UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# THE LEAST DEVELOPED COUNTRIES REPORT 2002

## *Escaping the Poverty Trap*

**Part Two Chapter 3**

UNITED NATIONS

**EMBARGO**
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# Patterns of trade integration and poverty

Chapter

3

## A. Introduction

The previous chapter identified various cause-and-effect relationships that work within many LDCs to cause generalized poverty to persist and even intensify. International economic relationships were not included in the discussion. But these relationships affect any country that is not completely isolated from the world economy, and with the globalization of production systems and finance, and liberalization of economic activities, they are becoming even more closely implicated in national processes of accumulation, productivity growth, and trends in inequality and poverty. This chapter and the next one focus on the relationship between international trade and poverty in the LDCs, examining whether the current pattern of trade is reinforcing the poverty trap or helping countries to break out of it.

*The current conventional wisdom that persistent poverty in LDCs is due to their low level of trade integration and insufficient trade liberalization is grossly simplistic.*

At the present time much international policy advice, as well as the policy conditionality which governs access to concessional finance, is founded on the argument that a major reason why poverty persists in the least developed countries is their low level of integration into the global economy through trade, which in turn is due to the failure of LDCs to adopt sufficiently open trade regimes.[1] This argument is clouded by conceptual weaknesses and semantic confusions surrounding the key notion of "integration" (see box 9). It is also not well grounded empirically, partly owing to problems with specifying in a quantitative way the nature of national trade regimes and partly owing to a lack of adequate poverty statistics. The present chapter uses the new data set of poverty estimates for the LDCs to rectify this last deficiency. It describes some key features of LDCs' international trade (section B), distinguishing the level of trade integration, the form of trade integration (defined by the composition of exports and imports of goods and services), the extent of marginalization within global trade flows and the degree of trade liberalization. It then goes on to establish, as far as possible, the precise nature of the relationships between poverty and (a) trade liberalization (section C), (b) export orientation (section D) and (c) export structure (section E). Section F discusses some of the factors that influence the different poverty-reducing effects of exports of primary commodities, manufactures and services.

*The persistence of generalized poverty is less related to a low level of integration into the global economy, and to insufficient trade liberalization, than to the form of trade integration.*

The main message of the chapter is that the current conventional wisdom that persistent poverty in LDCs is due to their low level of trade integration and insufficient trade liberalization is grossly simplistic. The persistence of generalized poverty is less related to a low level of integration into the global economy, and to insufficient trade liberalization, than to the form of trade integration. Amongst the LDCs, there is a clear link between dependence on primary commodity exports and the incidence of extreme poverty, defined by the proportion of the population living on less than a dollar a day. The next chapter takes up in more detail the question of the precise nature of this relationship, and also considers some of the new vulnerabilities which pose a downside risk for the LDCs exporting manufactures and services, where extreme poverty tends to be less pervasive and, more often than not, declining. The analysis extends the discussion of the poverty trap within which most LDCs are caught, arguing that the poverty trap is international in scope and that the current form of globalization is tending to reinforce it.

### Box 9. Some conceptual and semantic weaknesses in the policy debate on the relationship between trade and poverty

The current debate on international trade and poverty, both for developing countries in general and the least developed countries in particular, is characterized by a number of serious weaknesses which together prevent effective policies for poverty reduction.

Firstly, there is a semantic looseness in the use of key terms such as "outward-orientation", "openness", "integration" and "marginalization". The goal of "integrating" LDCs into the world economy can be, and is, understood as increasing their share of total global trade (the opposite of marginalization), increasing the trade orientation of their economies (measured by the ratio of total imports and exports to GDP), or increasing their institutional integration into the multilateral trading system embodied in the rules and procedures of the WTO. The "openness" of a national economy in trade terms is measured using either an indicator of trade orientation (the ratio of trade to GDP) or an indicator of trade restrictions (such as tariff or non-tariff barriers). Often it has been assumed that the former is a good proxy of the latter. But this assumption effectively forecloses discussion of: (a) what is the relationship between trade policies and trade orientation, and of each to growth?; and (b) what are the trade and other policies which countries should adopt to integrate into the world economy in a way which promotes their sustained development? Similarly, the term "outward-oriented" has been used as an adjective to describe both a type of trade policy regime (one in which there is an absence of bias against exports) and the degree of export orientation or trade orientation (measured by the export/GDP or trade/GDP ratio) of an economy. Also, an "outward-oriented" trade regime has been equated with the removal of trade barriers, even though it is correctly understood as one which establishes incentives that are neutral between production for external markets and production for domestic markets, and can be achieved not only by trade liberalization but also through a judicious mix of export incentives and import restrictions (Bhagwati, 1988).

Secondly, the discussion of trade and poverty is often abstracted from the types of goods and services which are being traded. But the relationship between exports, growth and poverty is likely to be different if the exports in question are products with a high income elasticity of demand or a high potential for productivity growth and linkage effects. One should not expect the relationship to be the same for primary commodity-exporting economies as it is for exporters of manufactured goods.

Thirdly, the discussion of trade and poverty is analytically separated from questions of financing trade development. But the way in which investment in tradables, either export activities or import substitutes, can take place in situations of generalized poverty, as well as how trade itself is financed, is a vital issue in most LDCs. Aid must play a central role in trade development in those countries. Moreover, the two-way relationships between export growth and the build-up of unsustainable external debt, with slow export growth contributing to the emergence of a debt problem and the debt burden in turn making it more difficult to achieve faster export growth, must be taken into account in discussing the trade–poverty relationship in poor countries.

Fourthly, the policy debate often fails to distinguish between the problems and needs of countries at different levels of development. The argument that outward-oriented economies grow faster was initially put forward over 30 years ago for what were then described as "semi-industrial economies" (Balassa, 1970). It was in the 1980s that the geographical scope of this argument was widened to include all developing countries. But whether it is correct to extend the field of application of the argument (whose meaning itself needs to be clarified in the light of the semantic caveats above) in this way is an issue which requires empirical validation. It is a priori unlikely that trade liberalization will have the same effects in a country where there are few domestic corporate capacities as in one where there is well-developed corporate sector. The question which must be asked is: What effects does trade liberalization have in a typical LDC where, at official exchange rates and current prices, average private consumption per capita is only 57 cents ($0.57) a day?

Finally, there are increasing differences in the trade structures and export capabilities of the least developed countries. Appropriate national measures to promote trade need to take these differences into account, and the potential of international policy measures, such as improvements in market access, to reverse the marginalization of LDCs in global trade flows needs to be seen in the light of those differences.

## B. Trade integration, marginalization and liberalization: patterns and trends in the LDCs

Discussion of international trade relations of the LDCs tends to be characterized by a number of accepted stylized facts that do not necessarily reflect current realities (Kirchbach, 2001). These include such propositions as "Trade/GDP ratios are low in the LDCs"; "All LDCs export primary commodities"; "All LDCs suffer from marginalization from global trade flows, and this tendency is inexorably increasing"; and "All LDCs have closed trade regimes". The present section examines the validity of those propositions as a basis for the subsequent discussion of the relationship between trade and poverty.[2]

### 1. Level of trade integration

International trade is of major importance in the economies of LDCs. During 1997–1998, exports and imports of goods and services constituted on average 43 per cent of their GDP (table 25). For 22 out of 39 LDCs for which data are available on this indicator, the trade orientation of their economies was higher than 50 per cent. The average level of trade integration for the LDCs is around the same as the world average, and also almost the same as the average for the group of countries which have been identified in a recent World Bank policy research report as "more globalized developing countries" (World Bank, 2002b: 51). The average level of trade integration is actually higher than that of high-income OECD countries, and there are only eight LDCs for which data are available in which the integration of the national economy with the rest of the world through trade, as measured by the share of trade in GDP, is at a level lower than the average level in advanced economies. But the level of trade integration for the LDC group is lower than that of low-income and low- and middle-income countries.[3]

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The average level of LDCs' trade integration was comparatively high at the beginning of the 1980s, particularly relative to the low-income countries as a group, but after falling in the 1980s, it increased in the 1990s. Measured in current prices, exports and imports of goods and services as a share of GDP for the LDCs as a whole increased by 25 per cent between 1987–1989 and 1997–1998. This was a larger proportionate increase in the trade/GDP ratio than the world average. But it was less than that in other developing countries and much less than that of the "more globalized developing countries", which are defined as such because of the growing importance of trade in their economies and which started in the early 1980s with the lowest average level of trade integration.

Imports of goods and services were equivalent to 26 per cent of GDP on average in LDCs in 1997–1998. In 29 out of 39 LDCs import dependence is even higher than this level. But the export orientation of LDC economies is generally lower than import dependence. Exports of goods and services constituted 17 per cent of GDP in the LDCs as a group in 1997–1998. This level is below the average level of low-income countries (24 per cent), low- and middle-income countries (26 per cent), high-income OECD countries (21 per cent) and the world average (23 per cent).

Even though one would expect export orientation to vary systematically between countries with both income per capita levels and size of population, the relatively low export/GDP ratios are indicative of weak export capacities in

TABLE 25. TRADE AS A SHARE OF GDP IN LDCS AND OTHER COUNTRY GROUPS, 1981–1983, 1987–1989 AND 1997–1998

*(Percentage)*

| | 1981–1983 | 1987–1989 | 1997–1998 |
|---|---|---|---|
| **LDCs** | | | |
| A. Total trade (B+C) | 36.4 | 34.4 | 42.9 |
| B. Exports of goods and services | 12.1 | 12.6 | 17.0 |
| C. Imports of goods and services | 24.4 | 21.8 | 25.9 |
| D. Trade balance (B-C) | -12.3 | -9.2 | -8.9 |
| **Low-income** | | | |
| A. Total trade (B+C) | 32.0 | 31.5 | 50.8 |
| B. Exports of goods and services | 14.1 | 14.5 | 24.1 |
| C. Imports of goods and services | 17.9 | 17.0 | 26.7 |
| D. Trade balance (B-C) | -3.7 | -2.5 | -2.7 |
| **Low- and middle-income countries** | | | |
| A. Total trade (B+C) | 37.3 | 38.3 | 52.3 |
| B. Exports of goods and services | 18.3 | 19.7 | 26.1 |
| C. Imports of goods and services | 19.1 | 18.6 | 26.2 |
| D. Trade balance (B-C) | -0.8 | 1.1 | -0.1 |
| **High-income OECD countries** | | | |
| A. Total trade (B+C) | 35.1 | 32.3 | 40.2 |
| B. Exports of goods and services | 17.5 | 15.8 | 20.5 |
| C. Imports of goods and services | 17.7 | 16.5 | 19.7 |
| D. Trade balance (B-C) | -0.2 | -0.6 | 0.8 |
| **World** | | | |
| A. Total trade (B+C) | 38.7 | 37.2 | 44.6 |
| B. Exports of goods and services | 19.2 | 18.6 | 22.6 |
| C. Imports of goods and services | 19.5 | 18.5 | 22.0 |
| D. Trade balance (B-C) | -0.3 | 0.1 | 0.6 |
| **More globalized developing countries**[a] | | | |
| A. Total trade (B+C) | 25.4 | 29.3 | 43.5 |
| B. Exports of goods and services | 12.3 | 15.0 | 21.7 |
| C. Imports of goods and services | 13.1 | 14.3 | 21.9 |
| D. Trade balance (B-C) | -0.8 | 0.7 | -0.2 |

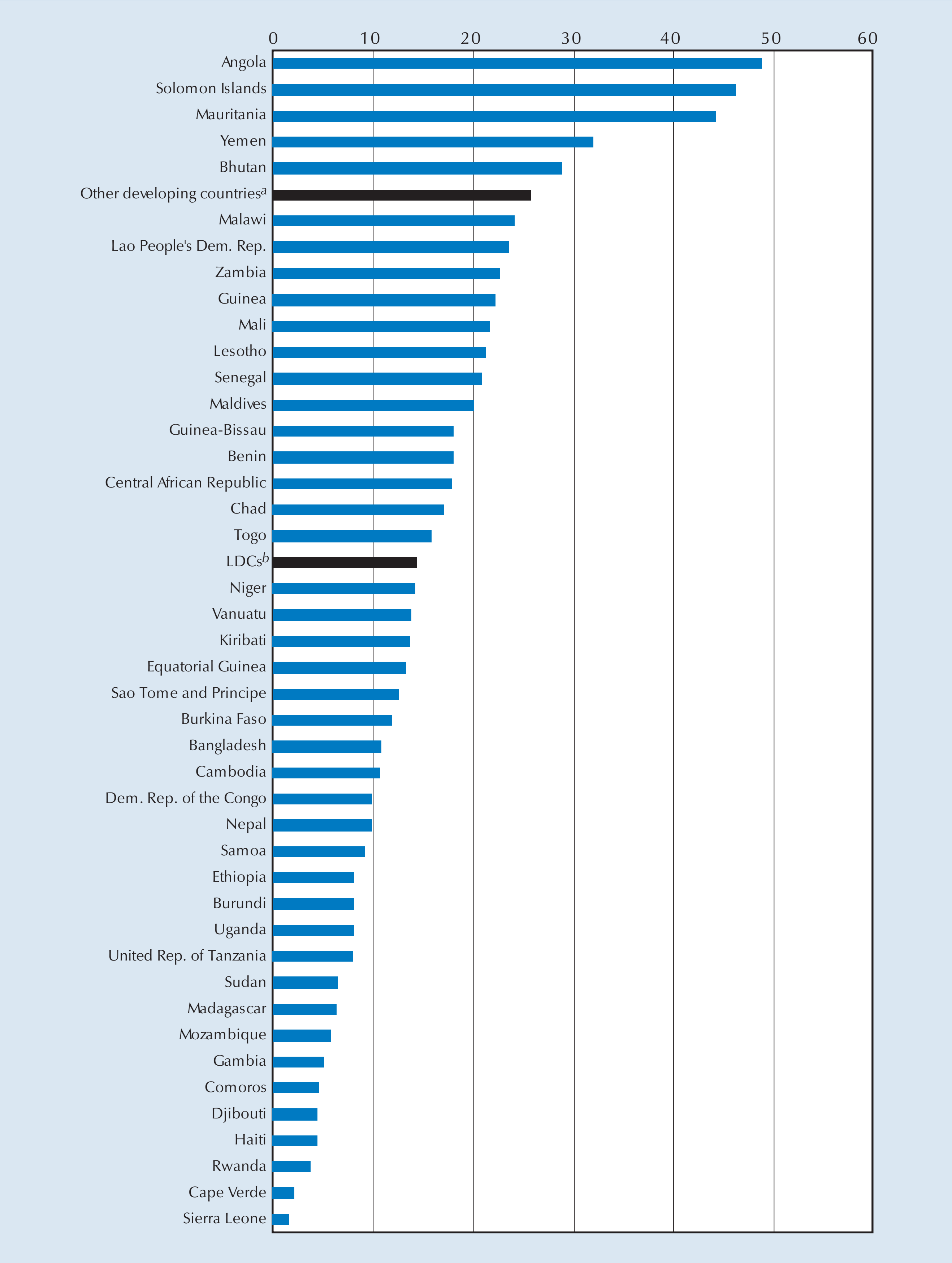
*Source:* UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001,* CD-ROM.

*Note:* The figures in the table, except for more globalized developing countries, are calculated using the country group averages reported by the World Bank for exports and imports of goods and non-factor services as a percentage of GDP.

a More globalized developing countries — defined as "the top-third of developing countries in terms of increased trade to GDP between the 1970s and the 1990s" — are Argentina, Bangladesh, Brazil, China, Colombia, Costa Rica, Dominican Republic, Haiti, Hungary, India, Côte d'Ivoire, Jamaica, Jordan, Malaysia, Mali, Mexico, Nepal, Nicaragua, Paraguay, Philippines, Rwanda, Thailand, Uruguay and Zimbabwe (World Bank, 2002b: 51).

CHART 27. MERCHANDISE EXPORTS AS A SHARE OF GDP IN THE LDCS, BY COUNTRY, 1997–1999

*(Percentage)*




*Source:* UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001*, CD-ROM.

*a* Weighted average for 104 other developing countries.

*b* Weighted average for 43 LDCs.

many LDCs. In 17 LDCs merchandise exports account for less than 10 per cent of GDP (chart 27). Moreover, exports of goods and services do not cover imports of goods and services in most LDCs. The balance of trade for the group as a whole improved slightly in the 1990s, but there was a negative balance of 8.9 per cent of GDP in 1997–1998, a deficit which far exceeds that of all other country groups. This pattern persisted throughout the 1980s and 1990s, although the magnitude of the deficit of the LDCs at the end of the 1990s was somewhat lower than in the early 1980s.

### 2. Form of trade integration

In the late 1990s, unprocessed primary commodities constituted 62 per cent of the total merchandise exports of the LDCs as a group (table 26). Processed primary commodities made up a further 8 per cent of merchandise exports, and manufactured exports were equivalent to 30 per cent of merchandise exports. According to UNCTAD data, service exports were also important for LDCs, constituting 19 per cent of total exports of goods and services in the late 1990s in the 35 LDCs for which data are available.

These group averages mask considerable differences amongst the LDCs in terms of the composition of their exports. There are 31 LDCs whose major source of export earnings are primary commodities, and of these Angola, Equatorial Guinea, Yemen and, after 1999, Sudan, are oil exporters. There are 18 LDCs that predominantly export either manufactures or services, or some combination of these.[4]

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The main feature that distinguishes the LDCs which predominantly export primary commodities from the LDCs exporting manufactures and/or services is that the latter group have generally experienced, during the last 20 years, a transformation in their export structure in which the proportion of primary commodities in total exports has declined (relatively or absolutely), and either manufacturing or service activities have become the major export activities.[5] The most important exports of manufactures are textiles and clothing, whilst the key service export is tourism, although business services are important in a few island LDCs. It is possible to identify eight LDCs in which there has been a significant expansion in exports of labour-intensive manufactures since the early 1980s and particularly in the 1990s, and another eight LDCs in which services are now particularly important (see annex to this chapter).

Focusing on the merchandise export structure, table 27 shows the extent of this change in export structure for the LDCs as a whole and also for sub-groups: oil exporters, non-oil commodity exporters, exporters of manufactures and/or services, and exporters of manufactures. It is apparent that in the non-oil commodity exporters, between the early 1980s and late 1990s, unprocessed primary commodities increased in importance from 65 per cent to 74 per cent of total merchandise exports. There was a slight increase in the share of manufactured exports in total merchandise exports — from 10 per cent to 14 per cent. But downstream processing of commodities collapsed, declining from just over one quarter of the total merchandise exports of non-oil commodity-exporting LDCs in 1981–1983 to about one eighth in 1997–1999. For the group of LDCs classified as exporters of manufactures and/or services, manufactures constituted a much higher share of merchandise exports in 1981–1983, namely 30 per cent, and this share had increased to 70 per cent of their total merchandise exports in 1997–1999. An important factor in this shift is the performance of Bangladesh. But the increase in the share of manufactured

TABLE 26. EXPORT COMPOSITION IN LDCS, BY COUNTRY, IN THE LATE 1990S

| | Type[a] | Share of primary commodities and manufactures in total merchandise exports, 1997–1999[b] (%) | | | | | | | Share of service exports in total exports of goods and services, |
|---|---|---|---|---|---|---|---|---|---|
| | | Primary commodities | | | Manufactures | | | Total | 1995–1999 (%) |
| | | *Unprocessed* | *Processed* | *Total* | *Low-skill* | *High-skill* | *Total* | | |
| Afghanistan | C | 66.0 | 8.5 | 74.5 | 21.2 | 4.3 | 25.5 | 100 | .. |
| Benin | C | 89.6 | 6.6 | 96.3 | 3.0 | 0.8 | 3.7 | 100 | 22.3 |
| Bhutan | C | .. | .. | .. | .. | .. | .. | .. | .. |
| Burkina Faso | C | 87.9 | 1.6 | 89.5 | 8.4 | 2.1 | 10.5 | 100 | .. |
| Burundi | C | .. | .. | .. | .. | .. | .. | .. | 5.0 |
| Central African Rep. | C | 90.7 | 6.8 | 97.5 | 1.2 | 1.2 | 2.5 | 100 | .. |
| Chad | C | 94.9 | 1.4 | 96.3 | 0.6 | 3.2 | 3.7 | 100 | .. |
| Dem. Rep. of the Congo | C | 84.2 | 12.1 | 96.2 | 3.1 | 0.7 | 3.8 | 100 | .. |
| Eritrea | C | .. | .. | .. | .. | .. | .. | .. | .. |
| Ethiopia | C | 82.7 | 6.5 | 89.2 | 5.7 | 5.1 | 10.8 | 100 | 41.1 |
| Guinea | C | 82.0 | 10.3 | 92.3 | 0.5 | 7.2 | 7.7 | 100 | 5.6 |
| Guinea -Bissau | C | 97.5 | 0.7 | 98.3 | 0.8 | 1.0 | 1.7 | 100 | 8.4 |
| Kiribati[c] | C | 95.0 | 0.1 | 95.1 | 3.8 | 1.1 | 4.9 | 100 | .. |
| Liberia | C | .. | .. | .. | .. | .. | .. | .. | .. |
| Malawi | C | 85.4 | 1.7 | 87.1 | 12.0 | 0.9 | 12.9 | 100 | .. |
| Mali | C | 97.3 | 1.2 | 98.5 | 0.9 | 0.6 | 1.5 | 100 | 12.2 |
| Mauritania | C | 86.4 | 10.5 | 96.9 | 1.7 | 1.5 | 3.1 | 100[d] | 4.1 |
| Niger | C | 85.4 | 4.6 | 90.1 | 4.6 | 5.4 | 9.9 | 100 | 4.1[e] |
| Rwanda | C | 71.5 | 15.0 | 86.5 | 5.5 | 7.9 | 13.5 | 100 | 23.3 |
| Sao Tome and Principe | C | .. | .. | .. | .. | .. | .. | .. | .. |
| Sierra Leone | C | .. | .. | .. | .. | .. | .. | .. | 44.3[e] |
| Solomon Islands | C | 80.6 | 17.9 | 98.5 | 0.9 | 0.6 | 1.5 | 100 | 24.2 |
| Somalia | C | 92.5 | 3.6 | 96.1 | 1.7 | 2.2 | 3.9 | 100 | .. |
| Sudan[f] | C | 84.5 | 10.3 | 94.8 | 3.0 | 2.2 | 5.2 | 100 | 7.0 |
| Togo | C | 74.7 | 12.6 | 87.3 | 12.0 | 0.7 | 12.7 | 100 | 14.7 |
| Uganda | C | 90.8 | 4.8 | 95.6 | 1.6 | 2.8 | 4.4 | 100 | 22.6 |
| United Rep. of Tanzania | C | 82.6 | 6.3 | 88.9 | 5.0 | 6.1 | 11.1 | 100 | 45.6 |
| Zambia | C | .. | .. | .. | .. | .. | .. | .. | .. |
| Angola | Oil | 97.6 | 1.9 | 99.4 | 0.2 | 0.3 | 0.6 | 100 | 5.3 |
| Equatorial Guinea | Oil | 94.7 | 2.7 | 97.4 | 2.0 | 0.6 | 2.6 | 100 | 3.3 |
| Yemen | Oil | 91.4 | 8.1 | 99.4 | 0.2 | 0.3 | 0.6 | 100[g] | 6.4 |
| Bangladesh | M | 9.5 | 0.3 | 9.9 | 87.8 | 2.4 | 90.1 | 100 | 7.7 |
| Cambodia | M | .. | .. | .. | .. | .. | .. | .. | 14.6 |
| Haiti | M | 14.5 | 1.2 | 15.7 | 75.7 | 8.6 | 84.3 | 100[h] | 52.5 |
| Lao People's Dem. Rep. | M | .. | .. | .. | .. | .. | .. | .. | 20.8 |
| Lesotho | M | .. | .. | .. | .. | .. | .. | .. | 19.4 |
| Madagascar[i] | M | 52.6 | 10.6 | 63.2 | 30.5 | 6.3 | 36.8 | 100 | 46.8 |
| Myanmar | M | 59.5 | 9.1 | 68.6 | 29.5 | 1.9 | 31.4 | 100 | 33.2 |
| Nepal | M | 6.3 | 1.8 | 8.1 | 88.7 | 3.2 | 91.9 | 100 | 54.8 |
| Cape Verde | S | 15.6 | 6.8 | 22.4 | 77.5 | 0.1 | 77.6 | 100[h] | 88.1 |
| Comoros | S | 46.1 | 0.2 | 46.3 | 4.9 | 48.8 | 53.7 | 100 | 61.5[e] |
| Djibouti | S | .. | .. | .. | .. | .. | .. | .. | 62.1[e] |
| Gambia | S | 80.5 | 7.4 | 87.9 | 7.0 | 5.1 | 12.1 | 100 | 79.1 |
| Maldives | S | 32.2 | 16.1 | 48.4 | 48.7 | 2.9 | 51.6 | 100 | 82.4 |
| Samoa | S | .. | .. | .. | .. | .. | .. | .. | 80.2 |
| Tuvalu | S | .. | .. | .. | .. | .. | .. | .. | .. |
| Vanuatu | S | .. | .. | .. | .. | .. | .. | .. | 74.5 |
| Mozambique | MMS | 75.5 | 8.5 | 84.0 | 7.8 | 8.2 | 16.0 | 100 | 56.0 |
| Senegal | MMS | 18.3 | 49.4 | 67.6 | 8.0 | 24.3 | 32.4 | 100 | 25.9 |
| LDCs[j] | | 62.4 | 7.8 | 70.1 | 26.9 | 3.0 | 29.9 | 100 | 19.3 |

*Source:* UNCTAD secretariat estimates based on UN COMTRADE data and UNCTAD data for commercial service exports.

*a* Non-oil commodity exporting LDC (C); oil exporting LDC (Oil); manufactures exporting LDC (M); services exporting LDC (S); and mixed manufactures and services exporting LDC (MMS). See annex 3.1 for details of country classification.
*b* For product classification, and also sub-groups within primary commodities and manufactures, see annex to this chapter.
*c* The main source of export earnings of Kiribati is licensing fees and royalties from fishing.
*d* 1997–1998.
*e* 1993–1995.
*f* After 1999, Sudan is best classified as an oil exporter.
*g* 1998.
*h* 1997.
*i* For Madagascar, UN COMTRADE data excludes exports from the Export Processing Zone. With these exports, manufactures constitute over 50 per cent of total merchandise exports (see ITC, 2001).
*j* Weighted average based on all LDCs, except Cambodia, Eritrea, Lao People's Democratic Republic and Lesotho.

TABLE 27. COMPOSITION OF MERCHANDISE EXPORTS OF LDCS AND LDC SUB-GROUPS,[a] 1981–1983, 1987–1989 AND 1997–1999
*(Percentage of total merchandise exports)*

| | Non-oil commodity exporting LDCs | | | Oil exporters | | | Manufactures and/or services exporting LDCs | | | Manufactures exporting LDCs | | | Total LDCs | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1981–1983* | *1987–1989* | *1997–1999* | *1981–1983* | *1987–1989* | *1997–1999* | *1981–1983* | *1987–1989* | *1997–1999* | *1981–1983* | *1987–1989* | *1997–1999* | *1981–1983* | *1987–1989* | *1997–1999* |
| **Primary commodities** | | | | | | | | | | | | | | | |
| Unprocessed | 64.6 | 63.9 | 73.6 | 91.0 | 94.1 | 96.0 | 47.3 | 38.3 | 23.5 | 47.3 | 35.5 | 20.3 | 66.0 | 64.4 | 62.4 |
| Processed | 25.7 | 27.2 | 12.2 | 7.8 | 4.5 | 2.8 | 23.2 | 14.5 | 6.0 | 15.1 | 4.8 | 2.5 | 21.4 | 18.8 | 7.8 |
| Total | 90.3 | 91.2 | 85.8 | 98.8 | 98.5 | 98.8 | 70.5 | 52.8 | 29.6 | 62.4 | 40.3 | 22.8 | 87.5 | 83.2 | 70.1 |
| **Manufactures** | | | | | | | | | | | | | | | |
| Low-skill | 8.6 | 7.2 | 11.2 | 0.7 | 0.7 | 0.7 | 25.5 | 42.4 | 65.6 | 33.8 | 56.1 | 74.6 | 10.9 | 14.6 | 26.9 |
| High-skill | 1.1 | 1.7 | 3.0 | 0.5 | 0.7 | 0.5 | 4.0 | 4.8 | 4.9 | 3.8 | 3.6 | 2.6 | 1.6 | 2.3 | 3.0 |
| Total | 9.7 | 8.8 | 14.2 | 1.2 | 1.5 | 1.2 | 29.5 | 47.2 | 70.4 | 37.6 | 59.7 | 77.2 | 12.6 | 16.8 | 29.9 |
| **Total** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source:* UNCTAD secretariat estimates based on UN COMTRADE data.
*Note:* Weighted averages based on all LDCs, except Cambodia, Eritrea, Lao People's Democratic Republic and Lesotho.
*a* For the countries in each sub-group, see annex table 2.

exports in total merchandise exports is a more general tendency in this group of countries, and includes LDCs which predominantly export services.

Whether or not they are mainly primary commodity exporters or exporters of manufactures or exporters of services, a further feature of the LDCs' form of trade integration into the world economy is that their export structure tends to be concentrated on a narrow range of products. For the group as a whole, export concentration has remained about the same over the last 20 years. The three leading products accounted on average for 78 per cent of total exports in 1981–1983, and for 76 per cent in 1997–1999 (table 28).

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Turning to the import side, it is worth underlining two significant features of the composition of LDCs' imports. The first is their relatively high dependence on food imports (chart 28). In 1997–1999, food imports accounted for 18 per cent of total merchandise imports of the LDCs as against 6 per cent in other developing countries. As a share of merchandise imports, food imports were increasing in the 1990s in almost half of the LDCs for which there are data (21 out 44 countries). In a longer-term perspective, it is apparent that the ratio of food exports to food imports fell from more than 100 per cent in 1970 to around 40 per cent in the mid-1980s, and to as low as 20 per cent in 1999. The trend contrasts markedly with that of other developing countries' into the global food economy. In those countries on average, food exports have stabilized at around 80–100 per cent of food imports since the mid-1980s (chart 29).

The second feature of the composition of LDCs' imports is that machinery and equipment imports are much lower than in other developing countries. Such imports constituted just 1.2 per cent of GDP in 1996–1998, compared with 2.6 per cent in other low-income countries and 3.8 per cent in other developing countries. As chart 30 shows, machinery and equipment imports have been falling for LDCs as a whole since the early 1980s, a pattern which contrasts markedly with that in other developing countries (although for the latter there has been a sharp downturn since the Asian financial crisis). The low level of machinery and equipment imports in LDCs is significant as such imports can act as a central channel of technology transfer for low-income countries (see

Table 28. Merchandise export concentration in LDCs, by country, 1981–1983 and 1997–1999, and leading merchandise export items in the late 1990s
*(Percentage)*

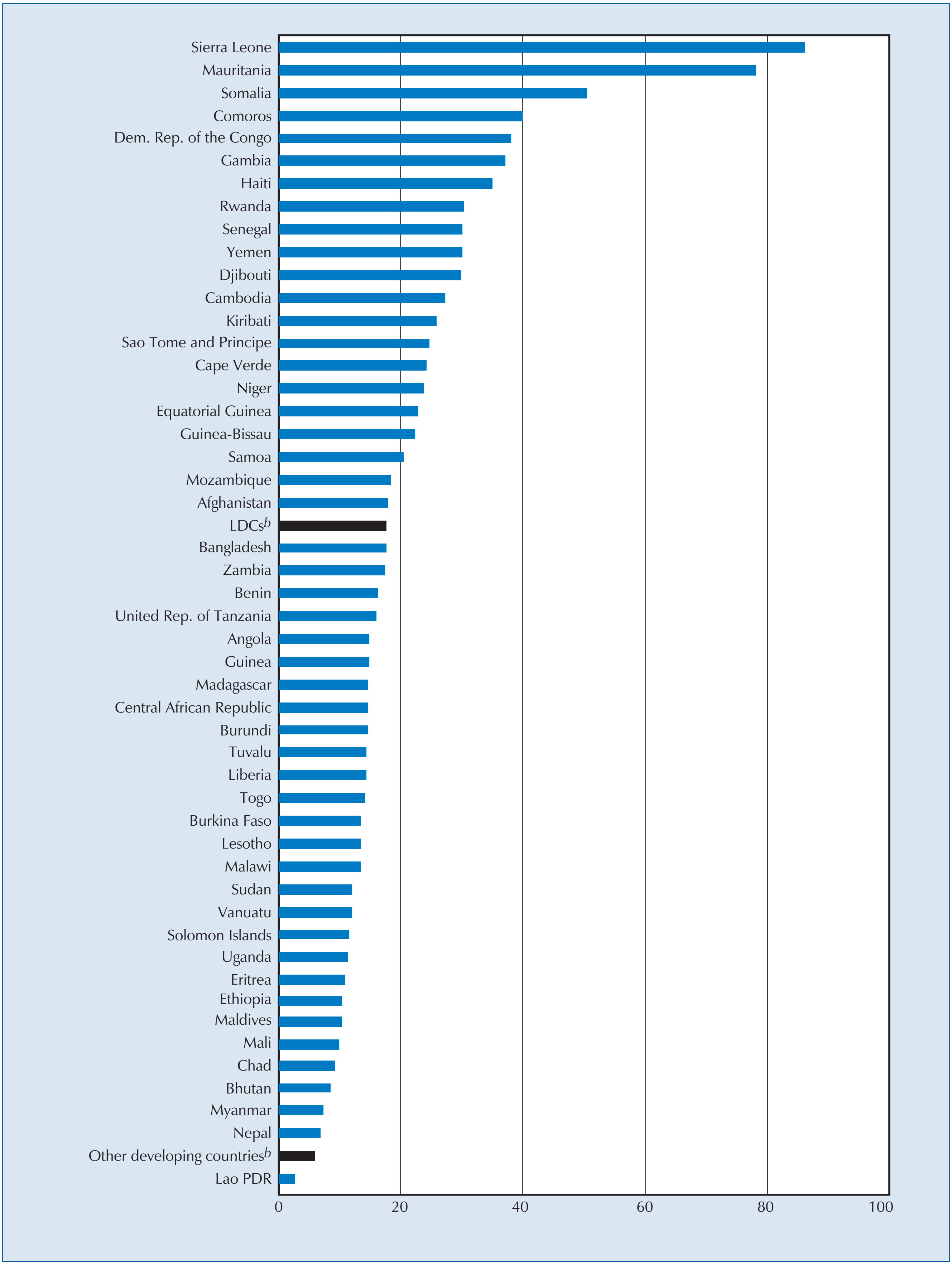
| | Share of 3 leading export products in total merchandise exports of LDCs[a] | | Leading merchandise export items[b] |
|---|---|---|---|
| | *1981–1983* | *1997–1999* | |
| Afghanistan | 67.7 | 43.5 | Grapes, furs and skins and wool carpets |
| Angola | 96.5 | 97.6 | Petroleum and diamonds |
| Bangladesh | 60.3 | 53.2 | Men's and women's clothing |
| Benin | 52.9 | 86.1 | Cotton, palm oil and cashew nuts |
| Bhutan | 83.8 | 60.0 | Electrical energy, calcium carbide, portland cement and ferro-silicon |
| Burkina Faso | 77.5 | 81.8 | Cotton, sugar and meat products |
| Burundi | 81.4 | 98.0 | Coffee, tea and gold |
| Cambodia | 64.4 | 61.3 | Garments, footwear and wood |
| Cape Verde | 82.2 | 76.0[c] | Fish and garments |
| Central African Republic | 74.4 | 79.5 | Diamonds, tropical wood and coffee |
| Chad | 95.6 | 97.0 | Cotton, gum arabic and livestock |
| Comoros | 93.0 | 93.2 | Vanilla beans and cloves |
| Dem. Rep. of the Congo | 68.4 | 79.6 | Diamonds, petroleum, cobalt, wood and coffee |
| Djibouti | 38.0[d] | 28.6 | Live animals and agricultural products |
| Equatorial Guinea | 84.9 | 93.0 | Oil and wood |
| Eritrea | .. | 70.1 | Salt, semi-processed leather goods, flowers, livestock and textiles |
| Ethiopia | 80.2 | 81.1 | Coffee, sesame seeds and leather |
| Gambia | 74.4 | 69.1 | Octopi and groundnuts |
| Guinea | 96.9 | 80.1 | Aluminium, bauxite and diamonds |
| Guinea-Bissau | 58.5 | 79.8 | Cashew nuts and fish products |
| Haiti | 39.6 | 42.9[c] | Garments |
| Kiribati | 92.9 | 90.6 | Fish products |
| Lao People's Dem. Rep. | 70.2 | 40.5 | Garments, wood and wood products, hydroelectric power and coffee |
| Lesotho | .. | 76.5 | Garments and diamonds |
| Liberia | 84.6 | 92.2 | Diamonds, rubber and timber |
| Madagascar | 70.7 | 40.5 | Garments, shellfish and coffee |
| Malawi | 82.9 | 78.8 | Tobacco, sugar, tea and coffee |
| Maldives | 70.1 | 73.2 | Garments and fish products |
| Mali | 81.6 | 92.9 | Diamonds, gold, cotton and livestock |
| Mauritania | 93.3 | 89.7[e] | Fish products and iron ore |
| Mozambique | 55.6 | 59.8 | Prawns and cotton |
| Myanmar | 57.6 | 44.8 | Garments and prawns |
| Nepal | 39.6 | 61.7 | Carpets and garments |
| Niger | 94.7 | 83.3 | Uranium and live animals |
| Rwanda | 91.2 | 84.4 | Tea and coffee |
| Samoa | 68.2 | 80.5 | Ignition wiring sets and fishery |
| Sao Tome and Principe | 94.1 | 77.3 | Cocoa beans and fishery |
| Senegal | 52.2 | 49.5 | Fish and fertilizers |
| Sierra Leone | 63.2 | 75.3 | Diamonds, footwear and cocoa beans |
| Solomon Islands | 74.9 | 80.0 | Fishery |
| Somalia | 94.8 | 79.4 | Live animals |
| Sudan | 59.0 | 52.6 | Oil (recent addition), cotton, sesame seeds and livestock |
| United Rep. of Tanzania | 54.9 | 51.3 | Coffee and cashew nuts |
| Togo | 70.8 | 76.5 | Calcium phosphates and cotton |
| Tuvalu | 100.0 | 49.5 | Stamps, copra and handicrafts |
| Uganda | 97.5 | 69.9 | Coffee and fish |
| Vanuatu | 90.6 | 62.1 | Copra |
| Yemen | 94.0 | 94.1 | Oil and fish |
| Zambia | 93.8 | 89.3 | Copper and cobalt |
| LDCs[f] | 78.2 | 76.0 | |

*Source:* UNCTAD secretariat estimates and ITC (2001).

*a* Based on UN COMTRADE data at SITC 3 Rev 2.
*b* ITC (2001). *c* 1997. *d* 1982. *e* 1997–1998.
*f* Weighted averages based on all LDCs, except Cambodia, Eritrea, Lao People's Democratic Republic and Lesotho.

CHART 28. FOOD IMPORTS[a] AS A SHARE OF TOTAL MERCHANDISE IMPORTS IN THE LDCS, BY COUNTRY, 1997–1999

*(Percentage)*



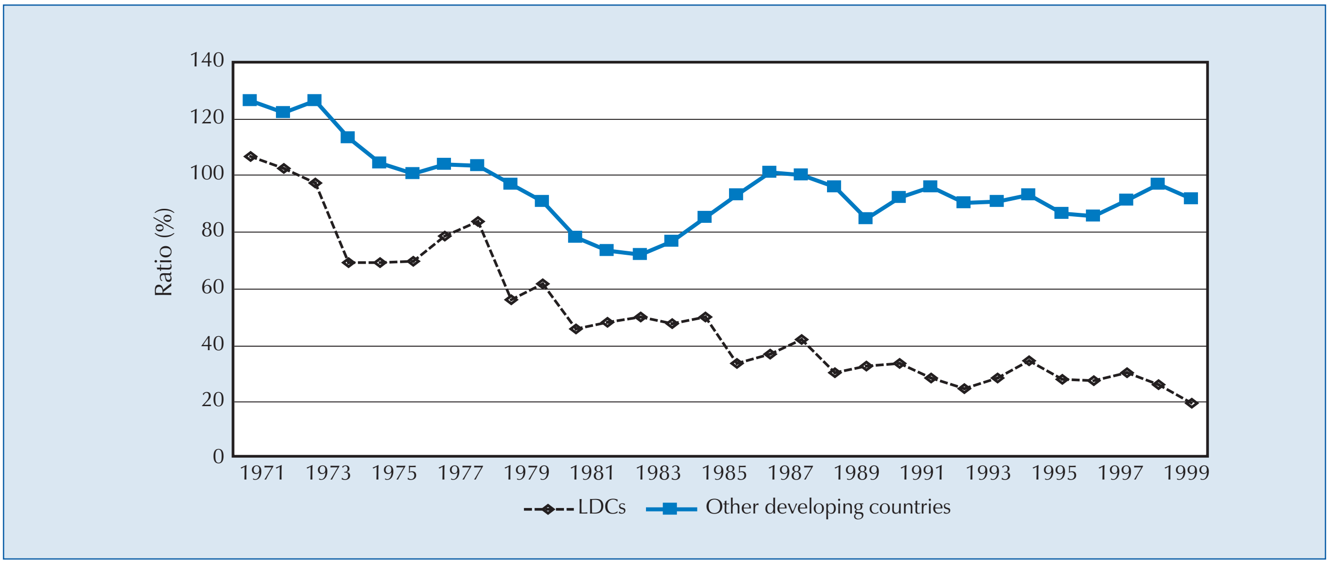

*Source:* UNCTAD secretariat estimates based on FAO, FAOSTAT.

*a* Excluding fish.

*b* Weighted averages.

CHART 29. RATIO OF FOOD EXPORTS TO FOOD IMPORTS FOR LDCS AND OTHER DEVELOPING COUNTRIES, 1971–1999[a]

*(Percentage)*

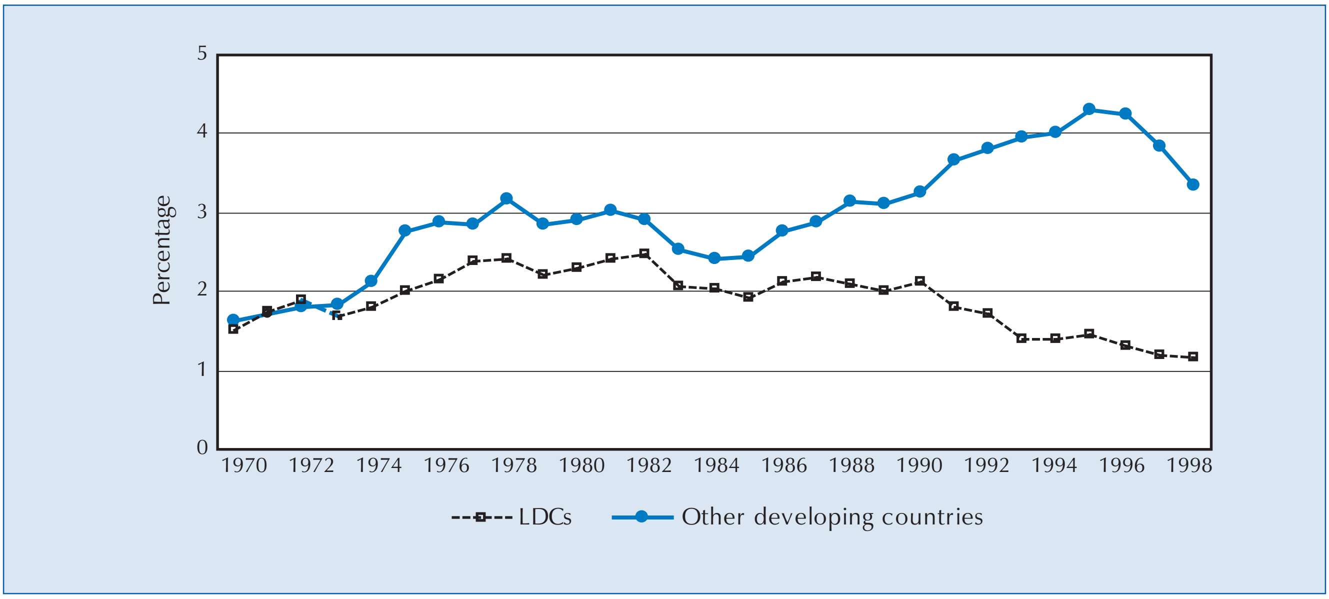



*Source:* UNCTAD secretariat estimates based on FAO, FAOSTAT.

*a* Food exports and food imports exclude fish.

CHART 30. MACHINERY AND EQUIPMENT IMPORTS AS A SHARE OF GDP IN LDCS AND OTHER DEVELOPING COUNTRIES, 1970–1998

*(Percentage)*




*Source:* UNCTAD secretariat estimates based on Mayer (2001).

*Note:* The sample includes 35 LDCs and 56 other developing countries for which data are available.

Mayer, 2000, 2001), and their level is also correlated with economic growth (Mazumdar, 2001).

### 3. Participation in global trade flows

Although trade is of central importance to LDCs, the smallness of LDC economies in global terms means that their participation in global trade flows is limited. In 2000, LDCs' total merchandise exports amounted to around $31.5 billion. This was equivalent to 0.5 per cent of world merchandise exports and equal to only 8 per cent of low-income countries' total merchandise exports. The total merchandise exports of all the LDCs was equivalent to about half those of Austria. Moreover, in 2000, about 52 per cent of total merchandise exports of the LDCs were accounted for by three countries — Angola and Yemen (both oil exporters), and Bangladesh. About 74 per cent of total LDC merchandise exports came from just 10 countries — Angola, Bangladesh, Cambodia, Guinea, Myanmar, Nepal, Senegal, Sudan, Yemen and Zambia.

*The share of LDCs in world exports of goods and services declined by 47 per cent between 1980 and 1999.*

Over time, the share of LDCs in world exports and imports has been declining. This phenomenon, which reflects the fact that LDC exports and imports, although they are growing, are growing less quickly than world exports and imports, is often described as the marginalization of LDCs in the world economy. The share of LDCs in world exports of goods and services declined by 47 per cent between 1980 and 1999, and stood at only 0.42 per cent of total world trade in the latter year. The share of LDCs in world imports of goods and services declined by 40 per cent over the same period and stood at 0.7 per cent of world imports in 1999.[6]

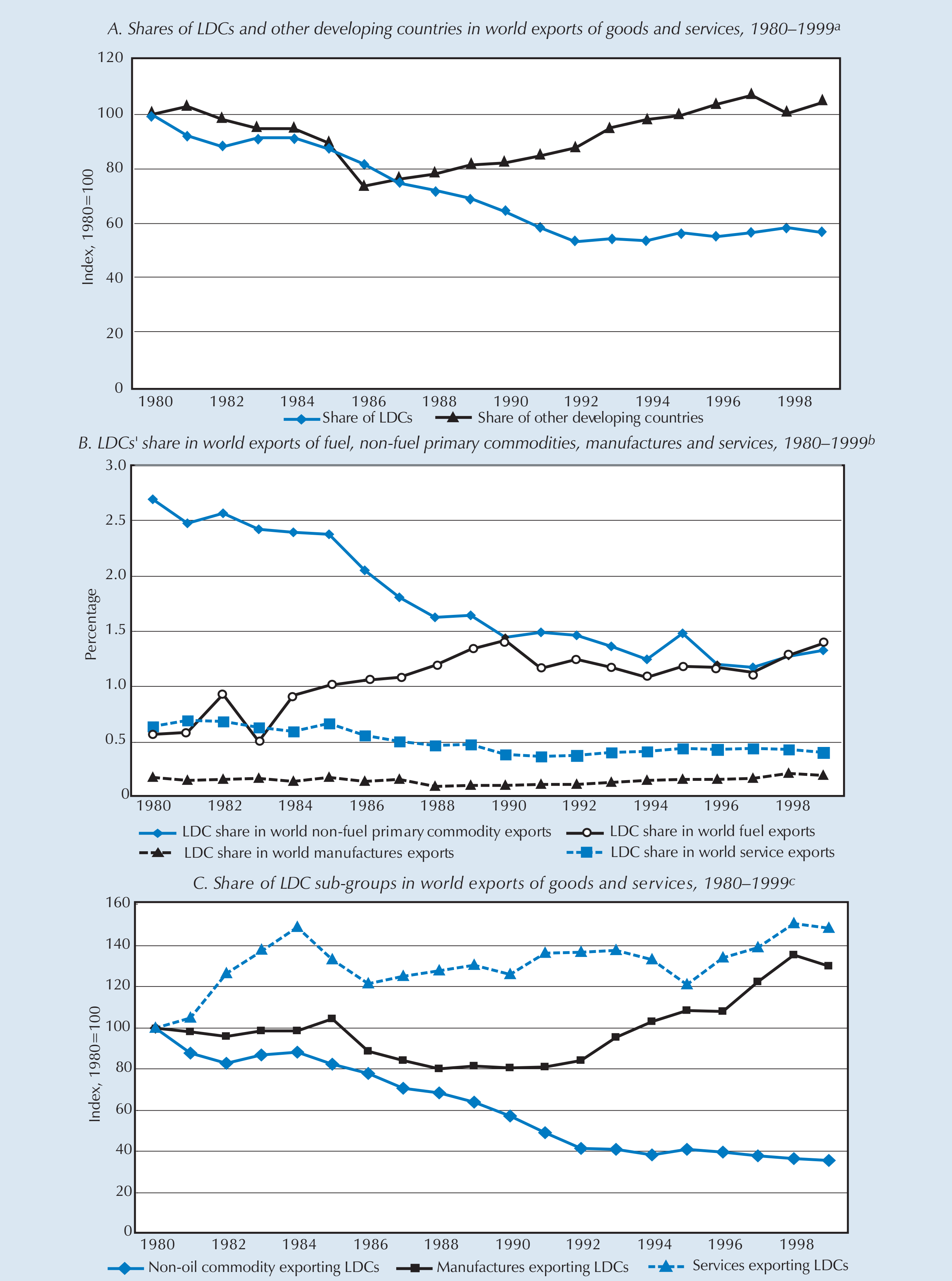
Within this broad picture of marginalization, there is, however, a much more differentiated story (chart 31). A closer look at the trend of participation in world trade over time shows that for exports of goods and services as a whole the process of marginalization (as defined above) bottomed out in the early 1990s. That is to say, since 1992 the share of LDCs in global trade has ceased to decline. But this important break in the trends has so far not become a turning point, in that a significant upturn and reversal of the marginalization process for the LDCs as a whole have yet to appear (chart 31A).

*In 1999 the share of non-oil commodity exporting LDCs in global trade had declined by more than 60 per cent below its level in 1980. During the same period, LDCs exporting manufactures and services had increased their share of global trade by about 40 per cent above their level in 1980.*

Disaggregating by type of export (chart 31B) reveals that the marginalization process is strongest for non-fuel primary commodity exports and, to a lesser extent, services, and that in each case there was a bottoming out in the 1990s. But the share of LDCs in world oil exports rose in the 1980s and since 1988 the share of world manufactures exports has also risen significantly. These increased from 0.1 per cent of the world total in that year to 0.2 per cent in 1999. Although still small, this represents a doubling of market share.

When one disaggregates by type of exporter (chart 31C) and focuses on the more limited number of LDCs for which it is possible to get data for the period 1980–1999, it becomes apparent that for the LDCs classified as exporters of manufactured goods or services there is no process of marginalization. Services exporters increased their share of world exports of goods and services in the early 1980s and although there have been significant ups and downs since then, they have maintained their increase in market share. Manufactured goods exporters were being marginalized in global trade flows in the mid-1980s, but since 1990 they have significantly increased their global market share. In contrast, it is the non-oil commodity exporters that have experienced a strong process of marginalization. This slowed down in the 1990s, but their market share is still declining. In fact, in 1999 the share of non-oil commodity exporting

CHART 31. LDCS' SHARE IN WORLD EXPORTS OF GOODS AND SERVICES, 1980–1999




*Source:* UNCTAD secretariat estimates.

*a* Based on balance-of-payments estimates of exports of goods and services in current dollars, World Bank, *World Development Indicators 2001*, CD-ROM. The sample consists of 36 LDCs and 72 other developing countries.

*b* Based on UN COMTRADE data and UNCTAD data on commercial service exports.

*c* The data, source and LDC sample are the same as in chart 31A, although Mozambique and Senegal are not included as they are classified as mixed manufactures and services exporters. For the countries in each sub-group, see annex to this chapter. The chart includes all LDCs, except: Afghanistan, Angola, Burundi, Cambodia, Djibouti, Equatorial Guinea, Guinea, Lao People's Democratic Republic, Liberia, Somalia, Tuvalu and Yemen.

LDCs in global trade had declined by more than 60 per cent below its level in 1980. During the same period, LDCs exporting manufactures and services had increased their share of global trade by about 40 per cent above their level in 1980. It must be stressed, however, that despite the positive upward trend, the share of these countries in world trade remains very low, constituting around one half of 1 per cent of total world exports of goods and services at the end of the 1990s.

*The trade regimes of the LDCs at the end of the 1990s were much more open than at the end of the 1980s.*

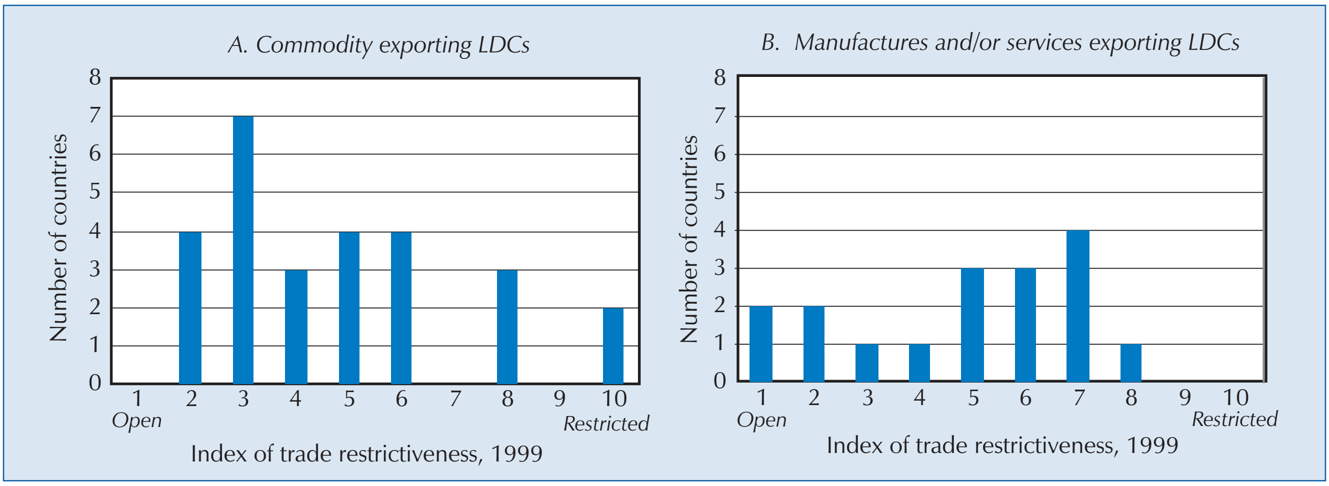
### 4. Extent of trade liberalization

Many least developed countries have been intensively engaged in structural adjustment programmes since the late 1980s. As shown in UNCTAD (2000: 102–108), this has involved significant policy changes, including widespread trade liberalization. As a result, the trade regimes of the LDCs at the end of the 1990s were much more open than at the end of the 1980s.

Using the IMF index of trade restrictiveness as a measure, it is apparent that although a few LDCs have not been vigorously engaged in trade liberalization, LDCs have actually gone further than other developing countries in dismantling trade barriers.[7] In 1999, of the 43 LDCs for which data are available, over one third had average tariff rates of under 20 per cent coupled with no or minor

Chart 32. Trade restrictiveness for commodity exporting LDCs and manufactures and/or services exporting LDCs, 1999

*(Index)*




*Source:* UNCTAD secretariat estimates based on IMF index of trade restrictiveness.

*Note:* The index is based on the following classification scheme:

| *Tariffs* | *Open* | *Moderate* | *Restrictive* |
|---|---|---|---|
| Open | 1 | 4 | 7 |
| Relatively open | 2 | 5 | 8 |
| Moderate | 3 | 6 | 9 |
| Relatively restrictive | 4 | 7 | 10 |
| Restrictive | 5 | 8 | 10 |

*Tariffs are classified as follows:*

Open, average tariff range $0 \le t < 10$ per cent. Relatively open, average tariff range $10 \le t < 15$ per cent. Moderate, average tariff range $15 \le t < 20$ per cent. Relatively restrictive, average tariff range $20 \le t < 25$ per cent. Restrictive, average tariff range 25 per cent or over.

*Non-tariff barriers are classified as follows:*

Open, NTBs are either absent or minor. Less than 1 per cent of production or trade is subject to NTBs. Moderate, NTBs are significant covering at least one important sector of the economy but not pervasive. Between 1 per cent and 25 per cent of production or trade is subject to NTBs. Restrictive many sectors or entire stages of production are covered by NTBs. More than 25 per cent of production or trade is subject to NTBs.

non-tariff barriers, and three fifths had average import tariffs of below 20 per cent and non-tariff barriers which were either minor or moderate, covering less than 25 per cent of production or trade. This process of liberalization has gone further in the commodity exporters than in the manufactures and/or services exporters (chart 32).

## C. Trade liberalization, growth and poverty

In recent years, arguments linking trade liberalization and poverty have moved away from grand theorization to identifying possible mechanisms through which trade liberalization can influence poverty (see Winters, 1999, 2001; Cirera, McCulloch and Winters, 2001). These mechanisms include the effects of trade liberalization on:

- The prices of goods and services that the poor consume and produce, benefiting those who are net consumers of goods that become cheaper and those who can obtain higher prices for their products on international markets;
- The demand for, and returns to, factors of production that the poor have to offer, notably unskilled labour;
- Government revenue and the resources available to promote growth and poverty reduction, which, given the high dependence on trade taxes, can be at risk during trade liberalization in poor countries;
- Risks and volatility, which can tend to increase as economies become more exposed to global forces.

*This process of trade liberalization has gone further in the commodity exporters than in the manufactures and/ or services exporters*

Increasing attention is also being paid to both transitional adjustment costs, which occur as previously protected uncompetitive domestic activities are exposed to international competition, and long-term growth effects. The overall effect of trade liberalization reflects the balance of all these mechanisms, which are different in different contexts as well as for different groups, and also affect men and women differently (see box 10). As the African Development Bank et al. (2001: 1) has put it, "These effects vary significantly across countries, regions and groups within countries, which makes it difficult to generalize about the effects of trade liberalization on poverty".

For the least developed countries, available evidence shows that trade liberalization has so far not been closely associated with poverty reduction. Chart 33 indicates changes in the share of the population living on less than $1 a day during the 1990s in a sample of 36 LDCs, classified according to the degree of trade restrictiveness at the end of the 1990s. It must be stressed that this is not a comparison of the situation before trade liberalization with the situation after such liberalization. However, it is not unrealistic to assume that these countries generally had much more restrictive trade regimes at the end of the 1980s. Thus the chart shows differences in poverty trends during the 1990s in countries grouped according to how far they went in the process of trade liberalization during that period.

The chart shows that poverty is increasing unambiguously in those economies that have adopted the most open trade regime and in those that have continued with the most closed trade regime. But in between these extremes, there is a tendency for poverty to be declining in those countries that have liberalized their trade regime to a lesser extent, and for poverty to be increasing in those countries that have liberalized their trade regime more.

### Box 10. Trade liberalization, gender and rural poverty in African LDCs

In his analysis of the relationships between trade liberalization and poverty, Winters (1999) identifies a number of important channels through which trade policy changes may be expected to have an impact on poverty. He argues that gender issues are likely to affect the results, but he states that "it is difficult to know how to proceed" (p. 47). Ann Whitehead (2001) puts forward a framework for rectifying this deficiency. She applies a gender perspective to some of the main channels of influence that Winters identifies, so as to show how trade liberalization can be expected to influence the living standards of rural women in African LDCs.

She argues that the best approach for including a gender perspective in the analysis of economic processes is to see gender relations as an intervening variable in all economic activities, influencing the ways in which factor and product markets work, the productivity of inputs and the economic behaviour of agents, and the joint determination of the growth and distribution of income. The economy of monetized production and the non-monetized economy of reproductive work should also be seen as interdependent.

There is a growing literature that argues that rural women have not been benefiting from trade liberalization, nor from agricultural reforms more generally, owing to the nature of intra-household relations. In particular, the incomplete pooling of household resources between men and women is said to be leading to weak incentives to increase production and to allocative inefficiencies; and obligations to produce traditional food crops, and a simple lack of time due to household work burdens, are supposed to be making it difficult for women to respond to new production opportunities.

Whitehead agrees that there are certainly major constraints on women's ability to respond positively to any higher producer prices and any better employment opportunities that might result from trade liberalization. But she argues that the key constraints are not a matter of intra-household relations between men and women, but rather arise from the gendered nature of labour markets and markets for agricultural goods and the gendered nature of property and land access regimes. She identifies women's lack of investment capital as the central factor that reinforces women's poverty. As she puts it,

> "Capital is needed to farm subsistence as well as cash crops, although cash crops usually require considerably more cash resources than growing family food supplies… Most crop innovations are predicated on the purchase of inputs and may also require new technology. It is because they are farming in a resource-starved environment that poor rural men and women are effectively socially excluded from growth. For women ability to participate in agricultural innovation is limited by the extreme scarcity of these resources. The sums may be quite small, but they are often beyond the reach of many women, through whose hands pitifully little cash may pass during the normal year. Women's lack of investment capital is exacerbated by two factors: public and private policy with respect to credit, input schemes and crop markets and the extent to which they get off-farm incomes and the level of these incomes" (Whitehead, 2001: 24).

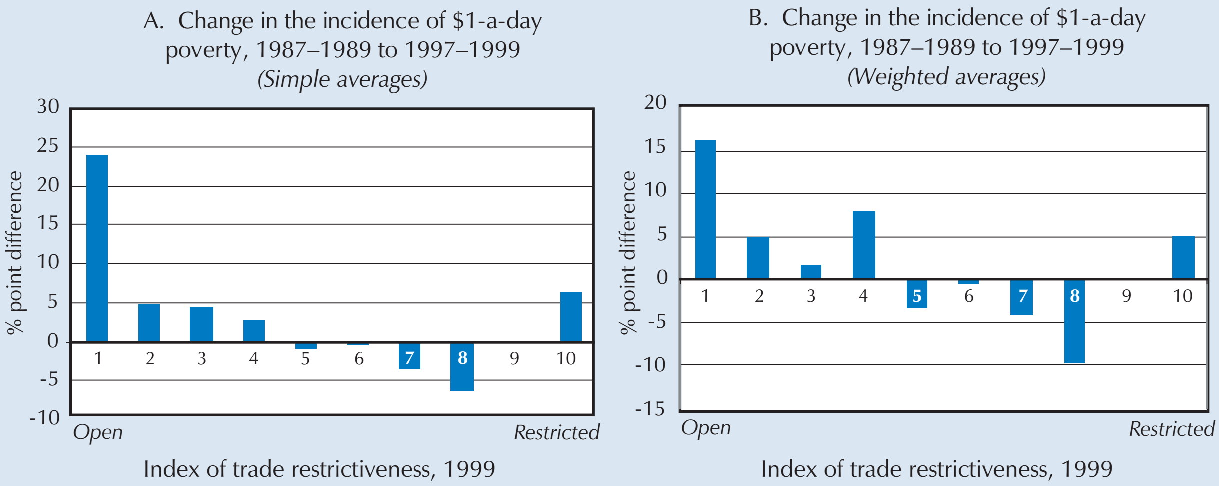
Whitehead argues that the problem of women's access to land is properly understood as a question of lack of working capital, although a significant emerging question is the way in which the relatively strong claims of women to land in land-abundant areas turn into much weaker claims in land-scarce areas. She also argues that women's lack of capital is closely related to the segmentation of rural labour markets and of off-farm employment opportunities, whereby women get stuck in casual and poorly remunerated activities as a complement to farming. Labour market segmentation is due to the high entry costs of more remunerative activities and also the gendered nature of social capital and risk-reducing institutions. Formal education is less relevant in the segmentation of rural labour markets.

Women's lack of working capital thus becomes part of a vicious circle in which they are restricted with regard to the type of off-farm employment they take up, and so they cannot save enough from low-return off-farm incomes to invest in agricultural innovation and improvement. Women's reserve price of labour in off-farm activities is also low where the income potential of their own production is low, where the income-generating opportunities off-farm are few, and where, given the low returns to their labour, the need is urgent. Young women become particularly vulnerable to an informal market for sex, and thus to HIV infection. This whole process of gender disadvantage is reinforced by public and private institutions.

The key policy conclusion to emerge from this analysis is that rural women will not necessarily benefit from any positive price and employment effects that might stem from trade liberalization unless there are a range of measures to address the gender-intensified disadvantages and gender-imposed constraints which permeate the operation of production and factor markets. The surest way to ensure that rural women are not socially excluded from the benefits of economic growth is to address their lack of capital. This is a matter of improving access to credit and also expanding remunerative off-farm employment activities by "thickening" rural labour markets. The focus on intra-household relations as a cause of disadvantage is excessive, directing attention towards more intractable issues and distracting policy makers from measures that can make a real difference to women's lives.

*Source:* Whitehead (2001).

CHART 33. TRADE LIBERALIZATION AND POVERTY TRENDS IN LDCS DURING THE 1990S




*Source:* As for chart 32.
*Note:* See chart 32.

It would not be correct to conclude from this evidence that trade liberalization is causing increased poverty in least developed countries. For this conclusion to be drawn, it would be necessary to construct a counter-factual which would show what would have happened in the absence of trade liberalization. But the chart does not support the equally stark alternative view that trade liberalization reduces poverty. Indeed, what it shows is that rapid and deep trade liberalization has been associated, at least in the short run, with a rising incidence of poverty.[8]

*The chart shows that poverty is increasing unambiguously in those economies that have adopted the most open trade regime and in those that have continued with the most closed trade regime.*

In the face of evidence such as this, it has become increasingly common to argue that the positive effects of trade liberalization on poverty depend on the implementation of "complementary measures" (see, for example, World Bank, 2001: chapter 2) or will make themselves felt in the long run, despite increasing poverty and unemployment in the short run. The effects of the full package of economic reforms associated with structural adjustment programmes in the LDCs are discussed in detail in chapter 5. But here it may be noted that the evidence that will be presented there suggests that the incidence of poverty in the years after the implementation of the reform packages was, in most cases, similar to what it was in the years before.

As for long-run effects, there is a large literature of cross-country empirical studies on openness and growth. In the past it was common to assert that these purportedly demonstrated that economies with open trade regimes grow faster and experience greater poverty reduction. But this view is being increasingly challenged (see, in particular, Rodriguez and Rodrik, 1999). Even the proponents of trade liberalization are now more cautious. Thus, for example, Winters (1999: 59) has concluded: "Overall the fairest assessment of the evidence is that, despite the clear plausibility of such a link, open trade alone has not yet been unambiguously and universally linked to subsequent economic growth", although he adds that "it certainly has not been identified as a hindrance".

## D. Export orientation, growth and poverty

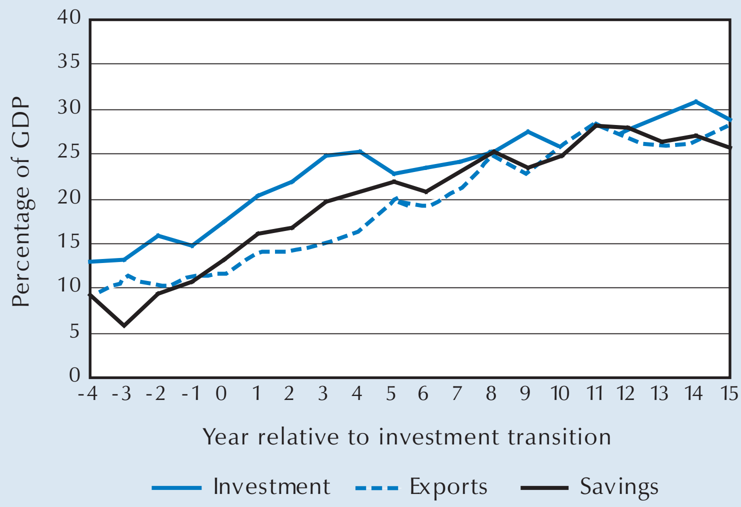
*The fact that there is no clear relationship between trade liberalization and poverty reduction does not mean that there is no relationship between trade and poverty reduction.*

The fact that there is no clear relationship between trade liberalization and poverty reduction does not mean that there is no relationship between trade and poverty reduction. Indeed, an important lesson from recent development experience is that those developing countries which have been growing most rapidly in the last 20 years, and which have also been experiencing rapid poverty reduction, have generally also experienced an increase in the share of domestic output which is exported (Rodrik, 1999: chapter 2). It is wrong, however, to assume that this is due to trade liberalization. Moreover, the relationship between exports and growth is complex. Close study of the most successful developing countries by UNCTAD in a series of Trade and Development Reports and associated research (UNCTAD, 1994, 1996, 2002) shows that:

*The countries that grew the fastest were not simply characterized by an increase in their export/GDP ratios, but also investment and savings grew as a proportion of GDP in tandem.*

- The countries that grew the fastest were not simply characterized by an increase in their export/GDP ratios, but also investment and savings grew as a proportion of GDP in tandem (chart 34).
- These macroeconomic changes occurred as part of a process of late industrialization, in which manufacturing activities and manufacturing exports became increasingly important, and there was a progressive shift in production from less to more skill-, technology- and capital-intensive activities both within and between sectors.
- At the micro level domestic enterprises imitated and adapted internationally available technologies in order to reduce costs, improve quality and introduce goods and services not existing in the country, and the diffusion of best practice from more advanced to less advanced enterprises within a country took place, including from foreign to domestic firms.

CHART 34. INVESTMENT TRANSITION,[a] SAVINGS AND EXPORTS IN EAST ASIA




*Source:* Akyüz and Gore (2001: figure 1).

*a* Following Rodrik (1999), a country is said to undergo an investment transition at year T if (a) the three-year moving average of its investment rate over an eight-year period starting at T+1 exceeds the five-year average of its investment rate prior to T by 5 percentage points or more, and (b) the post-transition investment rate remains above 10 per cent. Savings are defined as: gross domestic fixed investment plus exports minus imports. The figures are unweighted averages of the following countries and dates of transition year: Indonesia (1969), Republic of Korea (1965) and Thailand (1966). These are derived from Rodrik (1999: table 3.2). The transition year on the graph is year 0.

- Poverty reduction occurred as part of this process, particularly through agricultural growth, the expansion of employment opportunities and extension of productivity improvements to marginal sectors.

Increases in export orientation thus certainly played an essential role in accelerated development in the most successful countries. Given this role, it is not surprising to find changes in export orientation correlated with both economic growth and poverty reduction. But if changes in export orientation occur without the concomitant changes in investment, savings and technology imports, one should not expect the same results.

For the least developed countries, the available data show that, as for developing countries as a whole, the LDCs that grew in the 1990s almost invariably experienced an increase in the share of national output which is exported. As table 29 shows, during the period 1987–1999 only 2 out of 16 growing national economies (Guinea and Mauritania) experienced declines in export/GDP ratios. Of those in which real GDP per capita (in 1985 PPP dollars) grew at over 2 per cent per annum over the period, all exhibited increasing export orientation. But although economic growth in LDCs is almost invariably associated with increasing export orientation, this does not mean that increasing export orientation is almost invariably associated with growth. In fact, in 8 out of 22 LDCs with increasing export orientation during 1987–1999, GDP per capita was stagnant or declined during the same period. Moreover, in over half (13) of the LDCs with increasing export orientation, annual GDP per capita growth was less than 1 per cent per annum during 1987–1999. Thus, although LDCs which grow fast tend to experience rising export/GDP ratios, LDCs which experience rising export/GDP ratios do not necessarily grow fast.

*LDCs in which poverty rates fell in the 1990s have also almost invariably experienced an increase in the share of national output that is exported. But LDCs in which export orientation increased did not generally experience a reduction in the incidence of poverty. In fact, in 10 out of 22 LDCs with increasing export orientation during 1987–1999, poverty rates increased during the same period*

Similarly, LDCs in which poverty rates fell in the 1990s have also almost invariably experienced an increase in the share of national output that is exported. The incidence of poverty fell in 16 LDCs in the sample during 1987–1999, and only four of those LDCs (Gambia, Guinea, Mauritania and Togo) experienced declines in export/GDP ratios. But although LDCs in which the incidence of poverty fell generally experienced increasing export orientation, LDCs in which export orientation increased did not generally experience a reduction in the incidence of poverty. In fact, in 10 out of 22 LDCs with increasing export orientation during 1987–1999, poverty rates increased during the same period (table 29).

As argued in the last chapter, the key to poverty reduction in LDCs is rapid and sustained economic growth. Thus if we focus on the 16 LDC economies in the sample in which GDP per capita is rising, we see that poverty rates are rising in just two — Lesotho, where trends are influenced by the return of miners from South Africa, and Mali. There are only two LDCs (Guinea and Mauritania) which experienced economic growth and falling export orientation over the period 1987–1999. But in both cases, poverty rates declined.

In LDCs which have grown, there is also generally an increase in the share of investment in GDP. Only 3 out of 15 growing LDCs for which there are investment data during the period 1987–1999 had falling investment/GDP ratios. Poverty-reducing LDCs also tend to have increasing investment/GDP ratios. Only 4 out of 15 poverty-reducing LDCs for which data are available had falling investment/GDP ratios during 1987–1999 (table 29). The LDCs with rising investment rates are not all characterized by growth and poverty reduction over the same period. For 18 LDCs with rising investment/GDP ratios, annual GDP per capita growth rates are negative in 5, and poverty is rising in 7. However, for LDCs in which per capita income is growing, investment/GDP

TABLE 29. ECONOMIC GROWTH, EXPORTS, INVESTMENT AND TRENDS IN POVERTY IN THE LDCS, FROM LATE 1980S TO LATE 1990S

| | Annual GDP per capita growth[a] | Exports of goods and services | | | Gross capital formation | | | Share of the population living on less than $1 a day | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % | % GDP | | % point difference | % GDP | | % point difference | % total population | | % point difference |
| | 1987–1999 | 1987–1989 | 1997–1999 | | 1987–1989 | 1997–1999 | | 1987–1989 | 1997–1999 | |
| **LDCs with increasing export/ GDP ratio and increasing GDP/ capita** | | | | | | | | | | |
| Lao People's Dem. Rep. | 3.5 | 9.8[b] | 29.6[c] | 19.8 | 11.4[b] | 26.4[c] | 15.0 | 4.1 | 2.1 | -2.0 |
| Bangladesh | 3.3 | 5.6 | 12.9 | 7.2 | 17.0 | 21.5 | 4.6 | 13.4 | 10.0 | -3.4 |
| Uganda | 3.1 | 7.9 | 11.5 | 3.6 | 10.5 | 15.8 | 5.3 | 57.6 | 41.5 | -16.1 |
| Bhutan | 3.0 | 27.9 | 33.0 | 5.1 | 32.7 | 48.0 | 15.3 | 42.2 | 23.0 | -19.2 |
| Cape Verde | 2.9 | 14.9 | 24.0 | 9.1 | 24.7 | 37.3 | 12.6 | 18.2 | 11.9 | -6.3 |
| Mozambique | 2.5 | 7.6 | 11.0 | 3.4 | 13.9 | 25.1 | 11.1 | 40.5 | 36.8 | -3.6 |
| Nepal | 2.4 | 11.4 | 24.1 | 12.7 | 20.6 | 23.4 | 2.8 | 52.6 | 38.4 | -14.3 |
| Solomon Islands[d] | 1.4 | 47.7 | 65.9 | 18.2 | 32.4 | .. | .. | 6.5 | 2.4 | -4.1 |
| Benin | 1.0 | 14.2 | 16.8 | 2.6 | 13.5 | 17.7 | 4.2 | 22.4 | 16.4 | -6.1 |
| Malawi | 0.9 | 22.9 | 27.2 | 4.3 | 18.8 | 13.3 | -5.4 | 76.2 | 55.8 | -20.4 |
| Ethiopia | 0.8 | 8.6 | 15.2 | 6.6 | 15.8 | 17.4 | 1.6 | 86.8 | 85.5 | -1.2 |
| Lesotho | 0.7 | 17.9 | 27.4[c] | 9.5 | 44.5 | 50.6[c] | 6.1 | 19.5 | 41.8 | 22.3 |
| Burkina Faso | 0.4 | 10.7 | 12.2 | 1.5 | 20.8 | 28.3 | 7.5 | 66.6 | 60.1 | -6.5 |
| Mali | 0.1 | 16.5 | 25.2 | 8.6 | 21.3 | 20.9 | -0.4 | 63.0 | 71.7 | 8.7 |
| *Group, simple average* | *1.9* | *16.0* | *24.0* | *8.0* | *21.3* | *26.6* | *6.2* | *40.7* | *35.5* | *-5.2* |
| **LDCs with increasing export/ GDP ratio and decreasing or stagnant GDP/ capita** | | | | | | | | | | |
| Senegal | 0.0 | 24.5 | 33.2 | 8.7 | 12.4 | 18.5 | 6.2 | 13.3 | 14.1 | 0.8 |
| Central African Rep. | -0.8 | 16.1 | 17.6 | 1.4 | 11.4 | 12.3 | 0.9 | 45.6 | 68.9 | 23.3 |
| Chad | -1.3 | 14.7 | 18.2 | 3.5 | 8.0 | 13.8 | 5.8 | 79.1 | 81.6 | 2.5 |
| Vanuatu[b] | -1.3 | 39.2 | 55.0 | 15.8 | 34.3 | .. | .. | 6.3 | 9.8 | 3.5 |
| Guinea-Bissau | -1.6 | 10.7 | 20.5 | 9.8 | 39.5 | 16.9 | -22.6 | 56.0 | 80.9 | 25.0 |
| Madagascar | -1.8 | 17.1 | 22.7 | 5.6 | 12.2 | 12.4 | 0.2 | 42.2 | 46.7 | 4.5 |
| Comoros | -3.5 | 16.1 | 23.5 | 7.5 | 21.5 | 15.6 | -5.9 | 64.6 | 76.4 | 11.8 |
| Angola | -3.8 | 33.2 | 56.8[e] | 23.6 | 13.2 | 24.0[e] | 10.8 | 70.4 | 71.9 | 1.5 |
| *Group, simple average* | *-1.8* | *21.4* | *30.9* | *9.5* | *19.1* | *16.2* | *-0.7* | *47.2* | *56.3* | *9.1* |
| **LDCs with decreasing export/ GDP ratio and increasing GDP/ capita** | | | | | | | | | | |
| Mauritania | 1.6 | 49.7 | 39.2 | -10.5 | 24.9 | 18.1 | -6.8 | 36.2 | 30.0 | -6.2 |
| Guinea | 0.8 | 29.2 | 21.6 | -7.6 | 16.5 | 17.7 | 1.2 | 71.5 | 64.1 | -7.4 |
| *Group, simple average* | *1.2* | *39.5* | *30.4* | *-9.1* | *20.7* | *17.9* | *-2.8* | *53.8* | *47.1* | *-6.8* |
| **LDCs with decreasing export/ GDP ratio and decreasing or stagnant GDP/ capita** | | | | | | | | | | |
| Gambia | -0.9 | 51.8 | 48.9 | -2.9 | 18.1 | 17.8 | -0.2 | 52.0 | 35.8 | -16.3 |
| Togo | -2.0 | 41.6 | 31.8 | -9.8 | 16.7 | 14.0 | -2.7 | 64.8 | 63.0 | -1.7 |
| Niger | -2.0 | 18.6 | 16.7 | -1.9 | 14.8 | 10.8 | -4.1 | 69.3 | 74.4 | 5.1 |
| Rwanda | -2.9 | 6.7 | 6.2 | -0.5 | 14.5 | 15.0 | 0.5 | 45.5 | 58.5 | 13.1 |
| Burundi | -3.4 | 10.7 | 9.0 | -1.7 | 18.1 | 8.6 | -9.5 | 60.2 | 71.2 | 11.0 |
| Haiti | -3.5 | 15.1 | 11.1 | -4.0 | 14.0 | 10.7 | -3.3 | 26.1 | 41.0 | 14.9 |
| Sierra Leone | -5.7 | 15.8 | 13.7[f] | -2.2 | 8.6 | 2.8[f] | -5.8 | 30.2 | 67.4 | 37.2 |
| *Group, simple average* | *-2.9* | *22.9* | *19.6* | *-3.3* | *15.0* | *11.4* | *-3.6* | *49.7* | *58.8* | *9.0* |

*Source:* UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001,* CD-ROM.

*a* In 1985 PPP dollars.
*b* 1988–1989.
*c* 1997–1998.
*d* Based on balance-of-payments estimates of exports of goods and services.
*e* 1998.
*f* 1998–1999.

rates are rising and export orientation is increasing, there is a very strong probability of poverty reduction. In only 1 country (Lesotho) out of 11 countries does poverty increase in this situation. The greatest poverty reduction, in terms of percentage reduction in poverty rates, is also apparent in LDCs in which per capita income is growing, investment/GDP rates are rising and export orientation is increasing.

The main conclusion that may be drawn from this is that what is central to poverty reduction is economic growth. Export growth is critical for poverty reduction because it supports the overall growth process. In growing economies increasing export orientation enables exports to grow faster than income. But in the 1990s increasing export orientation occurred in some LDCs along with stagnation and decline. In those countries changes in export orientation have not been associated with poverty reduction. Our findings thus indicate that unless accompanied by economic growth, greater export orientation was not associated with poverty reduction.

*The main conclusion that may be drawn from this is that what is central to poverty reduction is economic growth. Export growth is critical for poverty reduction because it supports the overall growth process. Our findings indicate that unless accompanied by economic growth, greater export orientation was not associated with poverty reduction.*

## E. Export structure, growth and poverty

A much more refined view of the relationship between international trade and poverty can be achieved if the discussion is not abstracted from the types of goods and services being traded. Amongst the LDCs, there is a close relationship between long-term growth performance and export structure. Moreover, the incidence of poverty in the least developed countries, and also recent poverty trends, vary significantly between countries according to their export structure.

This section considers these patterns, using the classification of countries according to their export structure, set out earlier in the chapter and in the annex below. There are insufficient poverty data to treat oil-exporting LDCs in any systematic way. The analysis thus focuses on: (a) non-oil commodity exporting LDCs, which are subdivided into agricultural and mineral exporters; and (b) manufactures and/or services exporting LDCs, within which exporters of manufactured goods and exporters of services are separated out.

*A much more refined view of the relationship between international trade and poverty can be achieved if the discussion is not abstracted from the types of goods and services being traded.*

Two caveats should be entered at the outset. First, the classification is made on the basis of export structure at the end of the 1990s and not the initial export structure. The data thus compare growth and poverty trends in LDCs whose export composition remains focused on primary commodities with trends in LDCs that have, during the last 20 years, experienced a transformation in the composition of their exports in which the proportion of primary commodities in total exports has declined (relatively or absolutely), and either manufacturing and/or service activities have become the major exports. Nevertheless, as was apparent in section B, many of those countries classified as manufactured goods exporting LDCs started in the early 1980s with a higher proportion of manufactured goods in total exports. Second, as with any exercise of this nature, the results are affected by the classification of the countries and some difficult judgements had to be made in deciding in which group a few marginal cases should be placed (see annex to this chapter). However, it is believed that this does not have a bearing on the overall tendencies identified.

### 1. Export structure and income convergence with rich countries

Table 30 shows the average income per capita between 1960 and 1999 in the world's richest 20 countries, 31 LDCs for which data are available, and non-oil commodity exporting LDCs and manufactures and/or services exporting LDCs. GDP is estimated in 1985 PPP terms, which makes the income gap smaller than if GDP is calculated at current official exchange rates. Moreover, the results for each group are shown as simple averages, or weighted by the population of each country. The income gaps between the richest countries and the LDCs, based on the weighted averages, are shown in chart 35.

*On the basis of averages weighted by population, the income per capita of the richest 20 countries was 16 times greater than that of the non-oil commodity exporting LDCs in 1960. In 1999, it was 35 times greater.*

From table 30 and chart 35, it is apparent that the dominant trend over the last 40 years has been increasing divergence between the average income per capita of LDCs and that of the world's 20 richest countries. Weighted by population, the income per capita of the 20 richest countries was 11 times higher than that of the LDCs in 1960, and 19 times higher in 1999. However, there are major differences in the trends between LDCs that have diversified out of commodities, and those that have not done so.

The simple average of income per capita in the non-oil commodity exporting LDCs was almost the same in 1999 as it was in 1960. It was lower in 1999 than in 1990, lower in 1990 than in 1980, and lower in 1980 than in 1970. On the basis of averages weighted by population, the income per capita of the richest 20 countries was 16 times greater than that of the non-oil commodity exporting LDCs in 1960. In 1999, it was 35 times greater. A strong divergence between the richest countries and the non-oil commodity exporting LDCs has also been associated with convergence amongst this group of LDCs, particularly from 1970 to 1990. However, there was an increasing divergence in average per capita incomes amongst this group of LDCs in the 1990s.

TABLE 30. TRENDS IN GDP PER CAPITA IN THE WORLD'S 20 RICHEST COUNTRIES, LDCS AND LDC SUB-GROUPS,[a] 1960–1999

*(GDP per capita, in PPP 1985 $)*

| | 1960 | 1970 | 1980 | 1990 | 1999 |
|---|---|---|---|---|---|
| **World's 20 richest countries**[b] | | | | | |
| Simple average | 6 535.1 | 9 124.2 | 11 851.1 | 13 636.4 | 16 723.5 |
| Weighted average | 7 591.7 | 10 008.6 | 12 584.0 | 15 316.9 | 17 880.0 |
| Standard deviation | 1 529.7 | 1 736.8 | 1 500.5 | 2 673.0 | 1 767.4 |
| **LDCs**[c] | | | | | |
| Simple average | 661.1 | 771.9 | 843.8 | 760.0 | 779.8 |
| Weighted average | 685.0 | 857.3 | 766.7 | 813.9 | 948.0 |
| Standard deviation | 264.7 | 326.2 | 491.2 | 338.5 | 446.1 |
| **Non-oil commodity exporting LDCs**[d] | | | | | |
| Simple average | 594.5 | 673.5 | 668.6 | 609.2 | 587.5 |
| Weighted average | 477.7 | 553.4 | 535.4 | 499.7 | 515.7 |
| Standard deviation | 219.2 | 298.1 | 236.8 | 164.4 | 197.6 |
| **Manufactures and/or services exporting LDCs**[e] | | | | | |
| Simple average | 780.1 | 905.6 | 1 161.6 | 1 028.0 | 1 136.4 |
| Weighted average | 933.7 | 1 194.0 | 1 042.8 | 1 211.1 | 1 545.5 |
| Standard deviation | 290.3 | 324.5 | 671.3 | 414.3 | 556.2 |

*Source:* UNCTAD secretariat estimates based on Summers and Heston International Comparison Programme and World Bank, *World Development Indicators 2001*, CD-ROM.

*Note:* a The sub-groups are defined according to their export composition in the late 1990s. For country classification, see annex table 2.

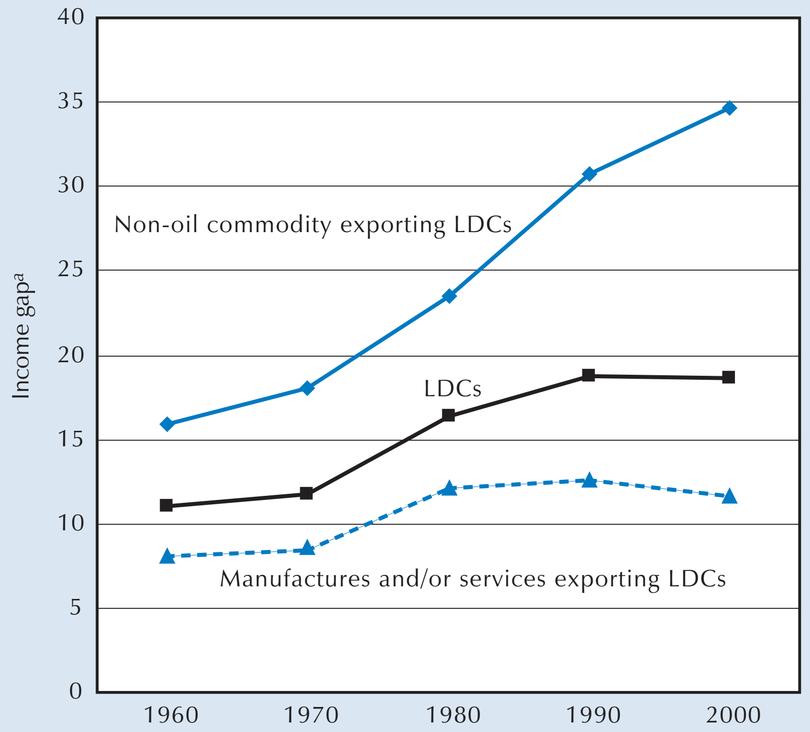
b The set of the world's 20 richest countries varies over time.

c Based on 31 LDCs for which data are available. The countries listed in *d* and e plus Angola.

d Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Ethiopia, Guinea, Guinea-Bissau, Malawi, Mali, Mauritania, Niger, Rwanda, Sierra Leone, Togo, Uganda, United Republic of Tanzania and Zambia.

e Bangladesh, Cape Verde, Comoros, Gambia, Haiti, Lesotho, Madagascar, Mozambique, Nepal, Samoa and Senegal.

CHART 35. TRENDS IN THE INCOME GAP[a] BETWEEN THE WORLD'S 20 RICHEST COUNTRIES AND LDCs, 1960–1999




*Source:* See table 30.

*Note:* The sample is the same as for table 30. The sub-groups are defined according to their export composition in the late 1990s. For country classification, see annex table 2.

*a* The income gap is the ratio of the average GDP per capita (in 1985 PPP dollars) in the world's 20 richest countries to that in the LDCs and LDC sub-groups. The sample of the world's 20 richest countries varies over time. The averages are weighted by population.

Initial per capita incomes in the LDCs that have diversified into manufactures and/or services exports were much higher in 1960 than those in non-oil commodity exporting LDCs, and over time these countries have done better than the latter group. The weighted average of income per capita in the manufactures and/or services exporting LDCs was almost twice as high as that in the non-oil commodity exporting LDCs in 1960, and by 1999 it was almost three times higher. As shown in chart 35, the ratio between income per capita in the 20 richest countries and that in the manufactures and/or services exporting LDCs increased between 1960 and 1999. But the income gap is smaller than that between the richest countries and the non-oil commodity exporting LDCs and the increase much less. Weighted by population, the average income per capita in the 20 richest countries was 8 times that of the manufactures and services exporting LDCs in 1960. In 1999, it was 12 times greater. During the 1990s there was actually a slow convergence between the weighted average income per capita in the manufactures and/or services exporting LDCs, although this result is strongly dependent on the economic performance of Bangladesh.[9]

*Weighted by population, the average income per capita in the 20 richest countries was 8 times that of the manufactures and services exporting LDCs in 1960. In 1999, it was 12 times greater.*

## 2. EXPORT STRUCTURE AND THE INCIDENCE OF POVERTY

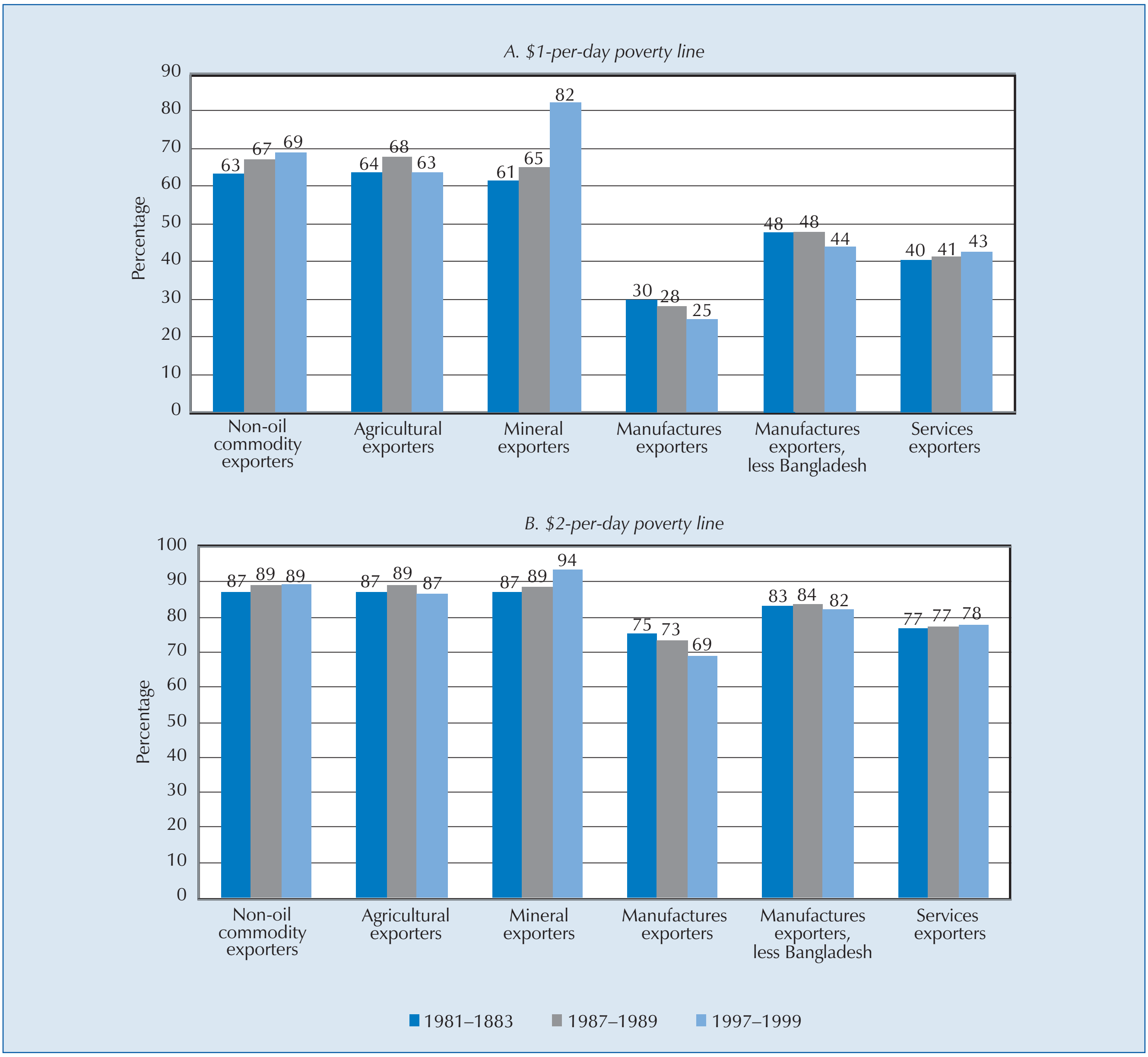
Differences in poverty trends are associated with differences in long-term growth performance. Chart 36 shows the trends in the incidence of poverty, using the $1-a-day and $2-a-day poverty lines, over the period 1981–1999 in LDCs grouped according to their export structure. From chart 36, it is apparent that:

*Over two thirds of the population in the non-oil commodity exporting LDCs were living on less than $1 a day at the end of the 1990s.*

- Over two thirds of the population in the non-oil commodity exporting LDCs were living on less than $1 a day at the end of the 1990s, and within the mineral-exporting LDCs the incidence of extreme poverty was over 80 per cent.
- The incidence of extreme poverty increased in non-oil commodity exporting LDCs between the early 1980s and late 1990s, and this increase was particularly marked (21 percentage points) in mineral-exporting LDCs.
- The share of the population living on less than $1 a day was on average lower in the services exporting LDCs (43 per cent). It is even lower in the exporters of manufactured goods (25 per cent), although excluding Bangladesh, the share of the population living on less than a $1 a day in LDCs exporting manufactures was 44 per cent.

CHART 36. THE INCIDENCE OF POVERTY IN LDCS GROUPED ACCORDING TO EXPORT SPECIALIZATION, 1981–1983, 1987–1989 AND 1997–1999

*(Share of total population)*




*Source:* UNCTAD secretariat estimates.

*Note:* The countries are grouped according to their export composition in the late 1990s. For country classification, see annex table 2. No data are available for Afghanistan, Cambodia, Equatorial Guinea, Eritrea, Kiribati, Maldives, Samoa, Sao Tome and Principe, Tuvalu and Yemen. Angola is also excluded as there are insufficient data to include oil exporters.

- The incidence of extreme poverty was increasing between the early 1980s and the late 1990s in the LDCs exporting services, although more slowly than in the non-oil commodity exporting LDCs.
- The incidence of extreme poverty has on average been falling in LDCs exporting manufactures. This result is unchanged whether or not Bangladesh is included or excluded.

When one focuses on the share of the population living on less than $2 a day, similar patterns and trends are evident, but the differences are less marked. It is also clear that despite their better performance, the poverty problem remains severe in LDCs exporting manufactures and services. In 1997–1999, the share of the population living on less than $2 a day was over 75 per cent in 8 out of the 12 LDCs exporting manufactures and services for which data are available.

*In commodity-exporting LDCs, the number of people living in extreme poverty increased by 105 million between 1981–1983 and 1997–1999... Within the LDCs exporting manufactured goods and/or services, the number living in extreme poverty increased by 10 million over the same period.*

Despite this qualification, there is a clear association between dependence on primary commodities and the incidence of extreme poverty in the LDCs. Table 31 estimates levels and trends in the numbers of poor within LDCs, grouped into primary commodity-exporting LDCs and LDCs exporting manufactures or services, or some combination of these. Overall, it is estimated that 79 per cent of the total population living on less than $1 a day within LDCs were living in primary commodity-exporting LDCs in 1997–1999, and that around 21 per cent were living in LDCs exporting manufactures and/or services. The increase in the numbers of poor is also greatest in the primary commodity-exporting LDCs. It is estimated that in these countries the number of people living in extreme poverty (on less than $1 a day) increased by 105 million between 1981–1983 and 1997–1999, reaching a total of 251 million in the late 1990s. Within the LDCs exporting manufactured goods and/or services, the number of people living in extreme poverty increased by 10 million, reaching 67 million in the late 1990s.

TABLE 31. DISTRIBUTION OF THE POOR AMONGST LDCS GROUPED ACCORDING TO EXPORT SPECIALIZATION,[a] 1981–1983 TO 1997–1999

| | Primary commodity exporters | | Manufactures and/or services exporters | | All LDCs | |
|---|---|---|---|---|---|---|
| | *1981–1983* | *1997–1999* | *1981–1983* | *1997–1999* | *1981–1983* | *1997–1999* |
| Population *(millions)* | 230 | 365 | 189 | 263 | 419 | 628 |
| Population *(% of LDC total)* | 55 | 58 | 45 | 41 | 100 | 100 |
| **Number of poor**[b] *(millions)* | | | | | | |
| People living on less than $1 per day | 146 | 251 | 57 | 67 | 203 | 318[c] |
| People living on less than $2 per day | 201 | 324 | 142 | 183 | 343 | 507[c] |
| **Distribution of poor amongst LDCs** *(% of total number of poor in LDCs)* | | | | | | |
| People living on less than $1 per day | 72 | 79 | 28 | 21 | 100 | 100 |
| People living on less than $2 per day | 59 | 64 | 41 | 36 | 100 | 100 |

*Source:* UNCTAD secretariat estimates.

*a* The countries are grouped according to their export composition in the late 1990s. For country classification, see annex table 2.

*b* Poverty estimates are not available for Afghanistan, Cambodia, Equatorial Guinea, Eritrea, Kiribati, Maldives, Samoa, Sao Tome and Principe, Tuvalu and Yemen. The total number of poor in these countries has been estimated on the assumption that the incidence of poverty is the same as the incidence of poverty in the export groups to which they belong. Oil-exporting LDCs are assumed to have the same incidence of poverty as non-oil commodity exporting LDCs.

*c* These numbers differ slightly from table 19, chapter 1, owing to the different method of estimating missing data and also the different time-period.

## F. The poverty-reducing impact of different types of export growth

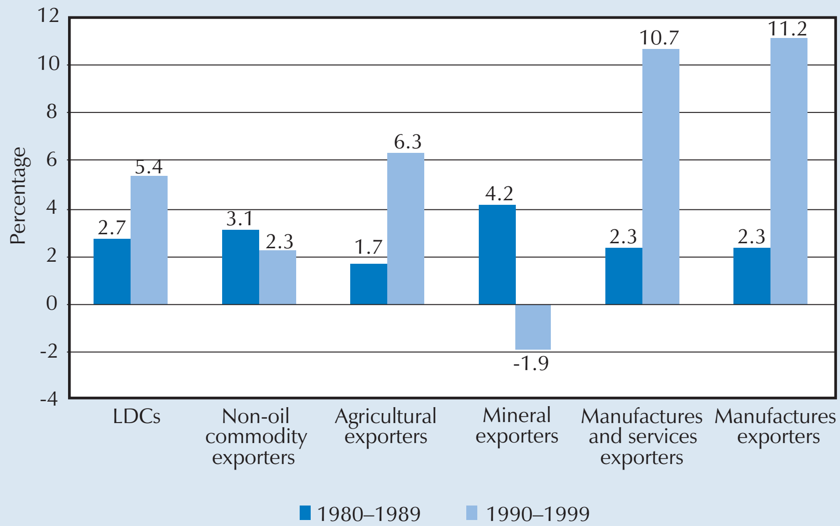
*Export growth rates have been relatively slow within non-oil commodity exporting LDCs.*

Differences in the poverty trends in the different types of LDCs are related to different economic growth rates. As the earlier discussion indicated, export growth is one factor which is part of a sustained growth process, and there are clear differences amongst LDCs exporting primary commodities, manufactures and services in terms of their export growth rates. Chart 37 shows, for a sample of 26 LDCs for which data are available, real export growth rates in the 1980s and 1990s. It is clear that export growth rates have been relatively slow within non-oil commodity exporting LDCs. The difference was particularly marked in the 1990s. During that decade, the real export growth rate in the non-oil commodity exporting economies was only 2.3 per cent per annum, compared with 11.2 per cent per annum in the LDCs exporting manufactured goods, and 10.7 per cent in the LDCs exporting manufactures or services, or some combination thereof. Some Asian LDCs exporting manufactures achieved particularly high rates of growth (see box 11). The mineral-exporting LDCs did worst in the 1990s, with real exports for the LDCs in the sample declining by 1.9 per cent per annum over the period 1990–1999. The LDCs exporting agricultural commodities in contrast improved their export growth from 1.7 per cent per annum in the 1980s to 6.3 per cent in the 1990s.

Assuming that resources employed in export production were unutilized or under-utilized before, the faster the export growth rate, the faster the economic growth rate and hence potential poverty reduction. This applies equally no matter what the type of exports. Export production can further contribute to economic growth by engendering positive external effects, notably by reducing the foreign exchange constraint, and promoting learning and technology

Chart 37. Real export growth rate in all LDCs and LDCs grouped according to export specialization,[a] 1980–1989 and 1990–1999

*(Percentage per annum)*




*Source:* UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001*, CD-ROM.

*Note:* Growth rates of exports of goods and services are in constant 1995 dollars.

*a* The countries are grouped according to their export composition in the late 1990s. For country classification, see annex table 2. No data are available for Afghanistan, Angola, Bhutan, Cambodia, Cape Verde, Central African Republic, Djibouti, Equatorial Guinea, Guinea, Kiribati, Lao People's Democratic Republic, Liberia, Maldives, Myanmar, Samoa, Sao Tome and Principe, Solomon Islands, Somalia, Sudan, Tuvalu, United Republic of Tanzania, Vanuatu and Yemen.

### Box 11. Trade policy in some Asian LDCs exporting manufactures

The growth of manufactured exports in Asian LDCs was supported by "export-push strategies", which provided extra incentives to promote exports, and in the case of the South-East Asian LDCs — Cambodia, the Lao People's Democratic Republic and Myanmar — their integration into regional trading arrangements has also been a critical factor.

The production of export-quality garments in Bangladesh started on the basis of a collaboration agreement between a company from the Republic of Korea and a Bangladeshi company, established for this purpose in 1979. Before that date Bangladesh had not been exporting garments because of a lack of domestic production technology and marketing know-how. The Republic of Korea company was attracted to Bangladesh by its low wages and, in particular, by its unused quota for exporting textiles and apparel to the markets of the United States and the EU. Marketing was initially handled by the Republic of Korea company, thus creating a reputation for the Bangladeshi company as a producer of quality garments and a reliable counterpart, and the Government of Bangladesh also provided basic export incentives. The agreement ended in June 1981, but export activities continued as Bangladeshis themselves mastered the production and marketing know-how (UNCTAD, 1995).

After this breakthrough, textiles and garments have become the engine of export growth in Bangladesh. The Government of Bangladesh has actively promoted this expansion. Its trade policy has over time encouraged exports through various policies such as duty-free and restriction-free regimes for imported inputs, including capital machinery, easy access to financing for exporters, interest rate subsidies for exporters, and enabling exporters to exchange 100 per cent of their foreign currency earnings through any authorized dealer. To encourage private investment in the export sector, government bonds have been offered to attract resources for industrial investment. FDI was also used strategically to develop capabilities complementing domestic capabilities in this sector. Furthermore, Bangladesh has established several highly successful export processing zones (EPZs), in which investors from the Republic of Korea have been particularly active. Trade liberalization has taken place, but it has been in a gradual and sequenced manner. Foreign aid has also supported the process (Bhattacharya, 2000).

Trade policies in other Asian LDCs developing a capability to export manufactures have also been characterized by an export-push strategy within the context of regional linkages, with special incentives for foreign investors. Two notable examples are Cambodia and the Lao People's Democratic Republic, where very high export growth rates of 20 per cent per annum and 21 per cent per annum, respectively, were achieved in the context of a transition from a centrally planned in economy (Martin, 2001). In the Lao People's Democratic Republic, the adoption of the New Economic Mechanism (NEM) in 1986 began the shift to a market system. Since then public enterprises have been given operating autonomy, and the private sector has been authorized to participate in economic activities. In 1988, the country abandoned the multiple exchange rate system and moved to a single rate close to that previously prevailing in the parallel market.

Trade liberalization has been part of the economic reform process, but the approach of the Government has been gradual rather than a "big bang" approach. Average tariff rates are relatively low. However, tariffs on "luxury" consumption goods (motor vehicles, motorcycles, beer, tobacco and household appliances) have been kept higher. Moreover, various non-tariff barriers exist. There are licensed trading companies, whose number was reduced to six in 1999. Each importer is licensed to import no more than the allocated quantity, and individual shipments need to be licensed by the Ministry of Commerce and Transport. Quotas apply to the importation of fuel and lubricants, steel bars used in construction, all types of cement, and all types of motor vehicles and motorcycles. The authorities have used administrative measures to allocate foreign exchange (Martin, 2001).

Special privileges are granted to foreign firms. Foreign investors are required to pay import duties for the importation of production equipment and facilities, spare parts and other equipment used in project or business operations at the rate of 1 per cent of the import value. Raw material and intermediate components imported for export processing are exempt from import duties. Raw material and intermediate components imported for the purpose of import substitution are also eligible for special duty reductions. In addition, some companies have obtained a convention that clears them to import or export specific products free of all taxes. Ad hoc tariff exemptions are often granted for imports by State enterprises (Martin, 2001).

In Cambodia, trade policy reform was faster than in the Lao People's Democratic Republic. Important early reforms were the unification of exchange rates, tariff reform and the abolition of many non-tariff barriers. Tariffs are fairly low, but there is considerable variation between products as in the Lao People's Democratic Republic. An important feature of Cambodia's transition strategy is a very liberal investment regime designed to attract foreign investment. This regime includes liberal exemptions on investment goods and inputs used in the production of exports, as well as income-tax concessions. This regime has been successful in attracting investment in clothing exports.

In both Cambodia and the Lao People's Democratic Republic, regional linkages have been an important part of the export growth dynamic. Meeting the requirements of accession to the ASEAN Free Trade Area has helped those countries to modernize their trade procedures and required wide-ranging preferential trade liberalization. Trading links amongst ASEAN member States have been increasing strongly over the last decade. ASEAN has promoted economic cooperation through trade with the objective of creating a single ASEAN market and also to enable member States to strengthen their competitive advantage vis-à-vis the rest of the world through greater intraregional trade. Increasingly, Asian LDCs are becoming part of this picture, although their participation up to now has not been very significant. In June 2000 the Prime Ministers of Thailand and Cambodia agreed to formulate an integrated plan for cooperation, including the development of industrial zones along their border. Thai manufacturers are interested in relocating their production operations as Cambodia has preferential market access under the Generalized System of Preferences (GSP), and labour costs are less than half those in Thailand.

upgrading, economies of scale and production linkages. The impact of manufacturing exports on economic growth is likely to be greater than the impact of primary commodity exports because the former can generate much greater externalities and learning effects.[10] These external effects are not absent in commodity exporting economies, but they are likely to be particularly small in economies with low-value, low-productivity commodity exports.

*The impact of manufacturing exports on economic growth is likely to be greater than the impact of primary commodity exports because the former can generate much greater externalities and learning effects.*

In mineral-exporting economies, the relationship between export growth and economic growth has often been tenuous. Several explanations for the relationship have been put forward, notably the "Dutch disease" phenomenon, where surges in mineral export revenue lead to appreciating real exchange rates and consequently to reduced competitiveness in other tradable sectors. However, exchange rate variability and the failure to reinvest mineral rents could be more important (Auty and Evans, 1994). Problems of governance are also evident. Rents from mining activities may be easily be appropriated by the central government and give rise both to political rivalries over rent income and to the establishment of clientelist systems. It would appear that poor mineral-rich economies, including the LDCs, have become particularly prone to armed conflict caused by the struggle over resource rents by domestic and external actors. Mineral exports nevertheless can have a powerful potential to serve as a base for rapid growth and economic diversification, as the case of Botswana, the only country ever to "graduate" from LDC status, illustrates. Translating this into poverty reduction requires careful policy as production is often capital-intensive (Modise, 2000).

Expansion of manufactures and services exports can have relatively strong poverty-reducing effects because it leads to an increase in employment opportunities, particularly for unskilled labour. In situations of surplus labour, real wages are unlikely to rise and thus at early stages of the expansion of manufactured exports there can be increasing inequality (UNCTAD, 1997). But poverty falls owing to expansion of jobs. Employment of female labour has often been important in this process. But there is no inevitable connection between the expansion of manufactures and services exports and poverty reduction.

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This is apparent if one looks behind the average trends in poverty in LDCs exporting manufactures and services described above. It is clear that there are major variations between countries. The overall trend for LDCs exporting services is the product of two countries experiencing rapidly falling poverty rates (Cape Verde and Gambia), two experiencing rising rates (Comoros and Djibouti) and one where little change is evident (Vanuatu). Amongst the LDC exporters of manufactures, there is a more pervasive downward trend, but poverty rates are increasing in Lesotho, Haiti and Madagascar. In the latter country, the trend in the poverty rate reflects the fact that expansion of exports of manufactures is very recent. Conflict and political instability are key factors that can lead to growing poverty in exporters of manufactures and services.

In LDCs which export agricultural commodities, the situation is very complex. The poverty impact of export growth depends on the organization of production (plantations versus smallholder production organized by households), access by farmers to production inputs (credit, land, labour), trends in productivity and prices, the bargaining power of farmers in relation to traders and processors, and the relationship between export crop expansion and food prices. In most LDCs household production is predominant and the way in which these factors operate is affected by gender relationships.

Agricultural expansion which brings hitherto unutilized or underutilized land and labour resources into use can also be poverty-reducing through the same vent-for-surplus mechanism as expansion of manufacturing and service employment. But the effects of this mechanism on poverty can be less for agro-exports than for manufacturing and services exports for two main reasons. Firstly, as will be discussed in more detail in the next chapter, there has been a tendency for international primary commodity prices to fall. This implies that there will be constant downward pressure on real returns at the producer level. Secondly, where land ownership patterns are very unequal, it is possible for small farmers to be excluded from agro-export booms (see Barham, Carter and Sigelko, 1995; and Carter and Barham, 1996, for Latin America). Expansion of agricultural exports can also have perverse effects on levels of poverty if it leads to higher food prices and declining food entitlements. However, in LDCs in which there has been a transition in which the role of plantations or State farms in agricultural export production has declined relative to the role of smallholders, export growth has become less exclusionary than in the past and this can promote poverty reduction. Notable cases in this regard are those of Ethiopia, Malawi and Mozambique.

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One problem with upgrading into more dynamic agricultural exports is that this can exclude smallholders. Fresh fruit and vegetable chains once started with smallholder producers in Africa are now supplied by large-scale farms with on-site packing houses, mostly ones under the direct control of export companies. There is also increasing differentiation amongst these large farms. This is associated with the buyer-drivenness of the supply chain, with supermarkets choosing to coordinate this supply chain not directly, but through externalizing a wide range of functions to preferred suppliers. To qualify, the suppliers have to be able to deliver phytosanitary-tested, prepared and packaged, and bar-coded products within 24 hour of an order. The result has been a shake-out of suppliers (Gibbon, 2001).

Turning to service exports, the poverty-reducing effect of international tourism is expected to take place through a wide income-multiplying impact of tourist expenditure, which should be filtered through the local economy as a result of a significant local input into the tourism industry, through participation in ownership in the industry or in the employment generated by it, and also through local supply of goods and services. There are, however, practical limitations to the income-multiplying impact of tourism in the LDCs. These limitations are usually analysed in terms of “leakages” from the tourism economy: the smaller the local input into the tourism product, the greater will be the magnitude of financial leakages. Leakages essentially occur through the repatriation of profit to the country of origin of the foreign investor in the industry, remittances sent abroad by expatriate workers in the sector, and the imports resulting from the obligation to bring in goods and services in the absence of an adequate supply of such inputs in the host country.

*As the case of Maldives illustrates, a sophisticated tourism product offered in a structurally handicapped country often involves multifaceted leakages and limited linkages with the local population, thereby contributing little to poverty reduction.*

The magnitude of leakages is generally expected to decrease after a first stage of successful tourism development has been completed, if local capacities to participate in tourism operations have increased. However, no correlation has been found, among LDCs, between the degree of maturity of the tourism industry and reductions in leakages. The latter can indeed remain substantial. As the case of Maldives illustrates, a sophisticated tourism product offered in a structurally handicapped country often involves multifaceted leakages and limited linkages with the local population, thereby contributing little to poverty reduction. Specific national policies, which develop relevant human resources and encourage tourism-specific entrepreneurship through financial and technical support, in particular for small tourism enterprise development, are necessary to increase in order the pro-poor impact of the sector.

## G. Conclusion

*It is clear that the LDCs must integrate into the world economy. But they must manage their integration in a way that supports growth and poverty reduction.*

*How and when trade liberalization fits into a development strategy which promotes growth and poverty reduction must take account of the structural constraints in LDCs, particularly lack of social and economic infrastructure, weakness of market development, the thinness of the entrepreneurial class and low private sector production capabilities.*

This review of the patterns of trade integration and poverty within LDCs suggests that trade is as important in the economic life of the LDCs as it is in the economic life of other developing countries, but that export capacities are underdeveloped. This problem is particularly important in those LDCs that predominantly export primary commodities. Generalized poverty is characteristic of almost all LDCs. But the countries where the incidence of extreme poverty, defined by the $1-a-day poverty line, is highest are those LDCs whose export structures are dominated by primary commodities. These countries tend to be well integrated into the global economy in terms of their trade/GDP ratios and also to have undertaken more trade liberalization than LDCs that export manufactures and/or services. But they also have slower rates of export growth, they are becoming increasingly marginalized in global trade flows, and the incidence of poverty tends to be rising rather than falling.

The conventional wisdom that persistent poverty is due to the low level of trade integration of LDCs with the global economy, and insufficient trade liberalization, must be reassessed. The grip of the doctrine of inadequate integration and liberalization on policy thinking is founded on the prioritization of the goal of global integration over the goal of national development. These goals are, of course, not unrelated. But the way in which they are related should be an empirical issue, not an article of faith, nor, still less, founded on the assumption that integration is development, rather than a means to an end.

International trade is of immense importance for growth and poverty reduction in the least developed countries. Poverty is decreasing in those LDCs in which both GDP per capita and export orientation are increasing. It is clear that the LDCs must integrate into the world economy. But they must manage their integration in a way that supports growth and poverty reduction. The critical policy issue for most is not their low level of integration into the global economy, understood in terms of their trade/GDP ratio, but rather how to build competitive and dynamic export capacities and how to ensure that export growth is an integral element of a sustained development process. Improvement in production and supply capacities is a necessary condition for deriving benefits from globalization of markets.

Trade liberalization within the LDCs has a role to play in this process of managed integration. But it is wrong to conflate the role that trade can play in poverty reduction with the role that trade liberalization can play. Moreover, how and when trade liberalization fits into a development strategy which promotes growth and poverty reduction must take account of the structural constraints in LDCs, particularly lack of social and economic infrastructure, weakness of market development, the thinness of the entrepreneurial class and low private sector production capabilities. The lesson from some of those LDCs that have developed competitiveness in manufactures is that a proactive export-push strategy, encompassing special incentives for export production, is vital for building up new export capabilities. Trade liberalization has generally been gradual, and regional arrangements have been an important part of the supportive trade regime. There has been a process of strategic integration into the world economy geared to supporting national development priorities.

# Annex to Chapter 3

## Product classification and country classification used in the analysis of the export structure of LDCs

### Product classification

The product classification used in the analysis of the merchandise export structure of LDCs in this chapter is based on the work of Wood and Mayer (1998). Data on merchandise exports were taken from the United Nations COMTRADE database and divided into two broad groups — primary products and manufactures — by classifying as manufactures all items in categories 5–9 of the Standard International Trade Classification (SITC) except phosphorous pentoxide and phosphoric acids (522.24), aluminium hydroxide (522.56), radioactive and associated material (524), pearl, precious and semi-precious stones, other than diamonds (667 other than 667.29), non-ferrous metals (68), live animals not elsewhere specified (941) and non-monetary gold (971).

Manufactures are further subdivided into low-skill and high-skill manufactures as follows: (a) low-skill manufactures: leather and leather manufactures (61); rubber articles (62); cork and wood manufactures, paper and paperboard (63–64); textiles, clothing, travel goods and footwear (65, 83, 84, 85); non-metallic mineral products, excluding precious stones (66 less 667); iron and steel (67); fabricated metal products (69); sanitary and plumbing equipment (81); transport equipment other than road motor vehicles and aircraft (78 less 781–784 + 79 less 792); furniture and parts thereof (82); miscellaneous manufactured articles (89); commodities and manufactures not classified elsewhere other than live animals and non-monetary gold (9 less 941, 971); (b) high-skill manufactures: chemicals and pharmaceutical products (5 less 522.24, 522.56, 524); diamonds, cut or otherwise worked but not mounted or set (667.29); non-electrical machinery (71–74); computers and office equipment (75); communication equipment and semiconductors (76, 776); electrical machinery (77 less 776); road motor vehicles (781–784); aircraft and associated equipment (792); scientific instruments, watches and photographic equipment (87, 88).

Primary products are then subdivided into unprocessed and processed primary products using the definition of manufactures in the International Standard Industrial Classification (ISIC). Processed primary products are those products that the ISIC classifies as manufactures but the SITC classifies as primary products. These include goods which are produced in factories, but which use large inputs of local raw materials — for example, canned tuna, wine, cigarettes, paper and aluminium ingots.

Primary products are further subdivided into minerals, metals and fuels on the one hand, and agricultural products on the other hand. Agricultural products are then subdivided into static and dynamic products on the basis of high unit values or an income elasticity of demand greater than one. The full listing of the sub-groups of primary products is set out in Wood and Mayer (1998).

### Country classification

The LDCs are classified into different types of exporters on the basis of the share of primary products and manufactures, as defined above, and of the share of services, in total exports of goods and services in the late 1990s. Total exports of goods and services were estimated by adding merchandise exports from the United Nations COMTRADE database to UNCTAD estimates of exports of commercial services. The latter are based largely on balance-of-payments statistics. The classification also drew on other sources, mainly ITC (2001) and country reports by the Economist Intelligence Unit (EIU).

The subdivision between exporters of primary commodities and exporters of manufactures and/or services is based on whether or not primary commodities or manufactures and services constituted over 50 per cent of total exports of goods and services. Ethiopia and the United Republic of Tanzania are borderline cases that are both classified as commodity-exporting LDCs.

The primary-commodity-exporting LDCs are further subdivided into oil-exporting LDCs and non-oil commodity exporting LDCs. The former group comprises Angola, Equatorial Guinea and Yemen, but excluded Sudan. Oil is now the major export of the latter country, but the classification is based on the composition of merchandise exports during the period 1997–1999.

The LDCs exporting manufactures and services are further subdivided into exporters of manufactures, exporters of services, and mixed manufactures and services exporters. This subdivision is difficult to make as the merchandise and services export data are not totally compatible.

LDCs exporting manufactures are identified as those economies in which there has been a significant expansion of labour-intensive manufactured exports since the early 1980s. Both Madagascar and Myanmar are included in the group, even though their manufactured exports are less than 50 per cent of merchandise exports. The group corresponds to the WTO (2001) classification of LDCs exporting manufactures, but includes Haiti.

LDCs exporting services are identified as those in which services constituted over 60 per cent of total exports of goods and services. If a strict 50 per cent criterion were used, Haiti, Nepal and Mozambique would be classified as exporters of services. But their economies are very different from those of the other exporters of services, and in the first two cases, manufactures constitute over 75 per cent of merchandise exports.

Finally, Senegal and Mozambique are included as mixed manufactures and services exporters as these two categories of exports constitute over 50 per cent of their total exports of goods and services, but they do not fall into the subdivisions above.

The classification of countries is shown below in annex table 2.

ANNEX TABLE 2. CLASSIFICATION OF LDCS BY MAJOR SOURCE OF EXPORT EARNINGS, LATE 1990S

| **Exporters of primary commodities (31)** | | | **Exporters of manufactures and/or services (18)** | | |
|---|---|---|---|---|---|
| **Non-oil commodity exporters** | | **Oil exporters** | **Manufactures exporters** | **Services exporters** | **Mixed manufactures and services exporters** |
| *Agricultural exporters* | *Mineral exporters* | | | | |
| Afghanistan | Central African Republic | Angola | Bangladesh | Cape Verde | Mozambique |
| Benin | Dem. Rep. of the Congo | Equatorial Guinea | Cambodia | Comoros | Senegal |
| Bhutan | Guinea | Yemen | Haiti | Djibouti | |
| Burkina Faso | Liberia | | Lao PDR | Gambia | |
| Burundi | Niger | | Lesotho | Maldives | |
| Chad | Sierra Leone | | Madagascar | Samoa | |
| Eritrea | Zambia | | Myanmar | Tuvalu | |
| Ethiopia | | | Nepal | Vanuatu | |
| Guinea-Bissau | | | | | |
| Kiribati | | | | | |
| Malawi | | | | | |
| Mali | | | | | |
| Mauritania | | | | | |
| Rwanda | | | | | |
| Sao Tome and Principe | | | | | |
| Solomon Islands | | | | | |
| Somalia | | | | | |
| Sudan[a] | | | | | |
| Togo | | | | | |
| Uganda | | | | | |
| United Rep. of Tanzania | | | | | |

*Source:* UNCTAD secretariat estimates based on UN COMTRADE data, UNCTAD data on commercial services exports, ITC (2001) and various EIU country reports.

a Sudan should be classified as an oil exporter after 1999.

## Notes

1. Some examples of this view are: "Countries with the highest levels of integration tended to exhibit the fastest output growth, as did countries that made the greatest advances in integration. Many low-income countries are among the least integrated, however, and some became even more marginalized during this period experiencing falling incomes and reduced integration" (World Bank, 1996: 20); "Countries that align themselves with the forces of globalization and embrace the reforms needed to do so, liberalizing markets and pursuing disciplined macroeconomic policies, are likely to put themselves on a path of convergence with advanced economies, following the successful Asian newly industrializing economies (NIEs). These countries may be expected to benefit from trade, gain global market share and be increasingly rewarded with larger private capital flows. Countries that do not adopt such policies are likely to face declining shares of world trade and private capital flows, and to find themselves falling behind in relative terms" (IMF, 1997: 72); "Open trade regimes lead to faster growth and poverty reduction in poor countries" (Dollar and Kraay, 2001: 27); "Globalization generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused" (World Bank, 2002a:1); and "*Problem* — Countries that are not involved in globalization may become increasingly marginalized and mired in poverty. *Policy response* — This calls for poverty reduction strategies and policies to promote the integration of low-income countries into world markets. Rich countries need to open their markets to exports from developing countries" (Finance and Development, 2002). For a non-technical critique of the integrationist perspective, see Rodrik (2001).
2. Trade data available for this task are not ideal. This chapter uses United Nations COMTRADE data for analysis of the composition of exports, including mirror statistics in group aggregates where necessary, and it also uses World Bank *World Development Indicators 2001* for information on total exports and imports of goods and services. In each chart, the sample is based on the maximum available number of countries. For a country-by-country overview of export composition, as well as the data problems in analysing trade of LDCs, see ITC (1999, 2001).
3. The reader should be aware that different trade indicators can be used to estimate trade integration (for example, balance-of-payments statistics versus trade statistics, constant prices versus current prices, local currency units versus dollars, trade ratios which estimate GDP at PPP exchange rates). The statistics chosen here are the most straightforward — World Bank group averages for exports and imports of goods and services as a percentage of GDP. Other indicators give slightly higher or lower levels of trade integration. For example, for the LDC group as a whole, total trade as a percentage of GDP (in constant 1995 dollars) was 41 per cent in 1997–1998, and total trade as a percentage of GDP (using balance-of-payments estimates of exports and imports of goods and services in current dollars) was 46 per cent.
4. For discussion of the classification, see annex 3.1.
5. In Cape Verde, Maldives and Vanuatu, services exports were important from the outset.
6. These numbers are based on World Bank estimates of exports and imports of goods and services in current dollars.
7. We are grateful to the IMF for furnishing the information on trade restrictiveness.
8. For discussion of the effect of trade liberalization on income inequality, see UNCTAD (1997: Part 2, chapter 4).
9. See Sachs (2000) for a discusssion of the ways in which geography, primary commodity dependence and demographic pressure limit income convergence, and Ghose (2001) for a discussion of the relationship between income convergence and growth of exports of manufactures.
10. For empirical evidence of the fact that primary commodity exports are often less growth-enhancing than exports of manufactured goods, and discussion of the reasons, see Fosu (1996) and Richards (2001).

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