Global Commodities Forum, Opening and Keynote Session
15 July 2016

PRESENTATION

Trade misinvoicing in commodity dependent developing countries

by

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The views expressed in this document are those of the author(s) and do not necessarily reflect the views of the UNCTAD secretariat.
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“Commodity dependence” – Back in the news; but hardly ‘new’

- Since the 1990s: concerns raised about the “resource curse” in resource-rich developing countries
- Commodity booms have generated growth surges; as observed over 2000-08
- But the current slump in commodity prices has resulted in major losses in growth (downgrades in growth projections), compromising progress in human and social development
- This has reinvigorated the debate about commodity dependence by developing countries
Commodity price shocks and growth forecasts in SSA; oil-exporters more affected

GDP growth projections: SSA

GDP growth projections: Oil exporters

Oct 2014 projections - SSA
Oct 2015 projections - Oil-rich SSA
April 2016 projections - SSA
April 2016 projections - Oil-rich SSA

SSA
Oil-rich SSA

October 2015 projections
April 2016 projections

October 2015 projections - Oil-rich SSA
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GDP growth projections: SSA

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GDP growth projections: Oil exporters

Oct 2015 projections - Oil-rich SSA
April 2016 projections - Oil-rich SSA
In 2003 Paul Collier stated: “Until recently virtually all developing countries were heavily dependent upon exports of primary commodities. ... Over the past two decades developing countries have massively diversified their exports so that such dependence is a thing of the past. Africa has not experienced this diversification and remains heavily dependent upon primary commodities. Does this indicate that Africa has an immutable comparative advantage in primary commodities?”
Map: Primary Commodity Dependence Around the World, 2012–2013

Source: Special Unit on Commodities, UNCTAD, using data from UNCTADStat
Note: Commodity exports as a percentage of merchandise exports
Causes of Africa’s commodity dependence trap

1. Comparative advantage: rich in natural resources and poor in human capital
2. Locational disadvantage, long distance to markets and poor infrastructure
3. Bad policy environment and high non-factor costs

Question: Are these obstacles insurmountable?
Commodity dependence and capital flight: The paradox of capital flows in Africa

The chart shows the trends in capital flight, FDI flows, and resource rents in Africa from 1970 to 2010. The x-axis represents years from 1970 to 2010, while the y-axes represent different measures: capital flight (billion, 2013 $), FDI flows (billion, 2013 $), and resource rents (% GDP). The data indicates fluctuations in these measures over time, highlighting the complex relationship between commodity dependence, capital flight, and FDI flows.
Trade misinvoicing in primary commodities:
Key results from 5 case studies

- High concentration: small number of primary commodities and small number of trading partners
- The increase in commodity exports has typically been accompanied with an increase in trade misinvoicing
- Substantial disparities in trade misinvoicing across countries, even for the same products
  - Example: Copper exports: systematic overinvoicing in Chile; but both underinvoicing and overinvoicing in Zambia
- For oil, there is both export misinvoicing and import misinvoicing
Trade misinvoicing – empirical puzzles

- Trade with the Netherlands exhibits overinvoicing of exports with Chile (copper), Cote d’Ivoire (cocoa), Nigeria (oil), South Africa (iron ore)
- Trade between Switzerland and Zambia shows systematic underreporting of trade flows on the Swiss side
- Gold exports from South Africa not traceable in trade statistics at the origin (in South Africa)
## Copper export mis invoicing in Chile and Zambia – Selected leading partners (Billion, constant 2014 $)

<table>
<thead>
<tr>
<th>Trading partners</th>
<th>Chile</th>
<th>Trading partners</th>
<th>Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-3.1</td>
<td>China</td>
<td>5.6</td>
</tr>
<tr>
<td>Germany</td>
<td>9.4</td>
<td>Italy</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.9</td>
<td>Korea, Rep.</td>
<td>3.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-16.1</td>
<td>Switzerland</td>
<td>-31.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-5.5</td>
<td>United Kingdom</td>
<td>4.3</td>
</tr>
<tr>
<td>United States</td>
<td>-6.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (16 major trading partners)</td>
<td>-40.9</td>
<td>Total (15 major trading partners) without Switzerland</td>
<td>12.0</td>
</tr>
<tr>
<td>Total (World)</td>
<td>-44.4</td>
<td>Total (World) without Switzerland</td>
<td>14.5</td>
</tr>
</tbody>
</table>
Nigeria: Misinvoicing of oil exports and oil imports (billion, constant 2014 $), Selected trading partners

<table>
<thead>
<tr>
<th>Trading partners</th>
<th>Export misinvoicing</th>
<th>Trading partners</th>
<th>Import misinvoicing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>23.9</td>
<td>Germany</td>
<td>0.2</td>
</tr>
<tr>
<td>Italy</td>
<td>-25.1</td>
<td>Italy</td>
<td>-0.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-20.5</td>
<td>Netherlands</td>
<td>-24.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.9</td>
<td>Switzerland</td>
<td>0.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.4</td>
<td>United Kingdom</td>
<td>-3.0</td>
</tr>
<tr>
<td>United States</td>
<td>69.8</td>
<td>United States</td>
<td>-2.9</td>
</tr>
<tr>
<td>Total (17 major trading partners)</td>
<td>6.2</td>
<td>Total (major 17 trading partners)</td>
<td>-45.6</td>
</tr>
</tbody>
</table>
Some policy suggestions

Curbing trade misinvoicing

Promote transparency in trade transactions

Build the technical capacity of governments in commodity dependent countries
Some policy suggestions (cont’d)

Breaking the chains of commodity dependence

Moving up the value chain is urgently needed, but it is one element of the strategy

Rehabilitating agriculture key to industrial policy

Responsibility of the International Community: establish a supportive international environment
Thank you for your attention.