The Centrality of the Commodity Issue in Africa's Economic Development*

A Note for the IPD Africa Task Force

Irfan ul Haque

Some years ago, President Chirac called the disappearance of the commodity issue from the development agenda as "a sort of conspiracy of silence". Since then there have been a number of initiatives to revive the commodity issue, but they have all remained just that – initiatives that went no further than commonplace generalities.

These attempts included the report by a group of "Eminent Persons" set up by UNCTAD in 2003, Arusha Declaration and Plan of Action on African Commodities in 2005, and various UN General Assembly resolutions specifically on the commodity issue. The European Union, on its part, also proposed, in 2004, an action plan to help developing countries fight agricultural commodity dependency. Finally, there was the so-called Global Initiative on Commodities that involved an international conference on commodities in Brasilia in May of this year, with four international agencies (UNDP, UNCTAD, the Common Fund for Commodities, and the Group of the Africa-Caribbean-Pacific of Countries) collaborating to organise the event.

The main reason for a lack of follow-up on these initiatives is that the commodity issue today is somewhat of an orphan in that no agency or institution has the interest, influence, political will, or the resources to pursue the issue on a sustained basis, undertake a systematic analysis of the problem and define an agenda for concrete policy actions. Some non-governmental organisations, notably Oxfam, have done much to raise the profile of the issue, but have not succeeded in influencing actual policy-making. This contrasts with the situation back in the 1960s and 1970s, when UNCTAD, the World Bank, and the IMF had large divisions dedicated to commodity research and policy analysis. At that time, the commodity problem was

---

* In referring to *the* commodity issue, one is not unmindful of the wide differences that exist among commodities with respect to market and production conditions. The commodity issue or commodity problem (often used interchangeably) is in the nature of a syndrome, where producers are fundamentally vulnerable, trading relations are inequitable, and markets show great variability and unpredictability.

also a popular area for academic research, which now seems to have virtually disappeared.

The victims of this neglect are basically the world's poorest and least-developed countries – mostly in Africa – that remain heavily dependent on just one or two commodities for their living, foreign exchange earnings, and fiscal revenue. The neglect is hard to fathom considering that the commodity problem is arguably the other half of those countries' external debt problem. It is inconceivable that the UN's Millennium Development Goals could be achieved without improving the lot of commodity producers. Thanks to the civil society pressure, the debt problem did come into public focus and resulted in concrete – though not entirely satisfactory – measures on the part of creditors to address the problem. Perhaps, the commodity issue, like its counterpart, awaits a dynamic and influential NGO to rattle the cage and embarrass the guardians of the global economic system into action.

The paper first discusses the generic commodity issues, i.e., the common problems that afflict the commodity-dependent developing countries (CDDC). However, it is important now to broaden the discussion on the commodities to include some emerging issues that pose new threat to the prospects of economic growth in the developing world. These are identified in Section 2. This is followed by a discussion of the neoliberal policies that were mainly responsible both for the neglect of the commodity problem and for making a bad situation worse for commodity producing countries. In this context, the case of cocoa is discussed since it provides a concrete example of the consequences of neoliberal policies. In the final section, the paper outlines a possible approach towards re-launching the commodity agenda.

1. Generic commodity issues

There are basically four aspects of commodity markets that impact on primary producers' welfare and opportunities for economic growth, viz., (i) the high degree of price and income instability faced by commodity producers; (ii) the peculiar supply conditions under which commodity producers operate (notably, a tendency towards excess supply and falling long-term prices); (iii) the relative position of commodity producers in the value chain, which has evidently generally deteriorated over time;

and (iv) the general failure of commodity producers to move into alternative economic activities in the face of declining earnings from traditional products.

Price and income instability

Commodity markets are known for their instability and unpredictability, but it has different implications for producers and traders. What matters to traders are basically the day-to-day price fluctuations, reflecting the short duration of their hedging contracts. They make their livelihood by successfully exploiting the opportunities these fluctuations offer. Commodity producers, on the other hand, are troubled by short-term price fluctuations but their principal concern is with maintaining their income. Thus, in dealing with the issue of volatile markets, measures designed to stabilise producers' income should be distinguished from those dealing with price instability. Furthermore, a distinction can be drawn between measures that aim to stabilise prices within producing countries, as was attempted by state marketing authorities, and measures that stabilise world market prices, as was intended under some of the early international commodity agreements (ICAs).

With the abolition of state marketing bodies and the termination of the old ICAs, the so-called "market-based risk management" instruments are frequently mentioned as providing solution for market instability. Insofar as hedging instruments are concerned, there is nothing new in this proposal, as traders have for a long time been hedging themselves against price uncertainty through futures markets. Where, however, the proposal differs is in tapping the interest in options trading on the part of large commodity funds. Options trading can be a more attractive instrument against uncertainty than straightforward hedges, for they enable traders with stocks to protect themselves against a price fall without forgoing the possibility of taking advantage of a rising market. This is done by buying a put option, giving the trader the right to sell the product at a specified price, which is exercised if the price declines.

But several things need to be considered. First, the use of options and hedges as protection against price uncertainty, like any insurance, has a cost, which is directly proportional to the risks involved. The cost of options, as indeed of ordinary hedges, tends to rise both with the length of time covered and with the market volatility. These instruments are therefore useful only for covering a relatively short period of time (around three months), without the cost becoming prohibitive. Individual farmers in developing countries cannot be expected to have the financial resources or the technical expertise to purchase hedges wisely and successfully.

Secondly, options are a particularly risky instrument if they end up being used as bets on the market behaviour, i.e., the risk of a hedger turning into a speculator. Options trading is notorious for its vulnerability to irregularities of all kinds. This means that rigorous regulation and supervision as well as high personal integrity of professionals engaged in trading would be a sine qua non if the farmers were to be protected against mismanagement or fraud. These are governance requirements that go well beyond the skills required to successfully manage a state marketing authority.

Nevertheless, hedges and options do have a place in commodity trade. Given that the abolition of state marketing authorities created an institutional vacuum, there is a place for streamlined quasi-state bodies that are independent of the government but are answerable to it for their performance. They are needed in order to undertake some of the neglected tasks, such as quality control, handling of storage and transportation, and research and extension service. There is also a need to take advantage of buyers' need for insurance against price instability, which should result in sharing, if not complete elimination, of the cost of a hedge. Provided there is adequate oversight and regulation, these bodies could be allowed to use hedging instruments to facilitate their management of stocks and trading activities. The financial performance of the old marketing authorities could conceivably have been improved with greater, but judicious, use of such instruments.

Supply conditions

Commodity markets do not function according to the textbook model, where supplies and demand adjust promptly to market signals as producers and consumers seek to maximise their welfare. Instead, there has been observed to be a general tendency for commodity prices to decline over time, which is suggestive of supplies running ahead of demand. However, the actual situation is rather more complicated.

For one thing, supply conditions vary widely across commodities and countries. In the case of tree crops, it takes several years for trees to start bearing fruit and once fully grown, it costs relatively little to collect and sell the fruit. Especially in the case of smallholders, who are usually poor and have few alternatives for earning a living, the supply curve can be "backward bending", i.e., supplies increase with price falls. In mining activities, investments tend to be lumpy and large, and once made, marginal costs remain low over a certain range of production. It is also often the case that governments rely heavily on mineral exploitation for their revenues and are generally favourably disposed to production expansion. With regard to meats, grains, sugar, oilseeds, and cotton, subsidy programmes in the industrial countries have been the main cause for the depressed prices.

Then, there are crops – such as, corn, rice, sugar, soybeans, cocoa, and coffee – where costs have declined considerably on account of the new higher-yielding varieties and mechanisation of farming in some countries. These developments made it possible for several new producers to enter the market, e.g., Malaysia in cocoa, Vietnam in coffee, Kenya in tea, and fresh fruit and vegetables in China. Finally, a common reason for over-supply is that individual countries make investment and production decisions without adequately taking into account the decisions of others. This situation was not helped by the elimination of "economic clauses" from the international commodity agreements, which despite their many problems did provide a framework for regulation of price and exports and sharing of information on production plans among producers.

When faced with similar problems, the industrial countries (notwithstanding their rhetoric) have shown a remarkable degree of pragmatism, offering protection as well as financial aid to agriculture (or ailing industry), justifying it on grounds of hardship to some domestic group or unfairness of other countries' actions. Following their example, CDDC might consider supply management measures on their own when collaboration with industrial, consuming countries is not possible. There are a number of examples of producers' successfully coordinating their production or export decisions. The attempts at production regulation by the OPEC (the Organization of Petroleum Exporting Countries) are well known. Other instances include producers of coffee, tin, and natural rubber. A cartel-like action was also contemplated for aluminium by Alcoa, the industry's leading corporation, in the early 1990s to deal with the threat of supplies from the former Soviet Union disrupting the market.

The experience shows that, for such arrangements to succeed, at least two prior conditions must be met. The first condition is that all major producers share a common interest and vision in controlling production or exports so that a collective action has sufficient support. The problem arises when the costs of the action are borne by the alliance members, but the benefits of higher price are shared by all producers. This problem of free ride is more easily tackled if there are only a few producers of the commodity in question, as is for example the case for cocoa.

Secondly, a price level altogether divorced from market conditions can only be maintained for a rather limited time period. The bigger the difference between the price that the alliance members want and the free market price, the more difficult it becomes to maintain the target price. The payoff for producers to cheat on their output levels becomes directly proportional to this difference and under pressure an alliance risks its breakdown. There is also the consideration that higher the target price, more likely would it be for non-participating sources of supplies to emerge.

The impact of value chains

There are basically two aspects to the issue: one relates to the question of value addition within a specific country (i.e., how much of processing takes place within a particular country) and the other relates to the share of the product value local producers are able to capture as a result of their relative bargaining power. The first question relates closely to the issue of diversification, which is discussed later.

As a product moves from the farm-gate or mine-head to the port for export and then on to the final consumer, it goes through both a process of handling (i.e., grading of output, packaging, domestic transport, paperwork, trade finance, etc.) and actual physical processing. The key question is how various steps along the value chain are controlled and coordinated, especially when the crossing of national boundaries is involved. In particular, the question arises as to how improvements in productive efficiency get shared between producers of primary products in developing countries and trading corporations and final consumers in industrial countries. Producers of a number of agricultural commodities (notably, cocoa and coffee) were hit hard by depressed prices, but this had little impact on the retail price in consuming countries. Thus, they faced price declines without benefiting from increased demand that might have occurred had the final product price also fallen. The distribution of value added between commodity producing, developing countries and the consuming, industrial countries is therefore even more fundamental to the question of "fairness" in international trade and capture of benefits from globalisation than the level or instability of prices.

The distribution of value added and the appropriation of profit at each stage of the chain depend basically on the market structure, the rules governing commercial transactions, and the commercial/corporate relationships that develop at different points along the chain. In the case of agricultural commodities, in addition, ecology, specific processing requirements (including phyto-sanitary requirements), and the ease of mechanization, storability, and transport, all play a role in structuring trans-national corporate relationships. If no single seller or buyer is individually able to influence the market price – i.e., the bargaining power is roughly equal – the market could be relied upon to settle the question of who gets what at different stages. However, that is far from being the case in the case of commodities, where trade has come to be dominated by large corporation (especially since the demise of local marketing authorities) that enjoy considerable leverage over local sellers with few alternative buyers. This is one reason why globalization and market liberalization are often viewed with suspicion by those who have little control over how markets function.

The problems of market entry and local competitiveness as well as the question of standards setting are some of the issues that have been under discussion in recent meetings on commodities. It is also argued that participation of developing country producers and businesses in international chains would be improved through measures that help countries to comply better with established health and safety standards and also through their more active participation in standard-setting agencies. While these measures could help, the fundamental problem is that producers in developing countries face virtually a monopsony situation. To deal with this problem, there is a need for some form of a competition policy at the international level and revival/establishment of local marketing institutions.

The failure of diversification

Diversification of production is a core development issue. As economies develop, their structures change and simple production techniques and commercial practices yield to more sophisticated methods of production and doing business. Markets provide the signals and incentives to bring about the structural change, but they are seldom sufficient by themselves. This is especially so for primary producers in developing countries, who face serious handicaps with respect to information flows and access to finance, infrastructure, and technology. The result is that they remain mired in low- productivity economic activities even when their traditional activities cease to be remunerative. Indeed, as noted earlier, the situation is often perverse. When commodity prices decline, producers – instead of pulling back – are impelled to increase production in order to maintain their meagre incomes, with the resulting increased dependency on traditional activities. The situation was aggravated by trade liberalisation along with currency devaluations as part of the World Bank/IMF-supported structural adjustment programmes. The expectation was that this would stimulate domestic industry to become more efficient, but this materialised only rarely. Nascent domestic industries were destroyed, as they were unable to compete with the imported goods. The fact is that governments need to intervene and actively promote and support diversification by providing "public goods" – education, infrastructure, information and technology – as well as adopting supportive government fiscal and commercial policies, as was done in industrial and newly industrialised developing countries to bring about structural transformation of their economies.

Recent statements and resolutions on commodities – including the EU action plan – place special emphasis on diversification. UNCTAD's Eminent Persons Report, in recognition of the difficulties faced by primary producers in developing countries, contains various recommendations relating to the build up of local capacities and capabilities. The Arusha Declaration states: "Necessary measures should be taken to diversify geographically and towards new and higher value products as well as to retain in local economies a larger share of the value added of commodities … It is particularly important to take appropriate measures to ensure that small producers are assisted to enter into new spheres of activity and that high cost producers are helped to overcome 'exit barriers'." It further stresses that: "Developing countries need flexibility and policy space under WTO multilateral trade rules, to choose the most effective strategy appropriate to their situation."

The above-mentioned aspirations have yet to be translated into concrete actions. There have been a number of donor projects supporting diversification, but they were mostly of pilot nature and limited to producing alternative commodities rather than promoting processing or moving out of commodity production altogether. There are nevertheless a number of developing countries that have not abandoned commodity production but were able to diversify into processing and labour-intensive industry, notably, Bangladesh, a least developed country. Good examples of diversification can be found, among others, also in such countries as Ghana, Kenya, and Ethiopia. Experience of these countries could shed light on choices for other countries where commodity dependence remains high and diversification limited.

2. Emerging commodity issues

[To be completed]

- The rise of biofuels.
- The rising anxiety over continuing access to critical raw materials in industrial as well as emerging economies. (What does this mean for the least-developed countries?)
- Application of IPRs to agricultural products in the face of agriculture commodity producers needing to improve productivity. Also, the issue of bio-piracy

3. The impact of neoliberal policies

The neoliberal policies, adopted over the last two decades, had generally an unfavourable impact on commodity producers and their control over what they produced and sold and on the discussion of the commodity problem itself. Under neoliberalism, policy interventions to deal with unstable and falling commodity prices came to be seen as wrongheaded. The new policies were targeted basically at improving productive efficiency and providing better returns to commodity producers through removal of "market rigidities" and increased reliance on private enterprise. This entailed minimising government interventions in marketing and removal of state marketing boards where they existed. Market liberalisation and privatisation were accompanied by a macroeconomic policy directed primarily at economic stability through strict fiscal discipline and monetary restraint. As trade barriers came down, exchange rate became the instrument of choice to curb imports and increase exports. The net result of these policies was to increase countries' dependence on traditional exports and to stifle diversification and industrialisation.

The policies did not generally address the fundamental problems of concern to commodity producers (low and unstable prices), but even the problems that they did address – i.e., improving productive efficiency and producers' income – remained by and large unresolved. The productive efficiency improved little, as there was almost exclusive reliance on increasing competition to the neglect of support activities and infrastructure. Cocoa provides a good example of the nature and impact of neoliberal policies.

The case of cocoa

The liberalisation programmes in cocoa producing countries aimed to improve productive efficiency through an alignment of domestic prices with world prices and to give farmers improved share in the f.o.b. price. The reforms were not concerned with seeking ways to reduce the trading margins applied by cocoa importers in industrial countries. There was also some contradiction between the two specified goals since increased productivity had the potential of increasing cocoa output and lowering prices, thereby lowering also the price received by the farmer.

Until the neoliberal reforms, the state had played a dominant role in cocoa trade in the West African cocoa producing countries, viz., Côte d'Ivoire, Cameroon, Ghana, and Nigeria. In other respects, the state's role in economic activity or promoting economic development was not too different from cocoa producing countries in East Asia or Latin America. The West African governments were not involved in the production and harvesting of cocoa, but limited their activities to the purchase of domestic cocoa for export at specified prices. In addition, the state institutions – marketing boards in the Anglophone countries (Ghana and Nigeria) and some sort of price stabilisation funds in the francophone countries (Côte d'Ivoire and Cameroon) – were responsible for quality control, research on plant breeding, market intelligence, and extension service.

There were, however, significant differences between the two systems of state involvement. Typically, the marketing boards managed the entire marketing process, buying cocoa directly from producers and selling it to traders and processors at a specified, guaranteed price for the whole cocoa season, if not longer. The price stabilisation funds, on the other hand, did not involve ownership or direct handling of the crop but relied instead on private licensed traders for domestic purchase and export. The authorities, however, did guarantee a producer price and established a scale for all payments involved from the farm to export and another scale for the difference between the f.o.b. and c.i.f. prices for main destinations. As a result, depending on the difference between the world market price and the guaranteed producer price, the fund, in principle, could accumulate reserves or run them down.

The state marketing institutions had been established by the colonial powers with the aim of regulating trade in primary commodities, and they served their purpose more or less satisfactorily during the colonial time. However, as in the case of other public bodies in developing countries, their performance after independence gradually deteriorated. They turned into large bureaucracies, influenced by politics, and became increasingly inefficient in carrying out their functions. To what extent these inefficiencies were at the expense of cocoa farmers is, however, not quite clear.

By contrast, the marketing costs and taxes were generally lower in the countries relying on free markets (viz., Brazil, Indonesia, Malaysia, and Nigeria) than those with marketing boards or stabilisation funds. The francophone institutions actually became insolvent, as they were unable to build up reserves in the face of high costs of operations and low world prices. Their increased reliance on European Union financing was basically what triggered their dismantlement, though the World Bank had also been pushing in that direction.

The timing and nature of the measures differed in significant respects among the four major cocoa producing countries. Nigeria dismantled its marketing boards virtually overnight in 1986, largely in response to domestic political pressures.

Although it also devalued its currency at about the same time, Nigeria remained otherwise hesitant in deregulating and liberalising other spheres of economic activity. Ghana, on the other hand, undertook a series of reforms under the IMF/World Bank-supported structural adjustment programme in the early 1980s. It brought its fiscal situation under control and adjusted its exchange rate, and generally liberalised the economy. A number of other policy measures were taken in the early 1990s, notably, introducing private sector competition in domestic procurement and transportation and allowing private companies to export directly a certain proportion of their domestic purchases. However, the country resisted successfully the pressure to abolish its marketing board, though its workforce was drastically reduced and organisation streamlined.

The measures taken in the two francophone countries – first, Cameroon, and later, Côte d'Ivoire – were more far-reaching. Cameroon started its reforms in 1990, when it abolished its public marketing body. It also adjusted, among other changes, domestic cocoa price and marketing margins to eliminate the need for subsidies and confined itself to stabilising price only within the crop year. The liberalisation process in Côte d'Ivoire was initiated in the mid-1990s and consisted of increasing competition in the procurement and export of cocoa, improving transparency and accountability of its stabilising fund (later abolished), while increasing the returns to farmers.

The producers' share in the export price depended essentially on the marketing costs and taxes. The available data show that the marketing costs proper did differ significantly across countries, but the observed differences in the producers' share were largely due to the much higher implicit or explicit taxes in some countries, notably, Ghana and Côte d'Ivoire. However, to the extent that the state institutions provided public services (such as, quality control and extension service), the reduction in taxes, as a result of liberalisation, was not altogether a positive development. Indeed, there was a sharp deterioration in the quality of cocoa exported by Cameroon and Nigeria following the liberalisation.

With respect to production costs – the other factor that determined the producers' income -- the single most important factor was the yields, which vary widely across countries. However, it is normally the quality of inputs and farm management, rather than increased competition, that are the main determinants of farm yields. It is therefore not surprising that the liberalisation process had little impact in this respect.

In short, there is no firm evidence that cocoa farmers actually benefited from market liberalisation but they did suffer seriously on account of the collapse of cocoa prices during the 1990s. The liberalisation process seemed to have followed a set pattern. During the first year or so, a number of private companies entered the cocoa trade, which temporarily pushed up producer prices. But this phase was followed by a period of consolidation and restructuring, which resulted in most cases cocoa trade being taken over by a small number of multinationals.

4. Towards a re-launching of the commodity agenda

In order to bring the commodity issue back to the international development agenda, it would be necessary to overcome the current mindset of do-nothing, laissez-faire that has dominated the policy discussion. As noted earlier, several recent initiatives on commodities have led nowhere mainly because of the recalcitrance on the part of industrial countries and reticence or fear on the part of CDDC to challenge the ruling orthodoxy. At the same time, it would also be important to dispel the general pessimism – even cynicism – regarding the role commodities can play in the future development of CDDC. Pessimism was perhaps justified back in the 1960s and 1970s, when problems of inelastic demand and synthetic substitutes loomed large, but the world economy has changed in important ways, not least on account of the emergence of a number of developing countries as major commodity consumers.

Commodities were always important in world trade, providing food for human and animal survival and raw materials for industries. Disturbances in commodity markets can send shockwaves to world capital markets. The elaborate programmes of protection and subsidies in the industrial countries – however unfair and misguided – testify to the importance attached to maintaining domestic production of agricultural products that compete directly with supplies from developing countries. The fact is that commodities, even in conditions of low prices, continue to provide decent earnings to the more efficient producers as well as traders, processors, and other intermediaries in the value chain from primary production to final consumption.

Then there are a number of commodities where there have been significant technological advances in productivity, quality improvement, and product use, though only a handful of producing countries have benefited from these developments. It is evident that commodity production thrives in some countries while not in others, even when countries face similar world trading conditions. Many of the more dynamic developing economies – e.g., Malaysia, Thailand, Vietnam – were once heavily commodity-dependent, but their economic success has been built on diversifying the production base while modernizing and developing their commodity sectors. The same could be said about some of the industrial countries, e.g., the United States, Canada, and Australia. Commodity production remains important in all these economies, but its relative weight has obviously declined with the rise of new economic activities over time.

In short, the *commodity problem* is quintessentially a developing country problem, reflecting developing countries' weak production structures, rigid markets, and, not least, paucity of financial and human capital. These all combine to make them vulnerable to adverse market developments and prevent them from taking advantage of technological advances and other opportunities. The paper has focused on problems that all CDDC share, viz., the supply side difficulties, producers' weak bargaining position in the value chain, and general failure of past diversification efforts. However, the discussion of the generic issues has also demonstrated that solutions to these problems are complementary and contain positive synergies. Commodity dependent countries' vulnerability to the ups and downs of the world market could also be substantially reduced if the longer-term development issues were tackled. In other words, dealing with one set of problems also helps to deal with the others, and such steps as investments in infrastructure, education, and technology are likely to be mutually reinforcing.

A search for "solutions" to the commodity problem requires actions at the international level, but, judging from the experience of the more successful developing countries, measures at the level of individual commodity dependent countries could be decisive. Bringing about market stability and maintaining remunerative prices is best done when consumers and producers work together, as was the intent under the international commodity agreements. However, while these agreements still provide a framework for discussion, there is no prospect of major consuming countries yielding on their opposition to supply management measures. However, at least with respect to some commodities, the producers may cooperate and on their own be able to come to an understanding on how supplies may be managed. The conditions where this may be possible were discussed earlier. Another consideration is that with the emergence of some developing countries – notably, China and India – as major consumers of commodities, developing countries' bargaining power may have improved. This is so both because of the increased demand pressure as evident from the recent spike in commodity prices and because the interests of the new consumers do not evidently coincide with the industrial country consumers.

In the long term, however, producers' incomes can be improved only with increases in productivity, made possible by mechanisation, improved inputs, education, enhancement of skills and business practices, etc. This calls for country-level strategies that incorporate the modernisation and rationalisation of commodity sectors, diversification, and fighting poverty. The development and implementation of these strategies is likely to require support of the international development institutions as well as bilateral donor agencies, but this should not result in the foreign agencies foisting their nostrums on the design of policies and institutions, as happened under the old structural adjustment programmes.

In developing realistic financial plans to implement the above strategies, two considerations appear to be relevant. One, many commodity dependent countries are hurt by the industrial country protection and subsidy programmes in support of commodities they produce (e.g., cotton), and there is a prima facie case for the commodity dependent countries to seek compensation for such losses. Two, the deterioration of a country's terms of trade implies a real resource transfers to its trading partners. These terms of trade losses – common for CDDC – should in principle be netted out of the donors' aid programmes. The industrial countries are quick to protest when the terms of trade turn against them on account of rises in prices of some critical commodities, but little concern gets raised when the opposite happens.

Another hindrance to local processing of commodities and diversification in CDDC is caused by tariff escalation, an issue that developing countries have raised in the WTO negotiations as well as in their submissions concerned with the commodity issue. This must obviously be remedied, but CDDC will also require – in line with the experience of other successful developing countries – greater room for manoeuvre in policymaking. The issue of "policy space" is currently being keenly debated in the WTO, UNCTAD, and other development forums.

More generally, the rise in the South-South trade could conceivably become the engine of growth for CDDC, since developing countries are generally expected to grow faster than the industrial world over the coming years,. The Arusha Declaration calls for improving market access and market entry conditions affecting the trade among developing countries, including strengthening of the Global System of Trade Preferences Among Developing Countries (GSTP). This scheme, which was established in 1988, provides a framework for the exchange of trade preferences among developing countries in order to promote intra-developing-country trade. As they develop and prosper, the more advanced developing countries may be expected to adjust their own trade and other policies to promote development in lagging economies while sustaining growth of intra-developing country trade.