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Macroeconomic policy questions: commodities

World commodity trends and prospects

Report of the Secretary-General

Summary

The present report, prepared by the secretariat of the United Nations Conference on Trade and Development pursuant to General Assembly resolution [78/128](#), serves to highlight the persistent challenges faced by commodity-dependent countries, which account for 52.8 per cent of nations globally, and 95 of which are developing countries. Commodity-dependent developing countries are vulnerable to commodity price volatility, macroeconomic instability and structural barriers, such as limited diversification and weak technological spillovers. Key trends include a shift from dependence on agriculture exports to dependence on energy and mining exports, a rise in food import deficits and the increasingly critical role of energy transition minerals in sustainable development. Successful examples of diversification, such as Mauritius (services and textiles), Viet Nam (manufacturing) and Indonesia (nickel processing), serve to demonstrate the benefits of strategic policies, foreign direct investment and regional cooperation. The report includes recommendations relating to prioritizing sectoral diversification, mobilizing investments, strengthening productive capacities, fostering public-private partnerships and enhancing regional and multilateral trade cooperation to build resilient economies. International support through technical assistance, data-driven tools and inclusive policies is essential to help commodity-dependent developing countries transition to sustainable, diversified economies.

* [A/80/50](#).



I. Introduction

1. The present report was prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) pursuant to General Assembly resolution 78/138.

2. The global economy is increasingly marked by rising geopolitical tensions, conflict, rapid technological transitions, climate change and volatile global commodity markets. These forces have accentuated unpredictability. In this context, there is an urgent need to revisit diversification strategies and adopt more practical, implementable approaches. Recent United Nations cooperation efforts offer promising alternatives.

3. The present report serves to examine the global economic context, highlighting persistent commodity export dependence and market volatility. It contains a review of structural challenges facing commodity-dependent developing countries¹ and successful examples of diversification are highlighted. The role played by the United Nations system in promoting economic and export diversification and value addition for sustainable development is also noted.

II. Overall context

A. Prevalence of commodity dependence

4. A majority of Member States were commodity-dependent over the period 2021–2023 (see table 1).² Of the 103 commodity-dependent countries, only 8 were developed countries.³ Of the 95 commodity-dependent developing countries, 35 were least developed countries.⁴ In terms of the geographical distribution of commodity dependence, the highest prevalence is found in Central and West Africa, South America and Central Asia, where all countries are commodity-dependent. A high prevalence of commodity dependence is also found in East Africa and Oceania.⁵

¹ In the present report, commodity-dependent countries are defined as countries in which commodities account for more than 60 per cent of their exports.

² In order to base the analysis for the purposes of the present report on a complete set of data for the time period considered, the number of countries whose data was analysed was limited to 190.

³ Three developed countries were primarily dependent on agricultural products: Iceland, New Zealand and Ukraine. Greece, Montenegro, Norway and the Russian Federation were primarily dependent on energy products. Australia was primarily dependent on mining products.

⁴ Of the commodity-dependent least developed countries, 13 were primarily dependent on agricultural products, 7 on energy products and 15 on mining products.

⁵ An exhaustive analysis and list of individual countries are presented in United Nations Conference on Trade and Development (UNCTAD), *The State of Commodity Dependence 2025* (Geneva, forthcoming).

Table 1
Commodity-dependent countries by geographical group, 2021–2023

<i>Region</i>	<i>Number of commodity-dependent countries</i>	<i>Percentage of total number of countries</i>
North Africa	3	50.0
Central Africa	9	100.0
East Africa	15	83.3
West Africa	16	100.0
Southern Africa	3	60.0
North America	—	—
Caribbean	5	38.5
Central America	2	25.0
South America	12	100.0
Central Asia	5	100.0
East Asia	1	20.0
Western Asia	11	61.1
South-East Asia	3	27.3
South Asia	2	22.2
Northern Europe	2	20.0
Eastern Europe	2	20.0
Western Europe	—	—
Southern Europe	2	13.3
Oceania	10	71.4
Total, all geographical groups	103	52.8

Source: UNCTAD secretariat calculations based on UNCTADStat and the UN Comtrade Database.

5. Commodity-dependent countries are categorized based on their primary export sector: agriculture, energy and mining (see table 2). Between 2010 and 2023, dependence on mining exports grew significantly, while dependence on agriculture and energy exports declined. This shift highlights changing global trade patterns, driven mostly by commodity price trends. The number of commodity-dependent countries that run current account deficits increased significantly, from 36 in the period 2000–2002 to 55 in the period 2021–2023. While deficits can be financed through foreign capital inflows, insufficient or volatile investment flows can threaten macroeconomic stability, potentially requiring currency devaluations to restore balance. High fiscal deficits, low domestic savings and heavy foreign debt – especially when coupled with rising interest payments – amplify this fragility, increasing exposure to external shocks.⁶

6. The number of net food importers among commodity-dependent developing countries increased from 37 in the period 2000–2002 to 46 in the period 2021–2023. The number of countries with both a current account deficit and a food trade deficit has also increased, from 17 in the period 2000–2002 to 28 in the period 2021–2023.

⁶ Eduardo Cavallo, Barry Eichengreen and Ugo Panizza, “Can countries rely on foreign saving for investment and economic development?”, *Review of World Economics*, vol. 154, No. 2 (2018).

7. Commodity dependence not only poses a set of macroeconomic vulnerabilities but also a structural development trap that is difficult to escape. Estimates suggest that it would take the average commodity-dependent developing country nearly 190 years to reduce by half the gap in export concentration relative to a non-commodity dependent country.⁷ Commodity dependence is perpetuated by high external demand for raw materials, Dutch disease effects, low technological spillovers and weak intersectoral linkages. This dynamic discourages the development of competitive manufacturing and services sectors and locks countries into cycles of price volatility, limited innovation and deindustrialization. Thus, commodity dependence is self-reinforcing, undermining efforts to build productive capacities and achieve inclusive, sustainable development.⁸

Table 2
Commodity-dependent countries, by period

	<i>Largest product group in commodity exports</i>			
	<i>Agriculture</i>	<i>Energy</i>	<i>Mining</i>	<i>Total</i>
2000–2002				
Countries with current account deficit	23	5	8	36
Countries with trade food deficit	9	20	8	37
Countries with both types of deficits	8	3	6	17
Total	43	36	13	92
2010–2012				
Countries with current account deficit	27	11	9	47
Countries with trade food deficit	14	27	5	46
Countries with both types of deficits	14	9	4	27
Total	37	39	21	97
2021–2023				
Countries with current account deficit	26	17	12	55
Countries with trade food deficit	10	18	18	46
Countries with both types of deficits	10	4	10	28
Total	38	33	24	103

Source: UNCTAD secretariat calculations based on UNCTADStat and the UN Comtrade Database.

B. Market trends for selected commodities and commodity groups

1. Grains

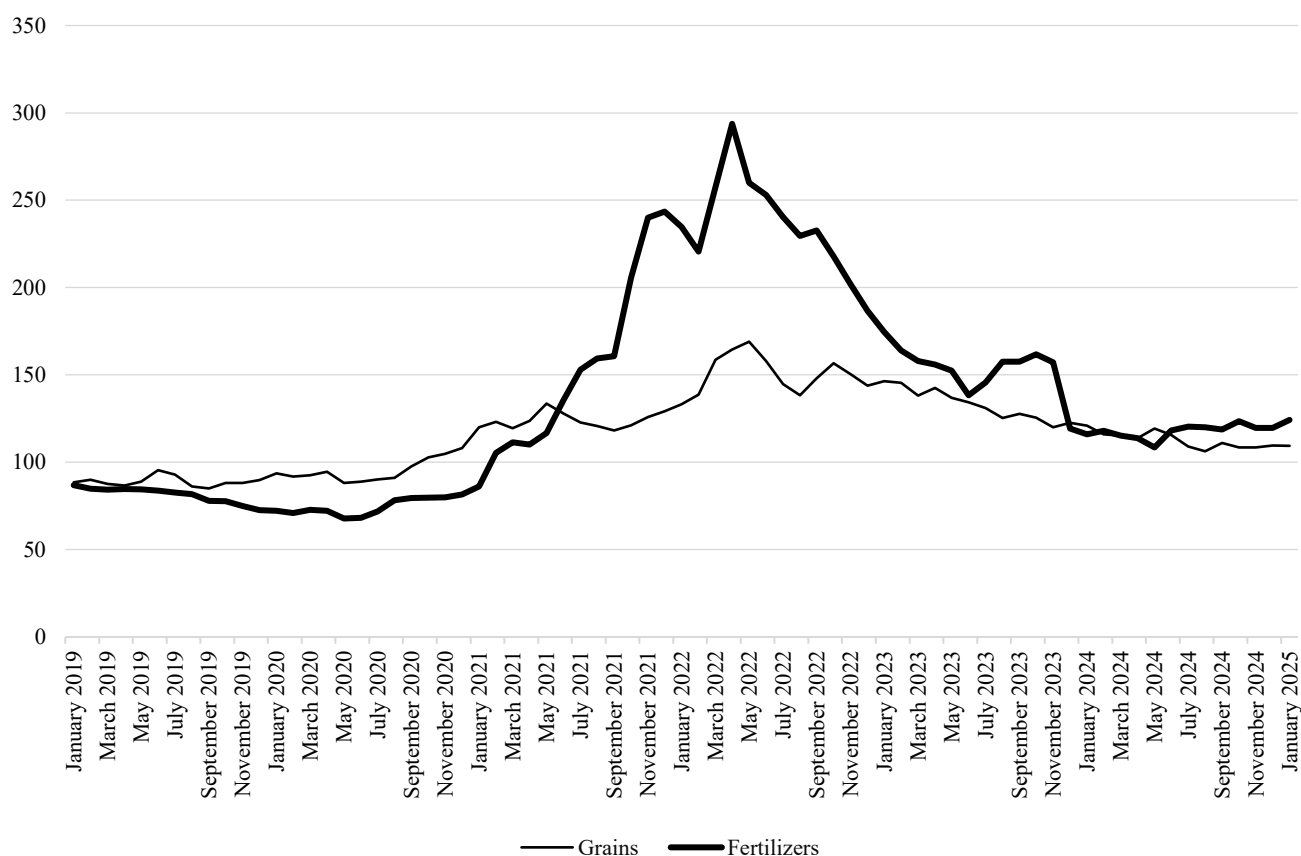
8. Grain prices have fluctuated since 2019 (see figure I), initially rising due to demand and supply chain disruptions related to the coronavirus disease (COVID-19) pandemic. Prices peaked in 2022, driven by the war in Ukraine and adverse weather, then stabilized in 2023 as crop yields improved and fertilizer costs fell. Although

⁷ UNCTAD, *Commodities and Development Report 2021: Escaping from the Commodity Dependence Trap through Technology and Innovation* (Geneva, 2021).

⁸ Ibid.

fertilizer prices rose slightly in late 2024 due to higher natural gas costs, the affordability index has since returned to 2015–2019 levels.⁹

Figure I
Grains and fertilizers price indices, 2019–2025
(2010=100)



Source: Prepared by the UNCTAD secretariat based on commodities price data from the World Bank.

9. Rice prices fell by 28 per cent from January 2024 to January 2025 (see figure II), driven by increased harvests in major exporting countries as well as by India lifting restrictions on exports of non-basmati rice.¹⁰ Despite that drop, prices remained above pre-pandemic levels. Global rice production hit a record high in 2023/24, rising by 2 per cent.¹¹ Meanwhile, maize prices surged 26 per cent in late 2024 due to supply concerns, with global production expected to drop by 2 per cent. Wheat prices stayed slightly below 2023 levels, supported by a 6 per cent production increase in 2023/24.¹²

⁹ World Bank, *Commodity Markets Outlook, October 2024* (Washington, D.C., 2024).

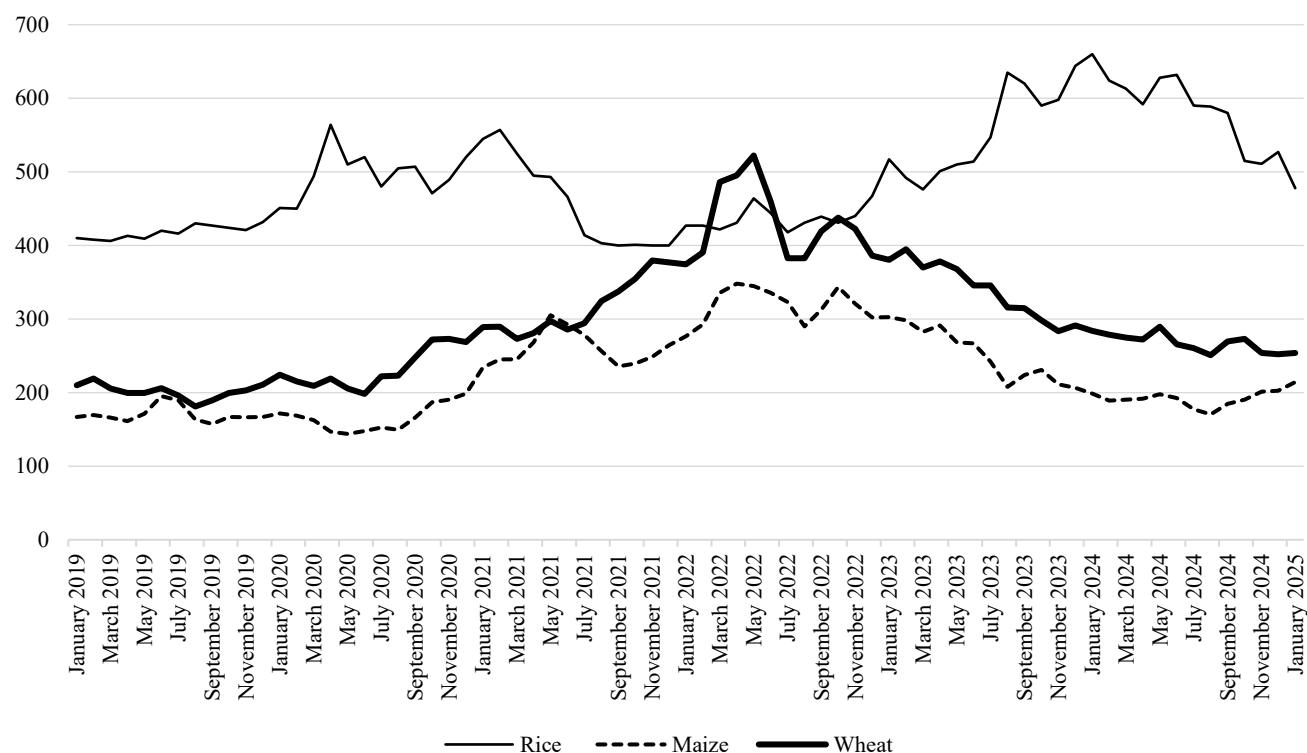
¹⁰ Ibid.

¹¹ According to the Agricultural Market Information System. See <https://www.amis-outlook.org/home> (accessed on 3 March 2025).

¹² Agricultural Market Information System, “AMIS Market Monitor”, No. 125 (February 2025).

Figure II
Selected food commodity benchmark prices, 2019–2025

(United States dollars per metric ton)



Source: Prepared by the UNCTAD secretariat based on commodities price data from the World Bank.

10. High food prices have a severe impact on net food-importing countries, especially developing ones, by fuelling inflation, reducing household purchasing power and deepening poverty and food insecurity.¹³ Rising import costs result in strained budgets, wider trade deficits and the diversion of funds from essential services, such as healthcare and education. Senegal introduced subsidies amid surges in rice prices,¹⁴ while Egypt experienced disruptions in the wheat supply owing to the war in Ukraine, which worsened food insecurity.¹⁵ In 2023, an estimated 733 million people globally faced hunger; this persistent crisis has been driven by conflict, extreme weather events and economic shocks.¹⁶ Ongoing conflicts in the Middle East may worsen food insecurity further in vulnerable regions.¹⁷

2. Critical minerals

11. Critical minerals, such as cobalt, copper, lithium and nickel, are vital for the shift from fossil fuels to cleaner energy systems, serving as key inputs for technologies such as solar panels, wind turbines and electric vehicle batteries. After

¹³ Food and Agriculture Organization of the United Nations (FAO) and others, *The State of Food Security and Nutrition in the World 2024: Financing to End Hunger, Food Insecurity and Malnutrition in All its Forms* (Rome, 2024).

¹⁴ See <https://cgspace.cgiar.org/server/api/core/bitstreams/a3a08c85-ac70-4a48-be96-9a1d2f96d660/content>.

¹⁵ UNCTAD, “A double burden: the effects of food price increases and currency depreciations on food import bills”, 16 December 2022.

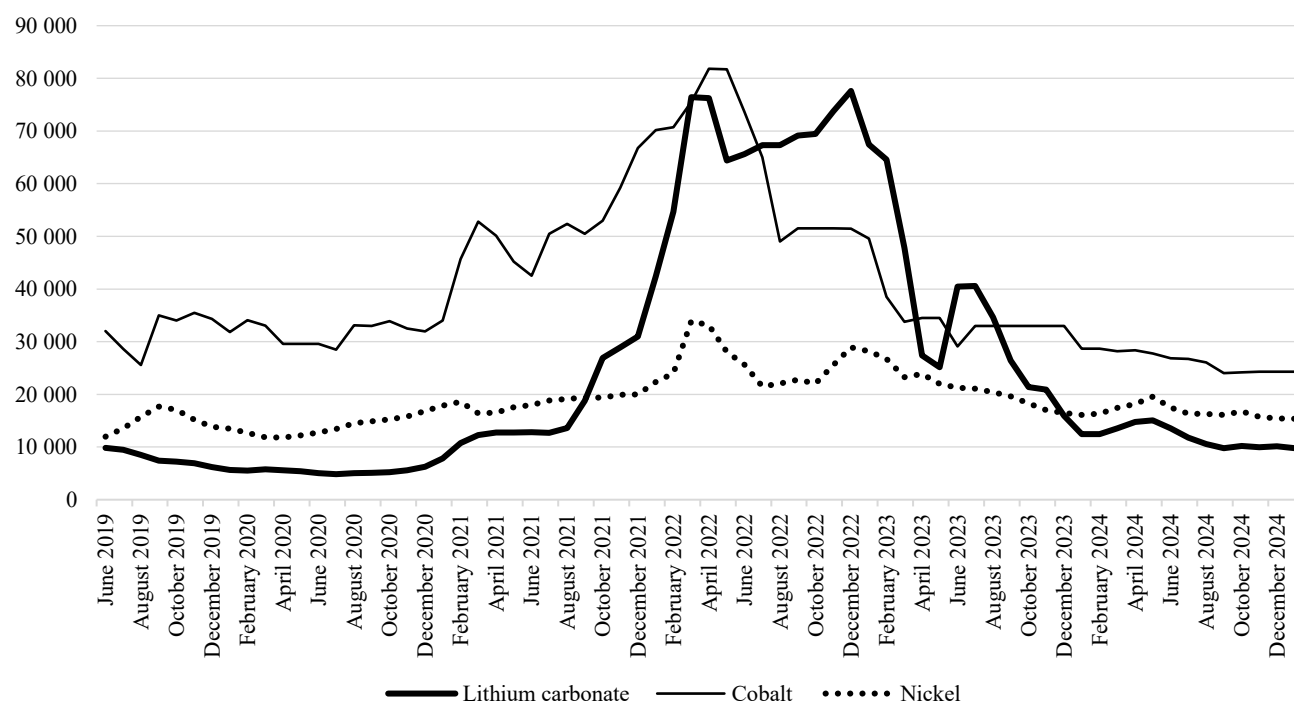
¹⁶ FAO and others, *The State of Food Security and Nutrition in the World 2024*.

¹⁷ UNCTAD, “Trade against hunger: exploring trade actions to fight acute food insecurity and the threat of famine”, December 2024.

peaking in 2022, lithium, cobalt and nickel prices fell in 2024, dropping by 28 per cent, 47 per cent and 9 per cent, respectively, to below 2021 levels (see figure III). This decline was driven by a combination of increased production and slower growth in electric vehicle battery sales. The expansion of the production capacity of the battery plant in China, which now accounts for over 70 per cent of global lithium-ion battery production, led to inventory build-up, which reduced demand for new materials.¹⁸ In addition, record-high prices in 2022 prompted bulk purchases, further curbing demand in 2023 and 2024.¹⁹

12. The decline in critical energy transition mineral prices has mixed impacts. Battery prices fell by 14 per cent in 2023, and consumers benefit from lower prices for lithium-ion batteries and clean technologies.²⁰ However, lower prices may deter investment in mining projects and force mine closures, potentially limiting supply for clean energy products and slowing the transition to sustainability. For instance, falling nickel prices in 2023 caused financial strain for plants in Australia and New Caledonia, threatening medium-term production.²¹ While mining investment grew by 10 per cent and exploration spending by 15 per cent in 2023, growth slowed compared with previous years.²²

Figure III
Price of selected critical minerals, 2019–2024
(United States dollars per metric ton)



Source: Prepared by the UNCTAD secretariat based on data from Thomson Reuters and World Bank.

¹⁸ International Energy Agency, “Trends in electric vehicle batteries”, in *Global EV Outlook 2024: Moving towards Increased Affordability* (Paris, 2024).

¹⁹ International Energy Agency, *Global Critical Minerals Outlook 2024* (Paris, 2024).

²⁰ International Energy Agency, “Trends in electric vehicle batteries”.

²¹ See <https://www.mining-technology.com/features/nickel-price-crash-australia-crisis-recovery/>; and <https://etudes-economiques.credit-agricole.com/Publication/2024-novembre/new-caledonian-nickel-on-a-razor-edge>.

²² See <https://www.iea.org/news/sharp-declines-in-critical-mineral-prices-mask-risks-of-future-supply-strains-as-energy-transitions-advance>.

Trade measures affecting critical energy transition mineral value chains

13. Several major producers of critical minerals have adopted export restrictions to promote domestic value addition and structural transformation. These measures have also been used to protect national security interests and preserve strategic resources. For example, in 2023, China implemented export controls on gallium and germanium-related items in order to safeguard national security.²³ Indonesia reinstated restrictions on nickel ore exports in 2020 and extended similar measures to bauxite in 2023 to encourage domestic processing.²⁴ Namibia also restricted exports of unprocessed cobalt, graphite, lithium, manganese and rare-earth elements in June 2023 to promote diversification and leverage growing demand for energy transition minerals.²⁵ While such policies can support industrial development and diversification, they may face opposition from trade partners if they are perceived to challenge World Trade Organization (WTO) regulations.²⁶ Furthermore, poorly designed policies – especially those that could be withdrawn suddenly and those that lack supportive infrastructure and regulatory frameworks – could pose risks for investors.²⁷

High concentration in the trade in critical minerals

14. The trade in critical minerals is highly concentrated, with a few countries dominating exports and imports. The cobalt trade is particularly concentrated, with over 90 per cent of global exports originating from the Democratic Republic of the Congo in 2023.²⁸ The lithium trade is also concentrated, with Australia leading in lithium ore exports and Chile in lithium brine exports, while China is the primary importer.²⁹ Mining is similarly dominated by a few companies, with the top five firms controlling 61 per cent of lithium and 56 per cent of cobalt production.³⁰

3. Oil and natural gas

15. Brent crude oil prices fluctuated between \$50 and \$80 per barrel from 2018 to early 2020 before falling below \$30 per barrel during the pandemic due to collapsing global demand. Prices rebounded sharply, surpassing \$80 in 2021 and peaking above \$120 in mid-2022 amid supply disruptions and the war in Ukraine (see figure IV). They then declined steadily in 2023, stabilizing at between \$70 and \$90 per barrel, followed by a gradual downward trend in 2024, reflecting improved supply, weaker demand and a shift to alternative energy. These trends highlight the volatility of the oil market and its sensitivity to global economic and political events.

16. Similarly, the natural gas price index surged beginning in mid-2021, peaking above 450 in 2022 due to geopolitical tensions, particularly the war in Ukraine, that disrupted energy markets and triggered a spike in European gas prices. After a steep

²³ See China, Ministry of Commerce, Announcement No. 23 of 2023 on the general administration of customs on the implementation of export control on Gallium and Germanium related items, available at <https://m.mofcom.gov.cn/article/zwgk/gkzcfb/202307/20230703419666.shtml>.

²⁴ See <https://www.iea.org/policies/16084-prohibition-of-the-export-of-nickel-ore>; and <https://setkab.go.id/en/govt-to-impose-export-ban-on-bauxite-ore-june-next-year/>.

²⁵ See <https://globaltradealert.org/state-act/75919-namibia-export-ban-of-unprocessed-critical-minerals>.

²⁶ See https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds592_e.htm.

²⁷ UNCTAD, *World Investment Report 2023: Investing in Sustainable Energy for All* (Geneva, 2023).

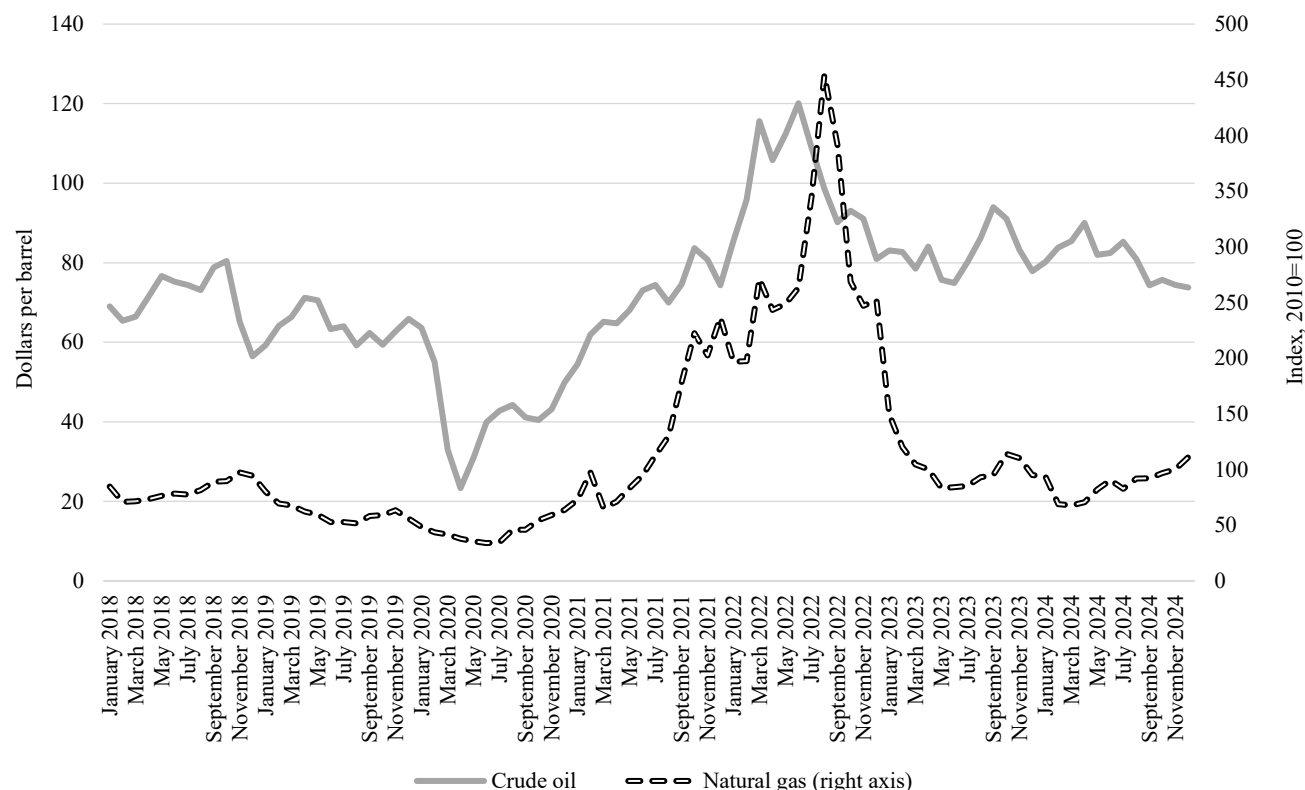
²⁸ UNCTAD secretariat calculations, based on UN Comtrade Database, available at <https://comtradeplus.un.org/> (accessed on 12 February 2025).

²⁹ Ibid.

³⁰ International Renewable Energy Agency, *Geopolitics of the Energy Transition: Critical Materials* (Abu Dhabi, 2023).

decline in 2023, prices stabilized above pre-2021 levels, with a slight upward trend emerging by late 2024, suggesting renewed demand or emerging supply constraints.

Figure IV
Price trends of selected fuels



Source: Prepared by the UNCTAD secretariat based on UNCTADstat.

Note: Crude oil includes United Kingdom of Great Britain Brent, light blend, 38° American Petroleum Institute, spot price, free on board United Kingdom ports. Natural gas includes Japan, the United States of America and Europe.

III. Economic diversification

17. Considering the above, further efforts are needed to advance strategies for economic and export diversification, commodity production and value addition for sustainable development.

A. Benefits of economic diversification

18. Diversification refers to the reduction of economic concentration or the expansion of the variety of goods and services produced and exported. Diversification in commodity-dependent developing countries is closely associated with the concept of structural transformation, defined as a reallocation of labour and capital across sectors, industries and firms to produce a more varied and valuable set of goods and services. Structural transformation can occur across broad economic sectors, such as a shift from agriculture to manufacturing or services, or within specific commodity sectors, including a shift towards non-traditional agricultural products (TD/B/C.I/MEM.2/53).

19. Horizontal diversification expands the production and export base beyond a narrow set of commodities and therefore plays a central role in strengthening economic resilience. It enables countries to reduce vulnerability to external shocks and build more balanced and dynamic economies. One notable example is Costa Rica, which shifted from coffee and banana exports into semiconductor production, thereby helping to establish a new industrial sector.³¹ In parallel, vertical diversification, which entails the expansion of value added activities along existing value chains, also contributes to structural transformation. Vertical diversification can range from relatively modest shifts, such as moving from cocoa production to the processing of cocoa beans into cocoa butter, to more complex, resource-intensive changes, such as moving from crude oil production to the refining of petroleum or the manufacturing of petrochemicals. Similarly, countries rich in such minerals as cobalt, nickel and manganese may diversify vertically by producing battery precursor materials. A further dimension of diversification involves adding new export markets to minimize the risks associated with overreliance on a limited number of trading partners.³²

20. Reducing concentration in commodity sectors lowers vulnerability to external shocks and price volatility stemming from international markets largely beyond the control of individual commodity-dependent developing countries. Diversification not only enhances economic resilience but also serves as a key driver of sustained growth and development. In particular, commodity-dependent developing countries hold significant potential for both productivity-enhancing structural transformation across sectors and productivity gains within sectors through upgrading and innovation.³³ Research has shown a positive association between per capita income and export diversification.³⁴ New industries can support export diversification, which not only reduces the volatility of export earnings stemming from price changes but also could benefit economic activity through knowledge spillovers and incentives for capital formation and investments.³⁵ Growth of the services sector and industrialization, defined as an expansion of the share of manufacturing in output, can play important roles for commodity-dependent developing countries.

B. Challenges in building more resilient and diversified economies

Disruptive role of price volatility

21. Volatility in global commodity prices creates uncertainty for government revenues, hindering efforts to diversify into sectors such as manufacturing or services. Fluctuating revenues disrupt long-term investments, forcing Governments to prioritize immediate fiscal needs over strategic projects. High prices reduce

³¹ Gary Gereffi, Stacey Frederick and Penny Bamber, “Diverse paths of upgrading in high-tech manufacturing: Costa Rica in the electronics and medical devices global value chains”, *Transnational Corporations*, vol. 26, No. 1 (2019).

³² UNCTAD, *Commodities and Development Report 2023: Inclusive Diversification and Energy Transition* (Geneva, 2023).

³³ UNCTAD, *Commodities and Development Report 2021: Escaping from the Commodity Dependence Trap through Technology and Innovation* (Geneva, 2021).

³⁴ Ricardo Hausmann, Jason Hwang and Dani Rodrik, “What you export matters”, *Journal of Economic Growth*, vol. 12, (2007).

³⁵ Giray Gözgör and Muhlis Can, “Causal linkages among the product diversification of exports, economic globalization and economic growth”, *Review of Development Economics*, vol. 21, No. 3 (August 2017).

incentives for diversification, while low prices leave countries without the capital to invest, thereby perpetuating their dependence on commodities.³⁶

22. This volatility undermines national budget management, introduces uncertainty in revenue estimation and endangers the stability of key social sectors.³⁷ It also affects foreign exchange reserves, credit ratings and access to financing, while limited hedging options and political pressures during booms exacerbate fiscal stress.³⁸

23. Commodity prices play a dual role: they transmit global shocks but can also act as independent shocks. For instance, the impacts of major economies' policies can be amplified by the associated response in commodity prices, causing larger swings in gross domestic product in commodity-dependent developing countries than in other countries. Consequently, commodity-dependent developing countries face intensified sensitivity to financial conditions, with commodity prices both driving and propagating shocks.³⁹

Barriers related to concentration in global supply chains

24. Concentration in global supply chains limits opportunities for commodity-dependent developing countries to gain access to new markets. In agriculture, market entry is constrained by the dominance of a few firms and countries in the supply of key inputs, such as fertilizers, seeds and agrochemicals.⁴⁰ Most commodity-dependent developing countries are net importers of these inputs, and this dependency is exacerbated by concentration in domestic supply chains, as is the case with fertilizers in the Southern Africa and East Africa regions.⁴¹ Downstream concentration in processing, wholesale and retail, combined with market failures, such as limited access to credit, further weakens farmers' bargaining power and reduces income opportunities (see [TD/B/63/2](#)).

25. In extractive sectors, where firms based in one country often operate in another, resource rich country, the main challenge is the host country's limited ability to capture a meaningful share of resource revenues.⁴² The energy transition may exacerbate this challenge by increasing the risk of stranded assets related to fossil fuel extraction.⁴³

³⁶ Tiago V. De V. Cavalcanti, Kamiar Mohaddes and Mehdi Raissi, "Commodity price volatility and the sources of growth", *Journal of Applied Econometrics*, vol. 30, No. 6 (September/October 2015).

³⁷ UNCTAD, *Commodities and Development Report 2017: Commodity Markets, Economic Growth and Development* (Geneva, 2017).

³⁸ UNCTAD, *Excessive Commodity Price Volatility: Macroeconomic Effects on Growth and Policy Options* (Geneva, 2012).

³⁹ Luciana Juvenal and Ivan Petrella, "Unveiling the dance of commodity prices and the global financial cycle", *Journal of International Economics*, vol. 150 (July 2024).

⁴⁰ UNCTAD, "Maximizing sustainable agri-food supply chain opportunities to redress COVID-19 in developing countries", 2020.

⁴¹ Simon Roberts, "Competition, trade, and sustainability in agriculture and food markets in Africa", *Oxford Review of Economic Policy*, vol. 39, No. 1 (Spring 2023).

⁴² UNCTAD, "Extractive industries: optimizing value retention in host countries", 2012.

⁴³ Yen-Heng Henry Chen, Erik Landry and John M. Reilly, "An economy-wide framework for assessing the stranded assets of energy production sector under climate policies", *Climate Change Economics*, vol. 14, No. 01 (2023).

26. In both agricultural and extractive sectors, a major consequence of concentration in global value chains is a constrained ability to mobilize resources for investing in technological upgrades and expanding processing capabilities.⁴⁴

Biased access to international markets

27. Access to international markets is crucial for achieving economies of scale, especially for small economies with limited domestic demand. Trade policies can, however, distort market access and hinder the efforts of commodity-dependent developing countries to diversify beyond raw exports (see [TD/B/C.I/MEM.2/53](#)).

28. Tariff escalation⁴⁵ remains a significant barrier, particularly in sectors such as textiles, apparel and light manufacturing, discouraging movement into higher-value trade segments.⁴⁶ In addition, compliance with non-tariff measures, such as sanitary and phytosanitary measures and technical barriers to trade,⁴⁷ increases production costs.

29. Mandatory due diligence regulations to ensure compliance with environmental and social standards can create barriers for smallholder farmers in developing countries. In value chains such as coffee, cocoa and palm oil, smallholders dominate production but often lack the financial and technical capacity to meet strict traceability requirements. Large firms may absorb compliance costs, but without targeted support, smallholders risk exclusion from global value chains.⁴⁸

30. The relationship between trade, regulation and development outcomes is complex. Well-designed non-tariff measures can enhance environmental sustainability and food safety, especially considering market failures and external shocks, such as climate change.⁴⁹ However, ensuring inclusive market access is essential. Regulatory and standard-setting measures should be paired with support measures to maintain vulnerable producers' participation in international markets.

31. At the same time, the resurgence of industrial policy in major economies introduces new challenges. Protectionist measures, subsidies and reshoring incentives in more technologically advanced economies make it harder for developing countries to integrate into global value chains.⁵⁰ The recent resurgence of such measures has been driven by large economies,⁵¹ with China, the United States of America and the European Union accounting for almost half of all new measures in 2023.⁵² Such

⁴⁴ Rudolfs Bems and others, "Economic consequences of large extraction declines: lessons for the green transition", Working Paper, No. 2023/097 (Washington D.C., International Monetary Fund (IMF), 2023); Koen Deconinck, *Concentration and Market Power in the Food Chain*, OECD Food, Agriculture and Fisheries Papers, No. 151 (Paris, 2021); and [TD/B/63/2](#).

⁴⁵ Tariff escalation can be defined as the practice of imposing higher tariffs on processed goods than on the primary commodities that are inputs to the production of these goods. United Nations and World Trade Organization, *A Practical Guide to Trade Policy Analysis* (Geneva, 2012).

⁴⁶ UNCTAD, *Trends in Natural and Man-Made Fibres Trade* (Geneva and New York, 2025).

⁴⁷ UNCTAD, *International Classification of Non-Tariff Measures* (Geneva and New York, 2019).

⁴⁸ UNCTAD, *The Future of Sustainable Trade: Due Diligence Initiatives, Voluntary Sustainability Standards and Developing Countries* (Geneva and New York, 2025).

⁴⁹ John Beghin and others, "Welfare costs and benefits of non-tariff measures in trade: a conceptual framework and application", in *Nontariff Measures and International Trade*, John Christopher Beghin, ed. (World Scientific Publishing, 2017).

⁵⁰ Réka Juhász, Nathan Lane and Dani Rodrik, "The new economics of industrial policy", *Annual Review of Economics*, vol. 16 (2024).

⁵¹ Organisation for Economic Co-operation and Development (OECD), "How governments back the largest manufacturing firms: insights from the OECD Magic Database", OECD Trade Policy Papers, No. 289 (Paris, 2025).

⁵² Simon Evenett and others, *The Return of Industrial Policy in Data*, IMF Working Papers, No. 001 (Washington D.C., 2024).

policies can further reduce opportunities for diversification beyond traditional commodity exports, making it difficult for developing economies to establish competitive manufacturing and technology sectors.

Limited investment levels, knowledge transfer and technology adoption

32. Low and unstable investment flows continue to limit the ability of commodity-dependent developing countries to build productive capacity and diversify their economies. Political and economic uncertainty deters long-term foreign investment, while higher perceived risks increase borrowing costs.⁵³ Limited domestic capital markets further restrict access to finance. Growing awareness of climate-related risks also discourages investment in vulnerable sectors.⁵⁴ Illicit financial flows, including trade misinvoicing, further erode domestic resource mobilization and reduce the fiscal space needed for public investment.⁵⁵ As a result, many commodity-dependent developing countries struggle to attract the investment needed to develop productive capabilities, adopt innovative practices and reduce dependence on primary commodities.⁵⁶ The transfer of technology and knowledge is crucial for building effective innovation systems and absorptive capacities.⁵⁷ Many commodity-dependent developing countries, however, remain far from the technological frontier, which hinders their ability to diversify into more dynamic sectors and move up the value chain.⁵⁸ Technological upgrading is needed to facilitate diversification and often requires external support, including access to new technologies and skills development.⁵⁹

33. Women face barriers such as limited access to land, finance and training, especially in agriculture. Gender-responsive approaches to value chain upgrading and export diversification are critical to ensure inclusive development and reduce vulnerabilities in commodity-dependent sectors.

Import dependence may further hinder diversification efforts

34. Many countries depend on food imports to meet consumption needs, making them vulnerable to market fluctuations, supply chain disruptions and geopolitical tensions.⁶⁰ This dependence can lead to food insecurity, particularly in countries that have limited agricultural capacity or that face climate challenges. Women are disproportionately affected due to caregiving roles, unequal access to food and heightened crisis vulnerability.⁶¹ Import dependence may also undermine local agrifood industries and long-term self-sufficiency. Export restrictions by major producers during crises, such as in 2007 and 2008, can worsen these risks by reducing supply, raising prices and limiting access to staple foods for vulnerable populations.⁶²

35. Energy import dependence presents major challenges for countries transitioning to sustainable energy. Reliance on fossil fuel imports exposes them to price volatility,

⁵³ UNCTAD, *Derisking Investment for the Sustainable Development Goals: the Role of Political Risk Insurance* (New York and Geneva, 2025).

⁵⁴ *Financing for Sustainable Development Report 2019* (United Nations publication, 2019).

⁵⁵ See https://unctad.org/en/PublicationsLibrary/alcafrica2020_en.pdf.

⁵⁶ See <https://unctad.org/news/we-must-help-developing-countries-escape-commodity-dependence>.

⁵⁷ UNCTAD, *Transfer of Technology and Knowledge Sharing for Development: Science, Technology and Innovation Issue for Developing Countries* (Geneva and New York, 2014).

⁵⁸ UNCTAD, *Commodities and Development Report 2023*.

⁵⁹ UNCTAD, *Commodities and Development Report 2021*.

⁶⁰ See <https://www.foodsecurityportal.org/node/2505>.

⁶¹ See <https://www.fao.org/documents/card/en/c/CC5060EN>.

⁶² Will Martin, Abdullah Mamun and Nicholas Minot, *Food Trade Policy and Food Price Volatility*, IFPRI discussion papers, No. 02253 (Washington, D.C., International Food Policy Research Institute, 2024).

supply disruptions and trade imbalances.⁶³ Shifting to renewables requires substantial investment in infrastructure, technology and workforce development. However, many commodity-dependent developing countries have limited financial and technological resources to support an energy transition that is inclusive and equitable.⁶⁴ Limited access to both affordable external finance and domestic resources compounds difficulties in fostering diversification and energy transition.

36. The United States dollar has historically moved inversely with global commodity prices because commodities are priced in dollars: a stronger dollar raises costs for buyers using other currencies, thereby reducing demand, while a weaker dollar boosts affordability. This pattern shifted after the pandemic, as food, oil and gas prices surged from 2021 to mid-2022 despite a stronger dollar.⁶⁵ If this change persists, net commodity-importing countries could face prolonged macrofinancial challenges, including tougher trade-offs between inflation and output, and heightened food security concerns.⁶⁶

V. Promoting export diversification in practice

A. Country experiences

1. Mauritius: beyond sugar in a small island developing State economy

37. Mauritius transitioned from a sugar-dependent economy to a diversified exporter of textiles, information technology components and services. At independence in 1968, sugar accounted for 90 per cent of the country's exports.⁶⁷ After sugar prices collapsed in the mid-1970s, the Government developed the textile industry through export processing zones,⁶⁸ which were supported by fiscal incentives and a tax on sugar exports.⁶⁹ In the 1980s, it attracted foreign direct investment (FDI) to expand tourism, information and communications technology, and financial services.⁷⁰

38. While commodity exports rose in the mid-2010s, services exports generally surpassed merchandise exports from 2008 to 2019 (see figure V). The pandemic caused a temporary decline in services exports in 2020 and 2021, but services have since recovered. Mauritius now balances merchandise exports between manufactured goods and commodities, alongside a strong focus on services.

⁶³ UNCTAD, *Commodities and Development Report 2023*.

⁶⁴ Jaden Kim and others, "Energy security and the green transition", *Energy Policy*, vol. 198 (March 2025).

⁶⁵ Boris Hofmann, Deniz Igan and Daniel Rees, *The Changing Nexus between Commodity Prices and the Dollar: Causes and Implications*, BIS Bulletins, No. 74 (Bank for International Settlements, 2023).

⁶⁶ UNCTAD, "A double burden".

⁶⁷ UNCTAD, *Commodities and Development Report 2023*.

⁶⁸ UNCTAD, "Structural transformation and export diversification in Southern Africa", 2018; and UNCTAD, *Commodities and Development Report 2023*.

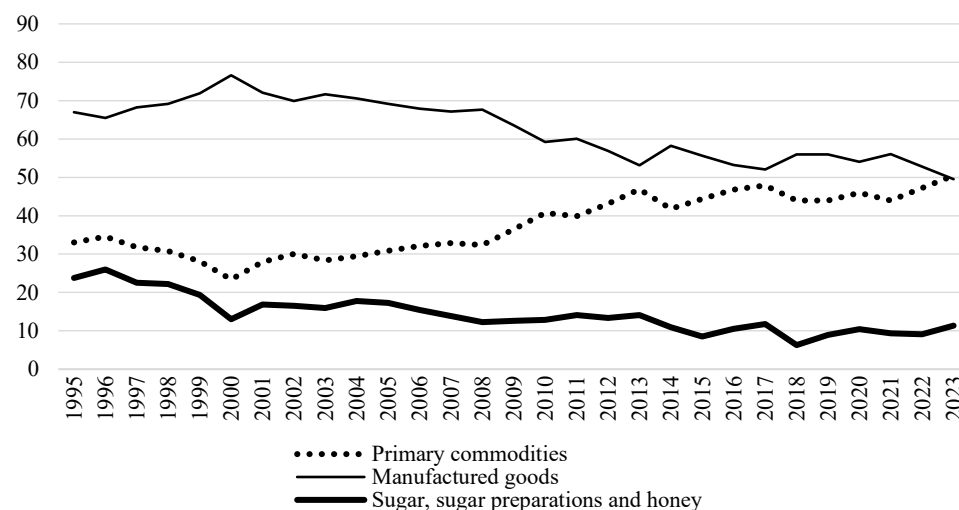
⁶⁹ Punam Chuhan-Pole and Manka Angwafo, eds., *Yes Africa Can: Success Stories from a Dynamic Continent* (Washington, D.C., World Bank, 2011); and Krishna Chikhuri, "Economic diversification: the Mauritian experience", presentation during the thirteenth session of the Multi-Year Expert Meeting on Commodities and Development, Geneva, October 2022.

⁷⁰ On the role of foreign direct investment in the diversification process of Mauritius, see UNCTAD, *Investment Policy Review: Mauritius* (New York and Geneva, 2001).

Figure V
Mauritius merchandise and services exports, 1995–2023

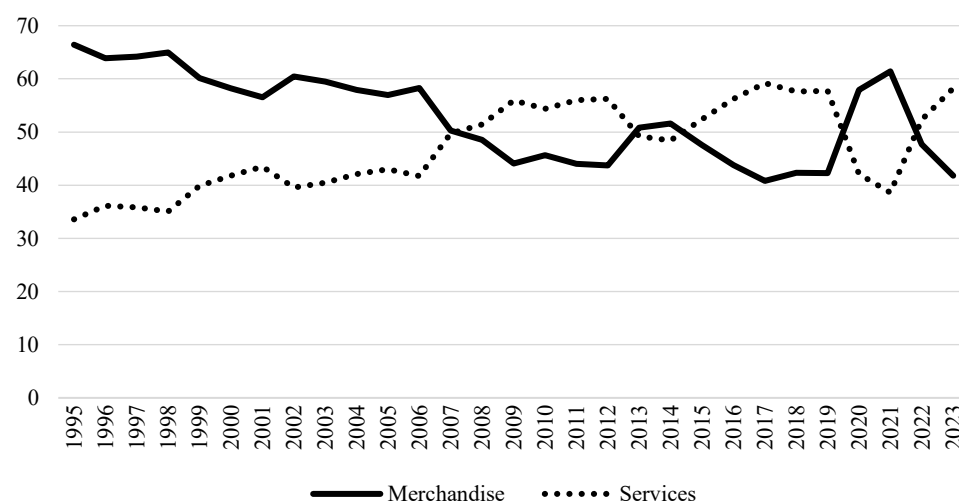
(a) Share of merchandise exports

(Percentage)



(b) Share of total exports

(Percentage)



Source: Prepared by the UNCTAD secretariat based on data from UNCTADstat, World Integrated Trade Solution and the UN Comtrade Database.

Note: Merchandise export shares are based on Standard International Trade Classification Revision 3 codes: 0, 1, 2, 3, 4, 667, 68 and 971 for commodities; 5, 6, 7 and 8 (excluding 667 and 68) for manufactured goods; and 06 for sugar, sugar preparations and honey.

2. Viet Nam: manufacturing-led diversification

39. Viet Nam is another notable example of manufacturing-led horizontal diversification, shifting from a coffee, rice and fuel exporter to a major hub for electronics and textiles. By 2023, manufactured goods accounted for 85 per cent of its merchandise exports. Electrical machinery and equipment alone accounted for 43

per cent, making Viet Nam the fourth-largest global exporter in this category (see figure VI).⁷¹

40. This transformation was driven by the Doi Moi reforms, launched in 1986, during which the economy transitioned from a central planning model to a market-oriented one.⁷² Key measures included those aimed at improving the business environment, boosting human capital, attracting FDI, restructuring agriculture, liberalizing trade and investing in infrastructure, particularly in power generation and distribution.⁷³

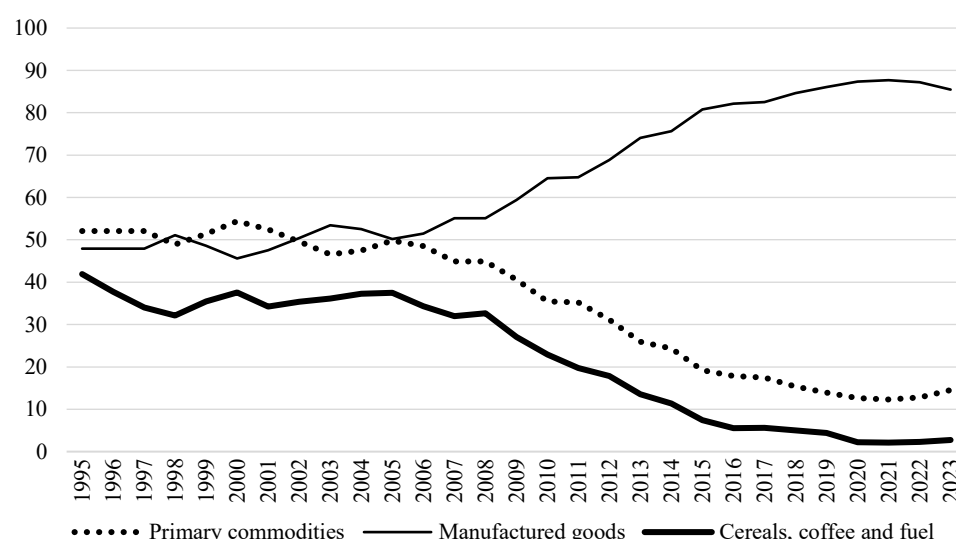
41. Integration into the global economy through membership in the Association of Southeast Asian Nations in 1997, accession to WTO in 2007 and bilateral trade agreements expanded market access and reduced tariffs.⁷⁴ Recent reforms, such as the introduction of streamlined import-export procedures in 2015, further enhanced FDI inflows and competitiveness.⁷⁵

Figure VI

Viet Nam merchandise exports and foreign direct investment, 1995–2023

(a) Share of merchandise exports

(Percentage)



⁷¹ See <https://oec.world/en/profile/bilateral-product/electrical-machinery-and-electronics/reporter/vnm>.

⁷² International Finance Corporation, *Country Private Sector Diagnostic: Creating Markets in Vietnam*, (Washington, D.C., 2021).

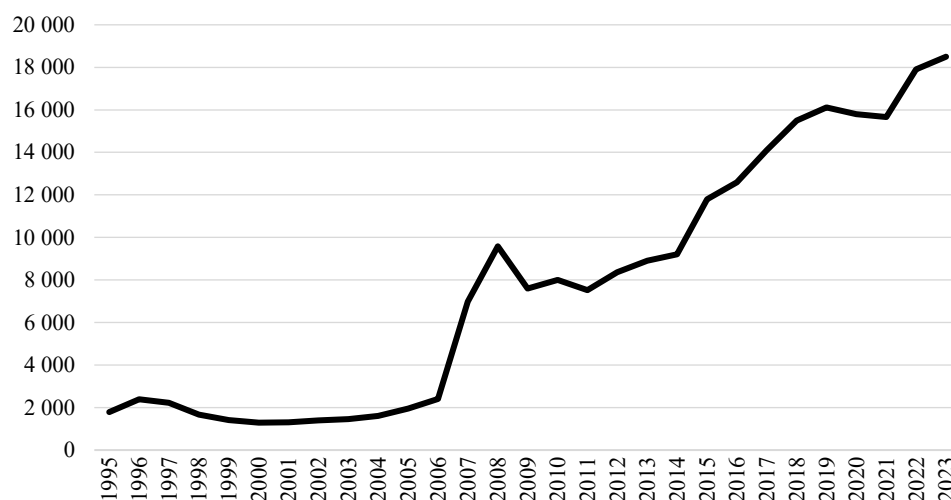
⁷³ Anja Baum, *Vietnam's development success story and the unfinished SDG agenda*, IMF Working Paper, No. 031 (2020).

⁷⁴ Jean-Raphaël Chaponnière and Jean-Pierre Cling, "Vietnam's export-led growth model and competition with China", *Économie Internationale*, vol. 118 (November 2009).

⁷⁵ United States Agency for International Development, Office of Governance and Economic Growth, "Aid for trade: partnering to support Vietnam's economic diversification", 10 October 2022.

(b) Foreign direct investment inflows

(Millions of United States dollars)



Source: Prepared by the UNCTAD secretariat based on data from UNCTADstat, World Integrated Trade Solution and the UN Comtrade Database.

Note: Merchandise export shares are based on Standard International Trade Classification Revision 3 codes: 0, 1, 2, 3, 4, 667, 68, and 971 for commodities; 5, 6, 7 and 8 (excluding 667 and 68) for manufactured goods; and 04, 071, 32, 33 and 34 for cereals, coffee and fuels.

3. Indonesia: nickel downstream policy

42. Indonesia, the world's largest nickel producer (50 per cent of global output in 2023), has prioritized downstream manufacturing and domestic value addition in its national mining policy.⁷⁶ Since 2020, through a comprehensive mix of trade, investment and fiscal measures, the country has promoted foreign and domestic investment in domestic smelters and processing. This strategy has boosted FDI,⁷⁷ which amounted to \$25 billion in 2022 and \$21.7 billion in 2023, largely driven by Chinese investment in high-pressure acid-leaching technology for low-grade nickel ore.⁷⁸ Investments facilitated the transfer of technologies needed to leverage low-grade nickel from limonite and higher-grade saprolite ore, making nickel from Indonesia highly competitive.⁷⁹

43. These measures increased processed nickel exports, with value addition in the minerals sector soaring from \$1.1 billion to \$20.8 billion in 2021 alone.⁸⁰ Indonesia shifted from exporting raw nickel ore to higher-value semi-processed products (see figure VII) such as ferronickel, nickel oxide and mattes, which, despite having been exported in smaller quantities, generated significantly higher value addition.

⁷⁶ See <https://pubs.usgs.gov/periodicals/mcs2024/mcs2024-nickel.pdf>.

⁷⁷ Based on data from UNCTADstat and UN Comtrade databases, calculated for processed nickel exports under the following Harmonized Commodity Description and Coding System codes: 282540, 750110, 750120 and 750210.

⁷⁸ See <https://www.csis.org/analysis/indonesias-nickel-industrial-strategy>.

⁷⁹ See <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/indonesia-s-nickel-processing-boom-raises-questions-over-tailings-disposal-75180844>.

⁸⁰ See <https://asiatimes.com/2023/07/indonesias-mineral-export-bans-face-hot-global-fire/>.

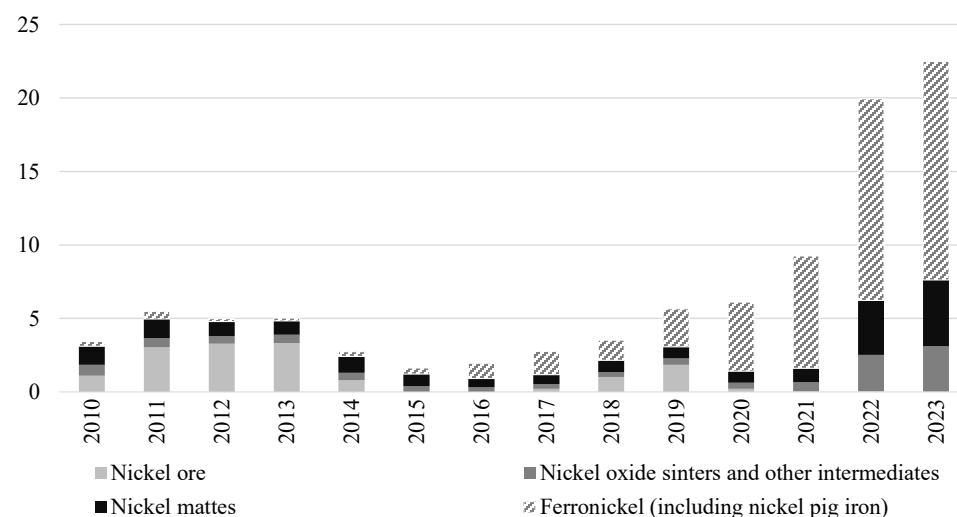
44. To support this transition, Indonesia enhanced cooperation with China, its largest investor since 2013, and established the Morowali Industrial Park.⁸¹ It also introduced university education programmes focused on the mining industry to develop local human capital and increase worker participation in the nickel value chain.

Figure VII

Indonesia nickel product exports, by traded value and quantity, 2010–2023

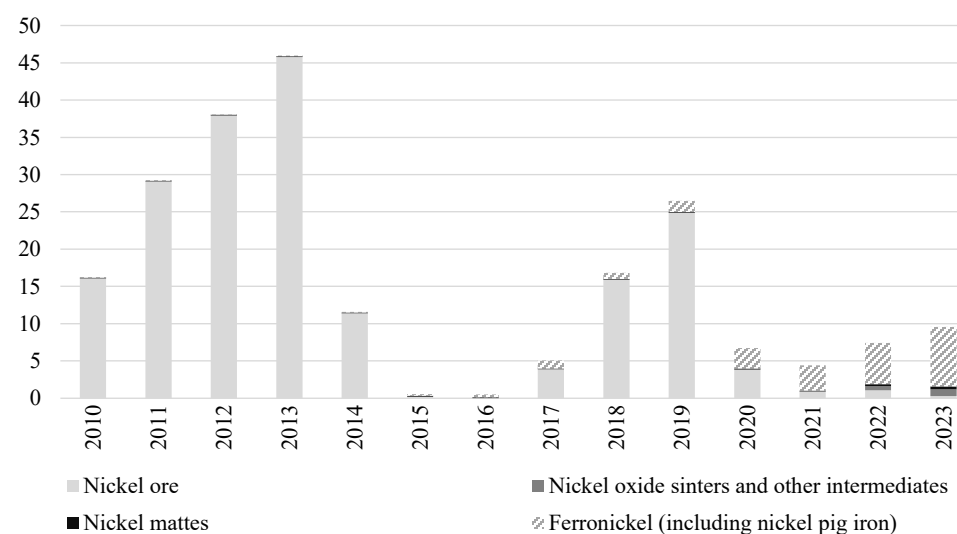
(a) Traded value

(Billions of United States dollars)



(b) Traded quantity

(Millions of tons)



Source: Prepared by the UNCTAD secretariat based on data from the UN Comtrade Database.

Note: Calculated using the following Harmonized Commodity Description and Coding System codes: 260400, nickel ores and concentrates; 720260, ferronickel (including nickel pig iron); 750120, nickel oxide sinters and other intermediate products; and 750110, nickel mattes.

⁸¹ Angela Tritto, “How Indonesia used Chinese industrial investment to turn nickel into the new gold”, Carnegie Endowment for International Peace, 11 April 2023.

B. International cooperation

45. Several international organizations promote export diversification by establishing international monitoring frameworks, promoting policy-oriented discussion forums, conducting analytical work, collecting and disseminating data, and providing technical assistance and capacity-building. Some examples are discussed in paragraphs 46 to 55 below.

1. Consensus-building

46. Efforts to promote value addition and economic diversification, particularly in commodity-dependent developing countries, have been carried out across the United Nations system. A central theme has been the need to move beyond primary commodity exports towards more inclusive and resilient development models. The Panel on Critical Energy Transition Minerals⁸² convened by the Secretary-General has underscored this need in its 2024 report,⁸³ outlining seven guiding principles and five actionable recommendations to promote equity and justice in the net-zero transition, including a recommendation on benefit-sharing, value addition and economic diversification. The five actionable recommendations are being advanced through coordinated efforts by UNCTAD, the Climate Action Team of the Executive Office of the Secretary-General and the United Nations Environment Programme.

47. Complementing these efforts, at the UNCTAD multi-year expert meeting on commodities and development held in 2024 (see [TD/B/C.I/MEM.2/63](#)) and Global Commodities Forum 2024,⁸⁴ practical strategies for value addition in agricultural, mining and energy value chains were highlighted, linking diversification with climate resilience and sustainability.

48. At the regional level, the Economic Commission for Latin America and the Caribbean (ECLAC) and the World Institute for Development Economics Research emphasized the importance of productive development policies to address low productivity in Latin America and the Caribbean and drive structural change and economic diversification across the region.⁸⁵

2. Analytical work and data collection

49. Analytical work across the United Nations system deepens the understanding of the complex relationship between commodity dependence, economic growth and diversification. UNCTAD, in its *State of Commodity Dependence 2023*⁸⁶ and *Commodities and Development Report 2023*,⁸⁷ offers insights into structural vulnerabilities and value addition strategies. UNCTAD reports include commodity-specific analysis, such as analysis focused on access to energy in sub-Saharan Africa⁸⁸ or on phosphate,⁸⁹ fibres⁹⁰ and critical minerals for electric vehicles.⁹¹ Complementing this, ECLAC, in a study entitled “Smart diversification strategies

⁸² The list of panel members is available at https://www.un.org/sites/un2.un.org/files/cetm_list_of_panel_members.pdf.

⁸³ Available at <https://www.un.org/en/climatechange/critical-minerals>.

⁸⁴ See <https://unctad.org/meeting/global-commodities-forum-2024>.

⁸⁵ See <https://www.cepal.org/en/events/connecting-productivity-challenge-productive-development-policies-latin-america-and-caribbean>.

⁸⁶ See <https://unctad.org/publication/state-commodity-dependence-2023>.

⁸⁷ See [https://unctad.org/publications-search?f\[0\]=product%3A588](https://unctad.org/publications-search?f[0]=product%3A588).

⁸⁸ See <https://unctad.org/publication/commodities-glance-special-issue-access-energy-sub-saharan-africa>.

⁸⁹ See <https://unctad.org/publication/commodities-glance-special-issue-phosphate>.

⁹⁰ See <https://unctad.org/publication/measuring-global-exports-industrial-hemp-products>.

⁹¹ See https://unctad.org/system/files/official-document/ditcmisc2023d1_en_0.pdf.

differentiated by countries' complexity", identifies greater gains from complexity at early stages of development and proposes tailored diversification strategies.⁹²

50. At the regional level, the regional commissions have produced important contributions to the debate on economic diversification and structural change. In a 2024 paper entitled "Development traps in Latin America and the Caribbean", ECLAC outlines three vital transformations (productive, social and environmental) as pathways to overcome persistent barriers, such as low growth and weak institutions.⁹³ Meanwhile, in *International Trade Outlook for Latin America and the Caribbean 2024*, ECLAC calls for more resilient and diversified export structures amid shifting global trade dynamics.⁹⁴ In a 2024 report entitled *Skill Diversification in the Arab Region: A Pathway for Economic Prosperity*, the Economic and Social Commission for Western Asia assesses how regional economies are positioned to meet shifting labour market demands. It emphasizes that diversifying skill sets in science, technology and services can enhance economic resilience, reduce dependence on resource sectors and support inclusive growth.⁹⁵

51. Improving transparency in commodity markets remains a shared priority for the United Nations system and its partners. The Food and Agriculture Organization of the United Nations (FAO) hosts the Agricultural Market Information System secretariat, which provides transparent market analyses for staple commodities, vegetable oils and fertilizers.⁹⁶ The World Bank complements these efforts with monthly price updates and biannual market analyses.⁹⁷ The International Monetary Fund provides information on primary commodity prices and market developments.⁹⁸

3. Technical cooperation

52. Technical cooperation across the United Nations system increasingly focuses on helping countries to identify concrete diversification opportunities. The rapid assessment of value addition and diversification capacity⁹⁹ developed by UNCTAD helps commodity-dependent developing countries to identify high-potential new products using economic complexity and product space analyses combined with in-depth interviews with local industry experts. This tool is being applied in Madagascar, Namibia and Zambia to identify opportunities for value addition and diversification within and beyond critical energy transition mineral value chains,¹⁰⁰ and it was applied in north-eastern Brazil in 2024, helping to identify 141 products that could increase the diversification of Suape Port.¹⁰¹ Similarly, the Economic Commission for Africa (ECA) and the United Nations Development Programme Country Office in the Congo are assisting the Congo in developing its master plan for industrialization and economic diversification. The plan is focused on developing

⁹² See <https://repositorio.cepal.org/server/api/core/bitstreams/3be32308-88e4-4de4-b622-bb13b413283b/content>.

⁹³ See <https://ideas.repec.org/p/ecr/c39025/80728.html>.

⁹⁴ See <https://repositorio.cepal.org/server/api/core/bitstreams/7db447c2-9e64-4973-b46a-70297ae00d73/content>.

⁹⁵ See <https://www.unescwa.org/publications/skill-diversification-arab-region-pathway-economic-prosperity>.

⁹⁶ See <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/MIN22/28.pdf&Open=True>.

⁹⁷ See <https://www.worldbank.org/en/research/commodity-markets#1>.

⁹⁸ See <https://www.imf.org/en/Research/commodity-prices>.

⁹⁹ The assessment is a framework developed by UNCTAD to help countries, especially developing and least developed countries, to identify realistic and high-potential opportunities to diversify their economies.

¹⁰⁰ See <https://unctad.org/project/critical-energy-transition-minerals-in-southern-africa>.

¹⁰¹ See <https://unctad.org/meeting/workshop-economic-complexity-study-suape-industrial-port-complex>.

priority value chains, promoting private sector engagement and steering the nation towards a low-carbon, greener economy.¹⁰²

53. Targeted support for upgrading commodity sectors remains central to diversification efforts. Through a project on sustainable coffee export strategies and traceability¹⁰³ and a programme on voluntary sustainability standards,¹⁰⁴ UNCTAD strengthens traceability systems and promotes value addition and improved market access for commodity-dependent developing countries, helping small producers to meet evolving regulatory demands and participate in global value chains. The International Trade Centre (ITC) has several active projects on diversification and value addition, including initiatives to develop cocoa and related crops in Ghana,¹⁰⁵ enhance cashew commercialization in Senegal¹⁰⁶ and boost the beekeeping value chain in the United Republic of Tanzania.¹⁰⁷ In collaboration with FAO, ITC also funded a sunflower processing unit in the United Republic of Tanzania to produce oil and other products.¹⁰⁸ In addition, ITC published a guide to help exporters of South-East Asian wood products to access European Union markets.¹⁰⁹

54. Other technical cooperation initiatives have been focused on promoting environmentally sustainable diversification. Green export strategies developed by UNCTAD through initiatives such as the national green export reviews¹¹⁰ and BioTrade¹¹¹ help commodity-dependent developing countries to develop markets for environmentally preferable goods and services and biodiversity-based products, in sectors ranging from organic agriculture to renewable energy technologies. Such efforts promote trade while advancing environmental conservation and equitable benefit-sharing. The United Nations Industrial Development Organization plays a pivotal role in advancing green hydrogen as a sustainable energy solution, promoting its potential for the decarbonization of industries through international cooperation, technology transfer and capacity-building.¹¹²

55. Regional value chain integration and multilateral partnerships continue to support diversification. ECA and the African Export-Import Bank are facilitating a cross-border battery value chain between the Democratic Republic of the Congo and Zambia, including by providing technical assistance, conducting prefeasibility studies and providing funding for a regional battery research centre.¹¹³ Through the “Made by Africa” initiative, ITC identified 94 promising value chains for growth,¹¹⁴ and the upgraded African Trade Observatory¹¹⁵ is aimed at strengthening regional and global value chain links under the African Continental Free Trade Area. The Aid for Trade initiative, led by WTO under the Enhanced Integrated Framework, has served to

¹⁰² See https://www.uneca.org/stories/congo-focuses-the-new-industrial-strategy%2C-supported-by-eca%2C-on-developing-priority-value?utm_source=chatgpt.com.

¹⁰³ See <https://unctad.org/project/sustainable-coffee-export-strategies-and-traceability-green-sustainable-and-inclusive>.

¹⁰⁴ See <https://unctad.org/topic/trade-analysis/voluntary-sustainability-standards>.

¹⁰⁵ See <https://open.intracen.org/projects/XM-DAC-45001-B766>.

¹⁰⁶ See <https://open.intracen.org/projects/XM-DAC-45001-C152>.

¹⁰⁷ See <https://open.intracen.org/projects/XM-DAC-45001-B924>.

¹⁰⁸ International Trade Centre (ITC), “Tanzanian sunflowers blossom into new products”, 21 February 2025.

¹⁰⁹ ITC, *High-Value-Added Wood Products from South-East Asia: An Export Guide* (Geneva, 2024).

¹¹⁰ See <https://unctad.org/topic/trade-and-environment/green-export-strategies>.

¹¹¹ See <https://unctad.org/topic/trade-and-environment/biotrade>.

¹¹² See <https://www.unido.org/green-hydrogen>.

¹¹³ See https://www.uneca.org/stories/eca-and-afreximbank-sign-framework-agreement-to-establish-special-economic-zones-for-the?utm_source=chatgpt.com.

¹¹⁴ ITC, *Made by Africa: Creating Value through Integration* (Geneva, 2022).

¹¹⁵ ITC, “Discover African trade patterns through the African Trade Observatory”, 12 December 2024.

support export diversification and trade capacity-building in various countries, such as Senegal,¹¹⁶ the United Republic of Tanzania¹¹⁷ and Zambia.¹¹⁸ Through the Global Alliance for Responsible and Green Minerals, the United Nations Industrial Development Organization supports commodity-dependent developing countries in diversifying their economies by promoting sustainable mining practices, enhancing local value addition and promoting responsible critical mineral supply chains.¹¹⁹

VI. Recommendations for building resilient and diversified economies

56. Persistent dependence on commodity exports and the resulting exposure to volatility in commodity markets underscore the urgent need for diversification. While some countries have successfully diversified their economies, differing country circumstances, constraints (including macroeconomic and institutional ones) and national capacities make it difficult for other countries to emulate that success. Thus, there is a need to pursue a strategy for strategic diversification in which suitable sectors to target for a more diversified and higher-value-added production base are identified while considering existing local productive capacities. Leveraging data-driven tools, such as the rapid assessment of diversification and value addition developed by UNCTAD, can help in these endeavours by providing countries with valuable information on potential diversification pathways and recommended policy instruments, while taking into account existing national capacities.

57. The following policy recommendations can contribute to implementing such strategies:

(a) Identify and develop priority sectors: strategic diversification should be focused on increasing economic returns in sectors that can support a more diverse and higher-value-added productive base, both in the production of goods and the provision of services. Data-informed assessments can help to identify feasible diversification pathways and the appropriate policy instruments in line with national capacities;

(b) Mobilize targeted investment: investment, both domestic and foreign, is necessary but not sufficient for diversification. A clearly defined set of diversification pathways can help to attract such investments by signalling concrete opportunities and ensuring targeted investment in building productive and innovation capacities, including the required infrastructure. To be effective, these efforts should be supported by an enabling environment that includes regulatory clarity and predictability, fiscal incentives, access to finance and skills development, which can help to reduce investor risk and improve project viability. While financially constrained countries may face challenges in this regard, prioritizing sectors that align closely with existing capabilities can help to minimize the need for extensive investment in training and infrastructure;

¹¹⁶ See <https://trade4devnews.enhancedif.org/en/impact-story/strengthening-productivity-institutions-and-e-commerce-senegal>.

¹¹⁷ See <https://trade4devnews.enhancedif.org/en/impact-story/trade-diversification-and-trade-coordination-heart-tanzanias-trade-development-journey>.

¹¹⁸ See <https://trade4devnews.enhancedif.org/en/impact-story/how-bee-successful-zambia-diversifies-its-trade-profile>.

¹¹⁹ See <https://www.unido.org/news/unido-announces-launch-global-alliance-responsible-and-green-minerals>.

(c) **Strengthen productive capacity policies:** diversification strategies should include productive capacity policies aimed at expanding the productive base. To this end, institutional capacity needs to be strengthened through greater interministerial coordination and a coherent and targeted policy mix that promotes diversification towards priority sectors;

(d) **Foster public-private partnerships:** resource mobilization through public-private partnerships and the strategic use of commodity revenues for infrastructure, capacity-building, research and development, and other national objectives can play a crucial role. Sustained collaboration is also essential to address the coordination failures and knowledge asymmetries in tackling diversification challenges amid uncertainty. Stronger partnerships can also ensure long-term commitment beyond political cycles, mitigating the risks of short-termism stemming from the lag between policy implementation and results;

(e) **Enhance skills alignment:** collaboration between the Government, industry, research institutions and universities could help to ensure that educational programmes and curricula align with evolving market needs and to prevent skill mismatches;¹²⁰

(f) **Strengthen institutional support for small and medium-sized enterprises in export development:** greater collaboration between specialized ministries, export promotion agencies and the private sector is essential to enhance domestic support structures for export development. Technical assistance would be particularly important for small and medium-sized enterprises, which generally are more susceptible to challenges related to compliance and market entry;

(g) **Leverage special economic zones:** special economic zones can help to attract investment through customs, fiscal and regulatory incentives and infrastructure support. Typically located near major transportation hubs, special economic zones facilitate access to markets and inputs and enable industrial clustering, innovation and improved supply chain integration.¹²¹ They can form part of broader efforts aimed at attracting FDI to address investment gaps. Beyond financial incentives, it is crucial to ensure an environment that is conducive to investment, including adequate infrastructure and a skilled workforce;

(h) **Encourage regional cooperation:** regional cooperation can enhance diversification by overcoming the limitations of small domestic markets in commodity-dependent developing countries.¹²² Coordinated regional strategies and value chain development allow countries to share costs, reduce financial constraints and pool resources for infrastructure and innovation. Such cooperation also facilitates technology transfer, improves market access and enhances bargaining power in international markets;¹²³

(i) **Strengthen market access through a rules-based multilateral trading system:** improved access to international markets is essential for successful diversification strategies, particularly for small and vulnerable economies. A transparent, fair and inclusive multilateral trading system can help to address tariff escalation, non-tariff barriers and other obstacles that disproportionately

¹²⁰ UNCTAD, *Commodities and Development Report 2023*.

¹²¹ UNCTAD, *World Investment Report 2019: Special Economic Zones* (Geneva, 2019); and [TD/B/C.I/MEM.2/61](#).

¹²² UNCTAD, *Commodities and Development Report 2023*.

¹²³ See [TD/B/C.I/MEM.2/61](#).

affect commodity-dependent developing countries. Continued engagement in multilateral trade negotiations and cooperation with international partners are critical to ensure that trade rules support sustainable development and facilitate value addition and export diversification.
