the main exports of Ghana, namely cocoa and gold, fell by 47 and 5 per cent respectively, while the price of oil, a major import for the country, increased by 116 per cent. During 2001 and 2002 cocoa prices increased by about 76 per cent, while oil prices fell by about 15 per cent (UNCTAD, 2002c: 5).

⁷ These are Benin, Burkina Faso, Chad, Ethiopia, Gambia, Guinea-Bissau, Malawi, Rwanda, Senegal and Zambia.

⁸ Smallholders supply about 70 per cent of the world's coffee and are directly affected by declines in world coffee prices. In Nicaragua, for example, coffee growing supports more than 40 per cent of the rural labour force. Oxfam estimates that the collapse in world coffee prices directly affects 125 million people who depend on it for their livelihoods (see UNCTAD, 2002c: 5).

⁹ Cited in *Memorandum on Coherence between Agricultural and Development Policy* of the Minister of Agriculture, Nature Management and Fisheries and the Minister for Development Cooperation, The Netherlands, December 2002, p. 27.

¹⁰ During the 2002 season, world market prices for cotton were at their lowest level in 30 years: \$0.42 per pound (454g) compared to an average price of \$0.72 per pound over a period of 25 years.

¹¹ These countries include: Burkina Faso, Benin, Mali (completion point), Chad, Cameroon, Guinea, Guinea-Bissau, Niger and Senegal (decision point).

¹² See *The Economist*, 5 July 2003, p. 73.

¹³ The strategy of diversification, however, entails the risk of further depressing commodity prices if all countries diversify into the same commodities (cocoa, coffee, tea and cotton) as it would be difficult, if not impossible, to avoid a "fallacy of composition" at the regional level (see, for example, Mayer, 2002).

¹⁴ Policies in support of export-oriented firms, FDI, and technological upgrading would have to comply with the WTO Agreements on Trade-Related Investment Measures (TRIMs) and Trade-Related Aspects of Intellectual Property Rights (TRIPS). Compliance with these two WTO Agreements would make the task of technological and industrial capacity building onerous for African countries. Any protection offered to new "infant industries" in line with GATT 1994 article XVIII (B) and (C) should only be for dynamic sectors that are expanding in line with dynamic comparative advantage, should be sectoral rather than at the firm level, and above all should be temporary (see UNCTAD, 1999b, chapter 3, Part Two).



**United Nations
Conference
on Trade and
Development**

Distr.
GENERAL

TD/B/50/6/Corr.1
26 September 2003

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fiftieth session
Geneva, 6-17 October 2003
Item 4 of the provisional agenda

**ECONOMIC DEVELOPMENT IN AFRICA:
ISSUES IN AFRICA'S TRADE PERFORMANCE**

Report by the UNCTAD secretariat

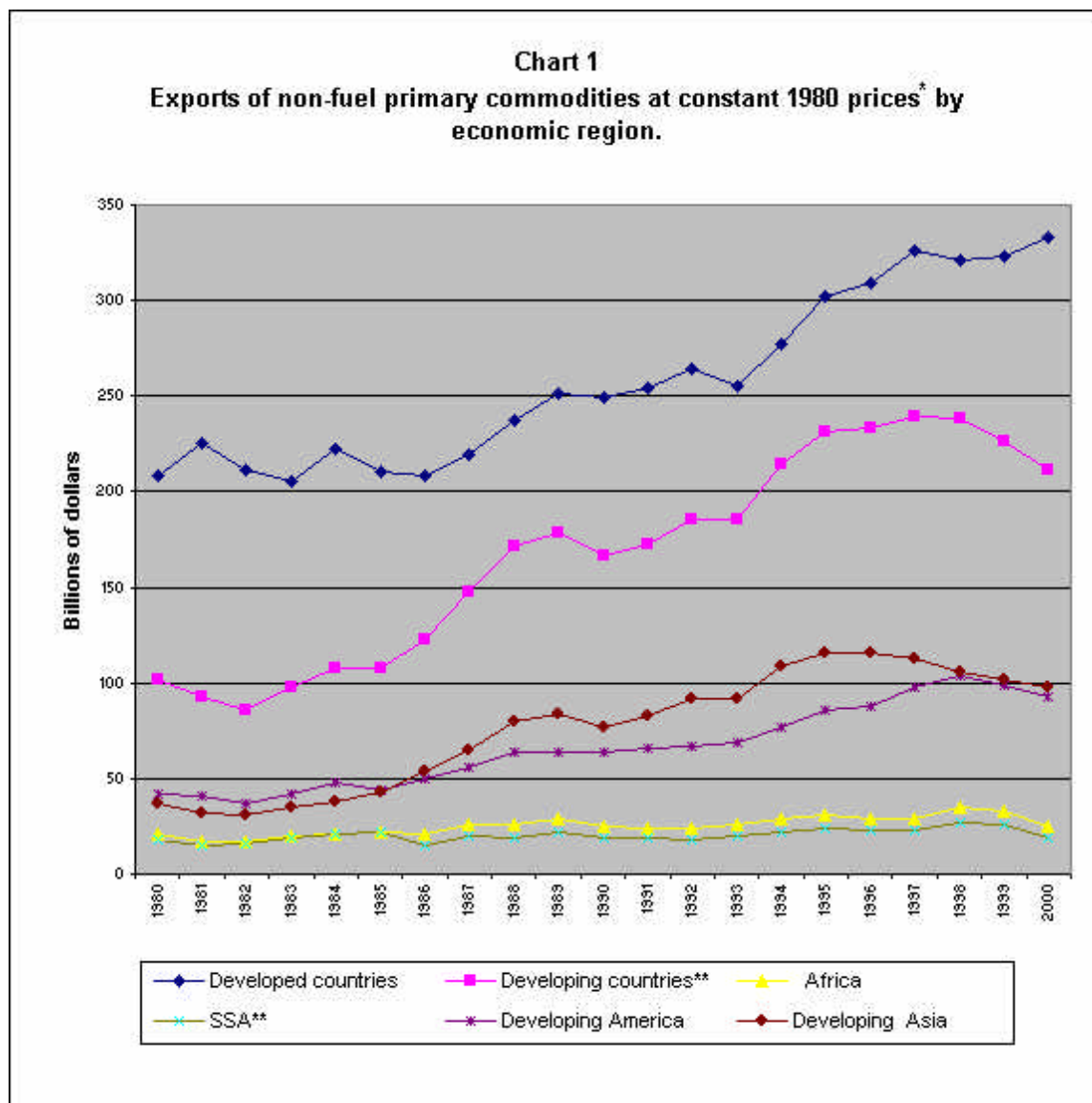
Corrigendum

Page 6

The existing version of chart 1 should be replaced by the attached (see verso).

Paragraph 28

For (UNCTAD 2001: 6; 2002c: 5) *read* (UNCTAD 2001: 36; 2002c: 5)



Source: UNCTAD secretariat computations based on United Nations Statistics Division data.

* The deflator used is the UNCTAD export unit value index for the relevant region.

** Includes South Africa