Commodity dependence, Export Diversification and the International Trade Architecture

Excellencies, distinguished delegates and colleagues, my name is Tetteh Hormeku from Third World Network-Africa, speaking on behalf of the Civil Society FfD Mechanism. I am honoured for the opportunity to highlight some aspects of this important issue of primary commodity dependence, export diversification and the international trade architecture—some of which have already been raised by distinguished speakers on the panel.

1. I’d like draw attention to two critical dimensions of this issue. First, is the fact that primary commodity nature export dependence of African and other less developed countries is a systemic problem, and so, the imperative of export diversification is an issue of structural economic transformation. The second is that there is fundamental disconnection between this problem and what needs to be done on the one hand, and, on the other hand, the basic paradigm and driving interests of the current international trade and investment architecture especially as founded around the WTO as well as the trade, investment, and financial policies of the World Bank and the IMF. And this disconnect undermines many initiatives that countries have taken individually or collectively to address primary commodity dependence.

2. As has been emphasized here, the economy of many African countries are structured by the export of largely unprocessed low-value added raw materials to the rest of the world, especially to the advanced industrial capitalist economies. The other side of the problem is near-total dependent of these countries on the import of manufactured and other industrial products from the rest of the world.

3. This essential unequal exchange is at the basis of most key challenges of African and other developing country economies—chronic almost systemic trade deficits, balance of payment problems, externalization of capital accumulation, cycles of debt crises, etc.

4. The effect is also weak domestic productive capacity across the economies; weak intersectoral linkages from agriculture, to industry to services; weak and shallow domestic markets, national or regional; turn to the stagnation of agriculture and the rural economy; urbanization without industrialization; weak capacity to create decent jobs.

5. The dynamics of this economic structure have only worsened over time, and against the
prospects of primary commodity export economies. An important recent complication of these the problems has the rise of over the past two decades of the financialization commodity trade, and in fact of primary commodity production. Hedge funds and big speculative finance now dominate not only the trade, but in instances even the productive decisions, from crops such as cocoa and coffee to minerals companies. As a result, finance and trade have become even more disconnected from the long-terms imperatives of the real economy and conditions of production.

6. Unfortunately, as the experience of African and other developing economies have shown, the international trade system has largely worsened this problem of primary commodity dependence. Starting with the structural adjustment policies imposed by the World Bank and IMF through debt-conditionality, commodity countries have had to liberalize and deregulate their trade and indeed their economies, opening their economies to usually subsidized foreign products as well as huge and powerful transnational corporate capital. The effect has been decades of de-industrialization and the reversal of many steps that African countries had taken to address the structural deficiencies of the economies they inherited from colonialism. The WTO and its imbalanced agreements, as well as other bilateral trade and investment agreements, have locked this into place.

7. Even as African and other developing economies have waged a long struggle to correct the imbalances of the WTO, the advanced industrial economies have sought to entrench and expand the imbalances of the trade regime to other areas of development policy. And where they did not succeed they have used other forums. In their determination to promote their corporate interest over the needs of African economies the advanced industrial economies have managed to undermine many strategic initiatives by commodity dependent countries to address their problems. When Africa adopted the African Mining Initiative, the EU responded with its Raw Materials initiative, to ensure that African minerals remain available to European Industry as raw materials. This has now been updated in 2023 into the EU Critical Raw Materials Law, which stands against Africa attempts to make better use of its critical minerals.

8. Three important messages/lessons follow from the above.

8.1. We must frame export diversification not simply as diversification of the primary commodities or diversification of markets. True export diversification is diversification from primary products to industrial products, specially manufactured products. In Africa this is a case of structural economic transformation which means the enhanced productivity in smallholder agriculture and diversification of the rural economy, the development of manufacturing industry, and the rise of a modern service economy. All this must be part of integrated and balanced national and regional markets and productive units, processes, and infrastructure.

8.2. Such transformation requires that trade policy at the national level, and in Africa’s case at regional level must be driven by industrial policy; by a strategy for industrialization. This must align all policies from trade, investment, finance, to technology policies.

8.3. The international trade architecture must be fundamentally re-thought. In two critical ways:
(a) the paradigm of universal, indiscriminate, one-size fits all liberalization and deregulation must be abandoned. Developing countries need both political and policy space to direct and target investment to strategic drivers of socio-economic transformation.

(b) the attempt especially at the WTO to undermine the consensus based decision, making and thus undermine the ability of developing countries to promote their interests must stop.

8.4. Above all this means that a more inclusive forum is needed for re-thinking and re-
constructing an international trade governance regime that is supportive of the structural economic transformation goals of the primary commodity economies. The forthcoming 4th international conference of Financing for Development (FfD 4) must take leadership in providing such a forum.

I thank you.