Forum (Council, Committee, Assembly): General Assembly 2

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TOPIC 2: The question of commodity dependence and export marginalization

I. Introduction to the Topic

Commodity dependence and export marginalization are two crucial issues correlated to each other in the global economy, prominently affecting the least developed countries (LDCs). Commodity dependence refers to a nation's excessive reliance on its export of primary commodities such as agricultural products or primary energy sources to generate most of its export revenue. The heavy dependence causes great economic instability in the nation due to the price volatility of the commodities, further exposing those countries to shocks. On the other hand, export marginalization refers to the diminished role of certain member states in global trade. This can occur due to factors such as a lack of competitiveness, trade barriers, high tariffs, or protectionist policies. Export marginalization can usually be observed in the LDCs, further inhibiting these countries from potential economic growth and global engagement. Low economic development can trigger higher poverty rates within those countries as a result of increased income inequality, increased environmental impacts, or even political instability as a result of increased government borrowing. Hence, the hindrance of economic development and diversification causes national instability, increasing the fragility of the nation's quality of human capital, and posing a threat to fair and liberal global trade.

At a national level, commodity dependence and export marginalization lead to increased poverty and income inequality in a country. The fragility of commodity prices and the lack of competitiveness of domestic markets in international trade puts pressure on government revenue. This not only impacts the current employment or labor productivity but also restricts future possibilities for development, as the government's investment into education and training sectors for non-commodity industries would be extremely limited. This generates more pressure on individual firms, as they will face an increase in competition but a decrease in demand in the global market.

At a regional level, commodity dependence and export marginalization can usually be observed in LDCs, especially those that have a colonial past where their economy is limited to exporting unprocessed products to be manufactured elsewhere. This directly results in these countries' lack of participation and integration in international trade, which once again restricts their economic development. Overall, the issue of commodity dependence and export marginalization challenges the international community from achieving the United Nation's Sustainable Development Goals (SDGs) in multiple aspects, ultimately impeding the achievement of global stability and equality.

II. Definition of Key Terms & Concepts

Commodity

A commodity is a raw material or primary agricultural product that can be bought and sold, such as copper or coffee. In business and finance, a commodity is a substance or product that can be traded in large quantities, such as oil, metals, grain, and coffee. It is also used to describe a product or service that is widely available, resulting in lower profit margins and less emphasis on factors other than price. Commodities include agricultural products like grain and corn and nonrenewable resources like oil.

Commodity Dependence

Commodity dependence occurs when commodities dominate a country's exports. A country is considered commodity export-dependent when commodities account for more than 60% of total merchandise exports. This reliance can be detrimental to a country's economic development, as it fosters economic vulnerability, poverty, and environmental degradation, as it usually involves non-renewable resources, and ultimately hinders the nation's development. It is a worldwide issue, but it primarily affects LDCs.

Export Marginalization

Export marginalization is when certain countries, especially the LDCs are structurally excluded from full and fair international trade and export. This refers to situations when these countries or groups face systematic barriers that limit their access to the global market or need to be ensured complete participation. Export marginalization can be due to a lack of infrastructure or information, or even due to unfair trade practices purposefully inhibiting certain countries from taking part in global trade.

Protectionism

Protectionism is a government policy restricting international trade intending to support domestic industries. These policies implement specific restrictions on international trade in the country, and this can be done in ways such as high tariffs, import quotas, product standards, and subsidies to domestic producers. However, these protectionist measures cause deglobalization in the sense that they reduce international economic interdependence. These policies could particularly harm developing countries by strengthening the export barrier, contributing to export marginalization.

III. Key Stakeholders

World Trade Organization (WTO)

The World Trade Organization is an intergovernmental organization with 164 member states that aims for fair and liberal trade around the world. The Doha Development Agreement that was initiated in 2001 reflects the WTO's effort to resolve the marginalization of the LDCs in global trade. This agreement focused on issues such as agricultural subsidies and market access for developing countries. However, the organization is criticized for ineffectiveness in addressing these concerns of LDCs, as the LDCs remain marginalized in global trade to this day, where their exports have only taken over 1% of global trade since 2010.

United Nations Conference on Trade and Development (UNCTD)

The UNCTD is an intergovernmental organization founded in 1964, within the United Nations. UNCTAD supports the LDCs by providing them with analysis, technical assistance, and consensus-building, and helps the countries deal with the drawbacks of development. This allows a stronger integration of the LDCs in the global economy, hence activating better globalization and liberalization of it. UNCTAD has achieved several accomplishments in doing so, in ways such as establishing an Integrated Programme for Commodities that created a common fund to stabilize commodity prices, a Generalized System of Preferences to provide support to the LDCs in building productive capacity development and increased trade, and various agreements for debt relief.

Sudan

Sudan is one of the most commodity-dependent countries in the world, with 97.5% of its exports being commodities such as agricultural products, energy, and metals and ores. The extreme dependence on commodities was caused by several factors, such as its high reliance on commodity imports and political instability. After the Sudanese coup in November of 2021, Port Sudan was blocked, restricting imports of commodity items such as machinery, medical supplies, and oil. Therefore, the supply of these products decreased, causing a massive inflation of up to 300% in the country's economy. Along with its economic vulnerability and inflation, the dependency on commodities has severely impacted the people's standard of living in the country. This includes the low unemployment and education sectors of the country, which are partially represented by the country's human development index (HDI) of 0.51, being identified as having a low human capital development. According to the World Bank, the education sector of Sudan is facing major challenges such as the lack of resources and infrastructure, including the exclusion of certain vulnerable groups within the population. This puts the country at further risk for commodity dependence and export marginalization, as the lack of education restricts the possibility of the country acquiring the suited knowledge and skills to diversify its manufacturing sector, diminishing its reliance on certain commodities for both export and import.

Ghana

Ghana is prominently dependent on its cacao production, however, despite the chocolate industry producing 107 billion dollars worth of revenue, the cocoa export market only earns 2 billion dollars of that revenue. Ghana's participation in the Global Value Chains (GVCs), referring to where different stages of production are located differently, is limited to commodities, which restricts the country's diversification in its exports, leaving it vulnerable to price volatility of commodities. This is due to several factors including Ghana's lack of technological resources and the presence of their own dairy and sugar industry. However, protectionist measures based on foreign countries, such as the EU's tariffs on Ghana's cocoa, have also hindered Ghana's ability to develop relevant facilities to increase its manufacturing sector. Therefore, this calls for international assistance in terms of infrastructure construction and expanded trade may allow a declined marginalization of Ghana in the global economy.

IV. Key Issues including Background Information

Impact on standard of living

The impact on the standard of living of individuals in the country from commodity dependence and export marginalization is significant, concerning factors such as human capital development, economic development, poverty, and social well-being. Commodity dependence can lead to underdevelopment, which is measured by the country's GDP per capita, and low economic development may challenge the alleviation of poverty. Not only this, economic instability caused by the price volatility of commodities leads to lower investment in human capital development, which refers to the acquisition and enhancement of knowledge or skills in individuals. Here, low human development may decrease the productivity, job creation, and economic growth of the country, creating a cycle of low human development.

Impact on the environment

Environmental degradation is usually caused by the exploitation of natural resources due to the country's heavy reliance on them as their primary revenue source. This is usually the case for LDCs, whose main exports are often natural resources such as precious metals, oil, or gas. Additionally, due to the high vulnerability of these products, this may force the countries to practice environmentally harmful practices to gain those resources. Not only this, but the environmental impact in return puts the resources at vulnerability, where increasing temperature impacts the growth of agricultural goods, for instance.

In a slightly different situation, though, the 2022 European energy crisis presents an environmental impact in terms of dependency on certain energy sources. The outbreak of the Ukraine-Russia war in 2022 triggered extreme price fluctuations in countries such as Germany and Slovakia that resulted in an increased concern about the sustainability of their temporary solutions for energy transition. After Russia's cut of its natural gas reserves, some countries restarted their coal-fired power plants to replace their imports. This exemplifies the fragility of the nation's commodity prices as an impact of commodity dependence, hence highlighting the importance of trade diversification.

Threat to liberal trade and economic equality

Commodity dependence and export marginalization pose a great threat to the global achievement of liberal trade and economic equality. The lack of economic diversification limits the country's engagement in global trade, which in the case of LDCs, restricts their economic development. The imposition of trade barriers such as high tariffs or protectionist policies makes it challenging for LDCs to gain competitiveness with their manufactured products. This, therefore, inhibits these countries from actively participating in international trade, causing export marginalization. Within the situation, the fact that these countries cannot break out from the cycle of commodity dependence for their features such as price volatility of commodities hinders economic equality around the world. This then negatively impacts the well-being of the people as explained above.

V. Timeline of Resolutions, Treaties, and Events

Date	Description of event
1970s	Oil price shocks An example of the negative impacts of commodity dependence on a market. The sharp increase in oil prices caused countries that are heavily dependent on oil as their energy source to experience shock due to inflation. This event highlighted the need for trade diversification.
2005	The Aid for Trade Initiative (WTO) An initiative that intends to help and prioritize the trade commitments of developing countries. Some key areas the program tackles are infrastructure development, trade policy development, and enhancement of market access.
2008~2009	Global financial crisis The steep decrease in the price of commodities directly contributed to a decrease in government revenue, interfering with balanced trade for countries that heavily relied on their commodity exports. This connects with the debt repayment of some of the least developed countries as well, highlighting topic 3 of this committee. This event revealed the fragility of commodities in the case of a global crisis.
2019, May 30th	African Continental Free Trade Area (AfCFTA) The largest free trade area in the world with the agreement to reduce tariffs among member countries. The agreement aims to boost industrialization, job creation, investment, and overall economic development in Africa. This agreement is anticipated to lift 30 million African population out of extreme poverty and boost incomes of almost 70 million people by 2035.
2022	Ukraine-Russia War This caused the energy crisis in Europe due to the high dependence on Russia's natural gases as their energy source. Countries such as Hungary and Slovakia experienced heavy economic impacts, with a 6 percent decrease in their gross domestic product.

VI. Possible Challenges & Solutions

Impact on quality of life

Due to the cycle of human development caused by commodity dependence, it is crucial for the country to establish a strong human capital development structure, which includes education. By enhancing education, the country would be able to expand its knowledge and skills, which would benefit the construction of manufacturing industries. This then relieves poverty by generating new jobs, increasing added prices of products, and diversifying the economy less vulnerable to market shocks. However, for the countries to construct the fundamentals, multilateral cooperation is key. This includes intergovernmental organization funds and humanitarian aid that support the country during the process of sustainable economic development, technical assistance, and capacity building.

Impact on the environment

Economic diversification is the solution for commodity dependence, as this allows the impacts of commodity price fluctuations to diminish as the country is not severely dependent on one source of income. This opens opportunities for slowly building the necessary infrastructure to develop the manufacturing sector of the economy, as this provides a more sustainable income with the added value of processed material compared to raw commodities. This increases the country's integration in global trade and creates more competitiveness, as well. However, it is crucial to note the importance of international cooperation in the process of economic diversification, highlighting the lack of government revenue of the dependent countries to invest in different sectors of their economy. This includes technical and financial assistance from other member states, but also strengthening the education sector of the country for sustainable development.

Threat to liberal trade and economic development

This issue further highlights the significance of global cooperation and the role of intergovernmental organizations such as the UNCTAD and WTO to negotiate and implement trade agreements that reduce trade barriers. However, there are some possible setbacks as a result of trade liberalization and economic development of the LDCs or commodity-dependent countries. During the process of diversification, there will be a shift in the economy that reduces the capacity for certain sectors, causing structural unemployment. This can increase the income inequality in the country. Additionally, there is a high chance for an increase in environmental exploitation as the country develops. This is usually due to the greenhouse gas emissions when the country transitions to a manufacturing-based economy. Thus, it is crucial to consider multilateral aspects of the development.

VII. Recommendations for Resolution Writing including Research

Delegates should mainly recognize that it is the less developed countries that are highly dependent on commodities and remain marginalized in the global market, which hinders their economic growth. This may also cause issues such as the resources of a country being dominated by external countries. However, there must be a balanced approach to this issue, as some of the high-income countries may be commodity-dependent based on their geographical location and internal/external conflicts.

Developing nations may approach this issue by seeking external support from international organizations such as the WTO and other developed nations. They may ask for short-term financial or technological assistance, however, please keep in mind that the construction and development of education sectors are needed to alleviate their dependence on commodities sustainably. Another approach of developing nations, or any marginalized country would be forming an alliance or a block with nearby nations for free-trade opportunities. An example of this is the AfCFTA program, mentioned in the timeline section.

Developed countries would be responsible for providing the support needed by the developing nations. However, it is important to constantly evaluate the realisticness of the extent of support that is available.

For instance, it would be highly unrealistic for a country to share its knowledge on manufacturing superconductors as it would impact its competitiveness in the market of technology. In a similar sense, this is the reason why markets are more inaccessible to marginalized countries. Therefore, the delegates need to establish an evaluation of the major exports and import markets of their delegation and determine a realistic range of guidance they can provide to the developing nations.

Delegates should conduct thorough research on the stance of their respective country toward the issue of commodity dependence and export marginalization. During the process, taking a look through this report "Proceedings of the United Nations Conference on Trade and Development" may be helpful, highlighting page 30 which briefly outlines some of the developing countries perspectives on the integration program or their current stance. However, it is crucial to recognize the slightly obsolescent quality of this report, and that the stances/situations would have changed in great possibility. Not only this, effective guidance on credible sources can be found in our UNISMUN Country Libguides and topic Libguides. This can be accessed through the UNISMUN website.

Lastly, revisiting the UNISMUN March 2024 conference theme, "How can we use multilateral diplomacy to surmount the challenges of rapid societal change?", it is highly encouraged for the delegates to research and consider possible alliances their representing delegates can form to overcome this global issue.

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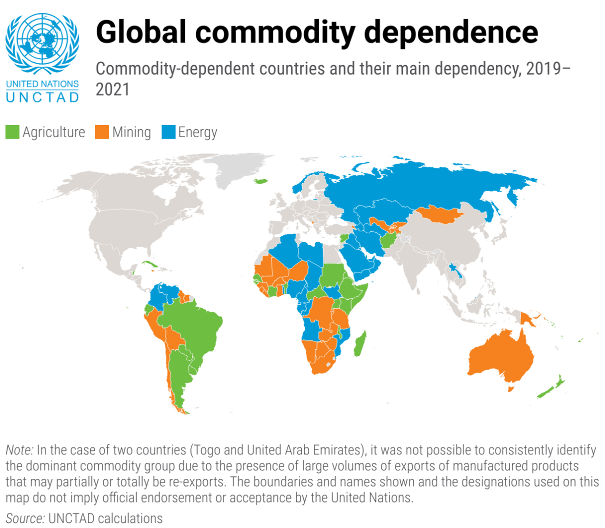
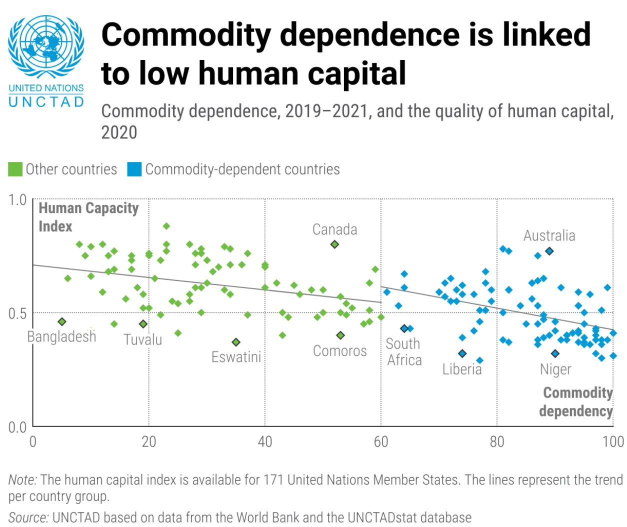
IX. Additional Resources

Graphs and Diagrams





Relevant Videos & Articles

- Proceedings of the United Nations Conference on Trade and Development - Fourth Session, May 1976 (Page 30)
- Four key challenges facing least developed countries - UNCTAD
- Ghana Grows Our Cocoa, So Why Can't It Make Chocolate? | Big Business
- Commodity-dependent countries need to diversify their economies. - Food and Agricultural Organization of the United Nations
- Free Trade vs. Protectionism - Professor Dave Explains