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**UNCTAD/CFC/ICO project ‘Economic Crises
and Commodity dependent LDCs: Mapping
the exposure to market volatility and building
resilience to future crises’**

Report on final appraisal

Background

At the 110th Council Session the representative of the United Nations Conference on Trade and Development (UNCTAD), briefed Members on the final appraisal of the UNCTAD/CFC/ICO project ‘Economic Crises and Commodity dependent LDCs: Mapping the exposure to market volatility and building resilience to future crises’ and the way forward. A copy of his statement is attached.

Action

The Council is invited to take note of this report.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

**FINAL APPRAISAL OF THE UNCTAD/CFC PROJECT:
'ECONOMIC CRISES AND COMMODITY DEPENDENT LDCs: MAPPING THE EXPOSURE TO MARKET
VOLATILITY AND BUILDING RESILIENCE TO FUTURE CRISES AND THE WAY FORWARD**

Chairperson, Distinguished Participants, Ladies and Gentlemen

You will recall as the result of the previous briefings and presentations by UNCTAD, the Council was informed about the objectives of the project; the impact of the global financial, food and fuel crises on commodity dependent LDCs; the policy lessons drawn from the experiences of selected countries in responding to the crises and the broader policy implications. In my briefing today, which is the final appraisal of the project, I will focus on results and impacts of the project together with the activities undertaken since the last session of the Council and their substantive outcomes, overall implications and the way forward. This will have three main components: i) overall results and impacts of the project at policy and institutional levels; ii) the findings and conclusions of the case study of Nepal; and iii) deliberations of the project outcome by the 59th session of the Trade and Development Board of UNCTAD. The latter will focus on the response of member States to the impact of the work carried out by the project.

Regarding the first component, the project resulted in a sound and evidence based analysis on the commodities problems of LDCs, including price volatility and external shocks as well as their impact on socio-economic progress of the most vulnerable group of countries. Our work clearly demonstrated that, GDP growth rates in many LDCs and the evolution of their exports followed the boom-bust cycle. There is a clear contrast between the boom years in the run-up to the global financial crisis (which is led by commodities) and the subsequent plunge in both GDP and exports, especially with respect to the African LDCs and Haiti. Also, foreign direct investment (FDI) flows followed a similar pattern in the 2000s, with the FDI-to-GDP ratio gradually rising to 6.8% in 2008 before falling to 4.7% in 2010. In short, while persistent challenges of underdevelopment are widespread in LDCs, new and emerging ones (such as the global crisis) have complicated the economic viability and vibrancy of these countries, undermining national and global efforts to unlock their trade and development potential. Further direct effects of the global crises at the level of the household relates to (i) employment and incomes and (ii) food consumption. Although the fallout of the crises on employment in LDCs was limited due to the high proportion of self-employed and unpaid family workers, the indications are that the global financial and economic crisis led to

rising unemployment levels, informalization and more working poor. The negative impact was keenly felt in export sectors, but construction and non-tradable sectors were also adversely affected. Such broad and wide sector impacts necessitate different policy responses in different countries covered by the project ranging from subsidized food imports to large scale direct cash transfers to mitigate the impact on employment. In fact the crises rekindled the impact of short-term commodity price instabilities and long-term trends on the one hand and policy responses at the national and international levels on the other hand.

At the institutional level, the project assisted different national and international institutions to work closely in identifying the gaps and limitations at the national level, while attempting to influence global policy-making to contain the contagion of the external shocks on the economy of LDCs. In the implementation of the project, UNCTAD worked closely not only with the ICO and the CFC but also with regional economic commissions in Africa and Asia-Pacific as well as various national institutions in beneficiary countries.

In terms of direct impact on policies, our work contributed to international policy-making arena with regard to the role of commodities in the development of LDCs. The decennial programme of action – called Istanbul Programme of Action – which the United Nations adopted in May 2011, recognized commodities as one of the eight priority areas identified as pillars to address the trade and development challenges facing LDCs. The programme of action draws heavily on the work of United Nations on commodities, including from the UNCTAD/CFC/ICO project which we have successfully implemented. Similarly, the 13th session of the United Nations Conference on Trade and Development (UNCTAD XIII) held in Doha, Qatar in April 2012, especially sessions dealing with LDC-issues greatly benefited from the analytical work undertaken by the project. The Conference called for "continued support commodity-dependent developing countries, particularly in Africa and LDCs in maximizing development gains from commodity production and trade.

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With regard to the new activities undertaken since the last Session of the Council, we examined the role of commodities in the socio-economic performance of Nepal – a country which is one of the current 49 LDCs. Although, Nepal is not a member of the ICO, the findings and conclusions of the study are of direct relevance to the work of the Organization with policy lessons and implications to other LDCs which are Members of the ICO. Nepal is not only an LDC but it also belongs to the group of landlocked developing countries – a geographically disadvantaged group of countries from an economic and trade competitiveness point of view. This is simply because of the fact that landlocked countries incur more transport and logistics cost than coastal countries and hence become less

attractive to investment and doing business. Such geographical challenges also hinder structural economic transformation, which in turn results in weak socio-economic progress. Moreover, Nepal has no known commercially viable mineral resources (with the exception of iron and steel) and it suffered from long and protracted armed conflicts. Although, it has recently emerged from conflict, the task of ensuring lasting peace, economic recovery and rehabilitation continues to pose formidable challenges. However, it is important to note that alongside these challenges, the country is endowed with natural attractions (environmental beauty) and it is strategically located in a rapidly transforming region – sharing borders with two of the largest emerging or booming economies of the world: China and India. For instance, two thirds of merchandise trade (exports and imports) of the country is with India and its trade with China is consistently growing. A bilateral trade agreement with India provides for a reciprocal duty-free and quota-free market access for most exports of Nepal. China has also unilaterally granted duty-free market access to Nepali products, including agro-food products of export interest to Nepal.

Analysing Nepal's export basket, we found that during the decade 2000-2010, the share of tropical agriculture increased (from 4% to 15%) whereas the share of labour-intensive manufactures decreased (from 39% in 2003 to 14% in 2010). This suggests that the importance of commodities in Nepal's export basket is increasing. In fact, the share of primary products (unprocessed)¹ in total exports increased more than three times – to 22% during 2000-2010. Therefore, the role of primary commodities in Nepalese socio-economic development is expected to grow in the near future which requires the attention of policy makers to integrate commodity based policies in their national trade and development policies.

On the impact of the recent financial and economic crises on Nepal, our work reveals that the country was slightly saved from the adverse consequences of the crises due to three main reasons: first, exports, especially of primary commodities do not yet play a major role in the economy of Nepal, although their relative share in total exports is increasing over time. Hence, unlike many commodities dependent LDCs such as those in Africa, the falling commodity prices did not act as a transmission channel for external shocks in the case of Nepal. Second, flows of remittances, which are considered as pillar of the economy continued to rise, even during the height of the global economic crisis (during 2008-2010 recorded remittances exceeded both ODA and FDI flows combined in Nepal). Finally, government revenue, which relies heavily on indirect taxes in general and taxes on imports in particular, continued to grow robustly even with the onset of the global crisis.

¹ Classification based on UNCTAD (UNCTADstat), which includes agro-based semi-processed manufactures in the category of primary products.

The key policy conclusion that emanate from the case study of Nepal is that, more than the global economic shocks and crises, the challenges facing Nepal with regard to its commodity export sector relate to supply side constraints. These can be broadly grouped under two clusters. The first challenge, which is more pressing and has to be addressed immediately, is to increase the quantum (volume and value) of exports. The second challenge is to diversify and increase the sophistication and complexity of the export basket, that is, produce and export a wider range of new and increasingly sophisticated and complex products.

Building on these and related findings of the study, UNCTAD is working towards initiating policy dialogue with the Government of Nepal on how to enhance the role of commodities in the country's socio-economic development. The dialogue will have three specific targets: i) an urgent need to arrest the growing trade deficit of the country, ii) policies and strategies to create employment and generate income for an expanding labour force, and iii) improving economic growth in such a way that it will have visible impact on poverty. We had a similar dialogue with senior officials and policy advisors of the Government of Cambodia in December last year when the findings, conclusions and policy implications of the case study of Cambodia was presented and discussed.

Chairperson, distinguished Participants, Ladies and Gentlemen

Turning to the third and final component of my briefing, I am pleased to report to the Council that the findings and policy conclusions of the project were deliberated at the 59th session of the Trade and Development Board – policy making organ – of UNCTAD (in September 2012) . The Board took important policy decisions where it:

"Noted with interest the evidence-based analysis of the impact of the recent multiple crises (food, fuel and financial) on the socioeconomic performance of least developed countries (LDCs) and their prospects for meeting graduation criteria by 2020 as well as the challenges facing them in ensuring food security as contained in the document UNCTAD/ALDC/2012/1"; and

"Encouraged the governments of LDCs to continue efforts to realize the potential of their commodities sector to spur development and structural transformation, including by leveraging commodities gains for economic development, integrating commodity policies into their domestic development policies and strategies and unlocking domestic potential for sustainable development, inclusive growth and promoting competition and eradicating poverty"

In conclusion, let me say a few words regarding the way forward. In the near future, we will continue to undertake policy dialogue with interested countries on how to enhance the role of commodities with special focus on commodity dependent LDCs. In addition to this, we will be selectively analysing the international trading environment in tandem with domestic institutional capacities and how these impacted the trade and development prospects of the countries concerned. In this context, we have just developed two projects. The first project, which will address how international standards influence trading opportunities of selected countries in Africa and Asia in the areas of agricultural commodities and fisheries trade, was submitted for funding to potential donors and we are optimistic to receive positive feedback soon. The second project which we are actually working now examines the role of domestic institutions in trade policy formulation and implementation in selected countries in Africa and Asia.

Chairperson,

I am at your disposal for any eventual questions or comments which participants of the Council would like to raise.

I thank you for your kind attention.