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THE LEAST DEVELOPED COUNTRIES REPORT 2002

Escaping the Poverty Trap



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Commodity export dependence, the international poverty trap and new vulnerabilities

Chapter

4

A. Introduction

The patterns described in the previous chapter show that there is a clear link between dependence on exports of primary commodities and the incidence of extreme poverty. The reasons for this have not featured in current debates on international trade and poverty. Indeed, there does not seem to be an explicit awareness in international policy circles that the commitment to reducing extreme poverty by half by the year 2015 necessarily implies attention to the primary commodity problem.

The present chapter examines some of the mechanisms through which commodity export dependence is related to the poverty trap in which many LDCs are caught, and discusses the vulnerabilities of those LDCs that have begun to shift out of commodities into exports of manufactures and/or services.¹ It begins in section B by considering two purely trade mechanisms through which commodity dependence may be related to poverty, namely the level and volatility of commodity prices, and the productivity, competitiveness and dynamism of the LDC commodity economy. Section C examines how external trade relationships and external finance relationships can interact, both with each other and with the cycle of low domestic investment, savings and productivity which is characteristic of situations of generalized poverty, to reinforce the poverty trap of LDC commodity exporters. This extends the discussion of the poverty trap in chapter 2, and shows how international relationships are integral elements of the poverty trap of commodity-exporting LDCs. Section D discusses the vulnerability of exporters of manufactures and services which are seeking to escape the trap by diversifying out of commodity exports. Section E examines whether globalization is tightening or loosening the poverty trap. The conclusion summarizes the main findings.

There is a clear link between dependence on exports of primary commodities and the incidence of extreme poverty.

B. Commodity export dependence and poverty: trade mechanisms

1. THE LEVEL AND VOLATILITY OF PRIMARY COMMODITY PRICES

The level and volatility of world commodity prices are an important influence on economic growth and the incidence of poverty in LDCs, particularly those that are dependent on primary commodities as their major source of export earnings. Falling real commodity prices result in lower growth rates in commodity-exporting LDCs. This occurs through the direct income losses associated with the price changes. But more important, the deterioration of the terms of trade tightens the foreign exchange constraint, which leads to reduced levels of capacity utilization and reduced efficiency in resource use, owing to a lack of key imports (such as spare parts, intermediate products and replacement equipment), as well as reduced levels of domestic investment. In addition, "commodity-dependent countries often suffer from severe terms of

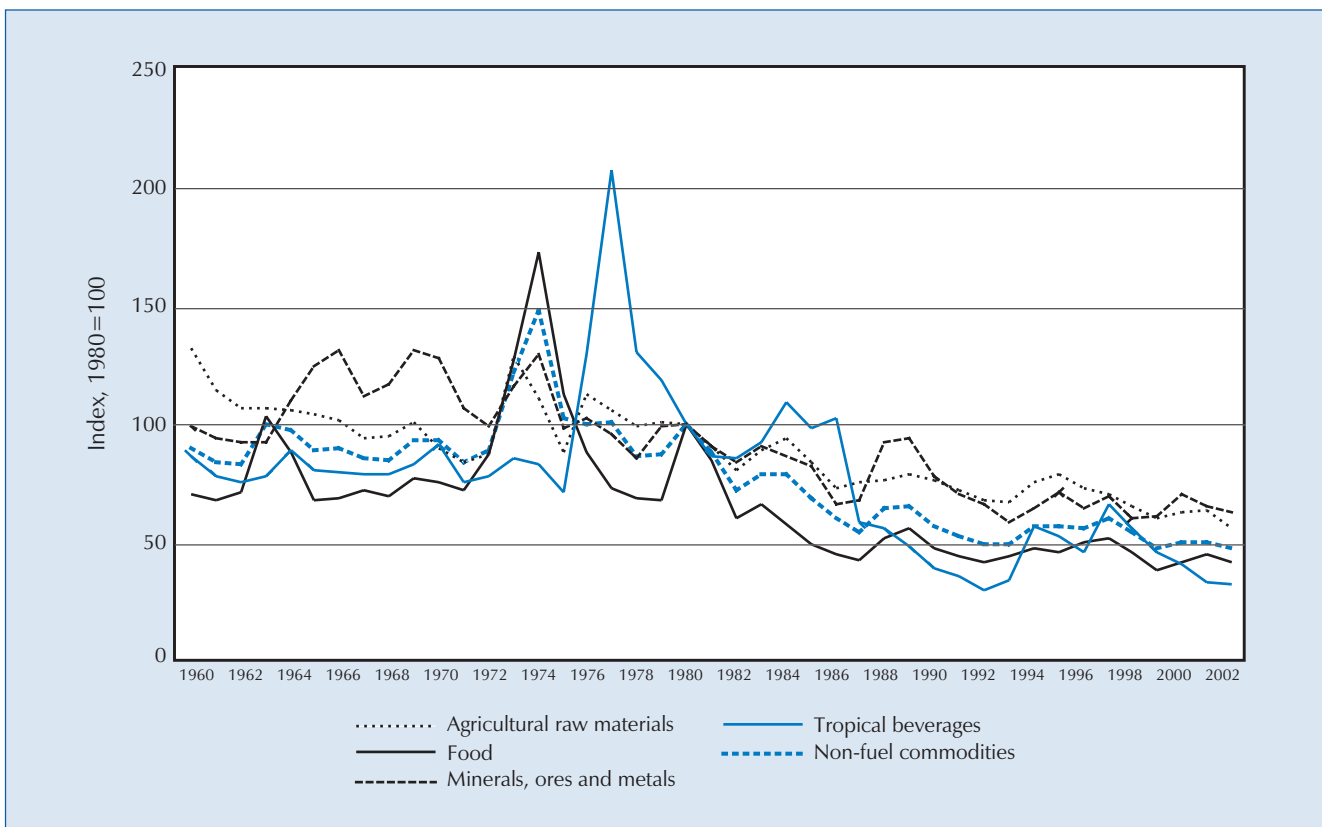
The level and volatility of world commodity prices are an important influence on economic growth and the incidence of poverty in LDCs.

trade shocks, and this in turn has detrimental effects on their long-term economic growth and investment" (Varangis, Akiyama and Mitchell, 1995: 16). Cross-country regression analysis shows that the adverse effects of negative commodity price shocks work particularly through their effects on investment, and that they are significant even after account has been taken of the quality of government economic policy and institutions. This implies that the adverse effects occur even when what are regarded as "good" policies are in place (Dehn, 2000a, 2000b).²

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There has been a long-term downward trend in real non-fuel commodity prices (or in commodity terms of trade)³ since 1960, with a particularly marked slump in prices in the first part of the 1980s (chart 38). Comparative research shows that "the commodity prices recession of the 1980s has been more severe, and considerably more prolonged, than that of the Great Depression of the 1930s" (Maizels, 1992: 11). In 2001, the UNCTAD combined non-fuel commodity price index, deflated by the price index of manufactured exports of developed countries, was at 55 per cent of its annual average for the period 1979–1981. For some groups of commodities, notably tropical beverages and food, the decline in real world prices has been even steeper, standing at 32 per cent and 53 per cent of the average in 1979–1981 (chart 38). For agricultural raw materials, and minerals, ores and metals, the decline since the start of the 1980s has been less steep, but still significant. Real commodity prices for agricultural raw materials and for minerals, ores and metals in 2001 stood at 65 per cent and 67 per cent respectively of their level in 1979–1981. Real non-fuel

CHART 38. WORLD FREE MARKET PRICES FOR NON-FUEL PRIMARY COMMODITIES AND PRIMARY COMMODITY SUB-GROUPS, 1960–2002^a
(Index, 1980 = 100)



Source: UNCTAD secretariat estimates based on UNCTAD *Commodity Price Bulletin*.

a Figures for 2002 are based on the first quarter.

commodity prices have also become more volatile than in the period before 1970 (Dehn, 2000a; Cashin and McDermott, 2001).

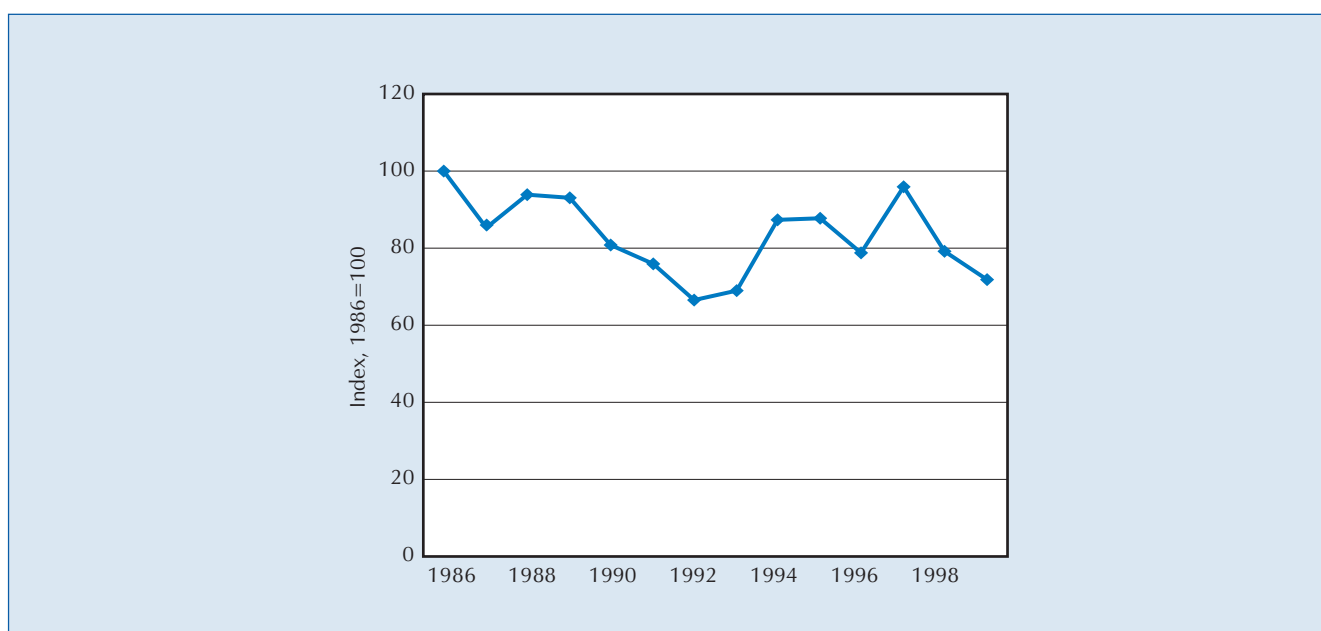
It is possible to construct estimates of recent movements in the commodity terms of trade of the least developed countries using the IMF index (published in the statistical annex of certain issues of its *World Economic Outlook*) that estimates the world market prices of the non-fuel commodity exports of the least developed countries. On the basis of this index, it is evident that real commodity prices of LDC exports declined by over 30 per cent between 1986 and 1999 (chart 39). But within the overall downward movement, there have been distinct ups and downs. From 1986 to 1992, real commodity prices declined by 33 per cent of their 1986 level. From 1993 to 1997, they improved considerably, standing in 1997 at 44 per cent higher than their level in 1992. But since then, particularly in the wake of the financial crisis in Asia, they have once again declined sharply, in spite of decreases in the unit value of manufactures exported from developed countries.

Falling real commodity prices mean that a larger volume of exports is required in order to finance a given volume of imports. Using the IMF index as a measure of unit value, it can be estimated that the volume of commodity exports from LDCs increased by 43 per cent between 1986 and 1999 (table 32). But the value of LDC commodity exports increased by only 26 per cent over this period, and the purchasing power of commodity exports⁴ increased by only 3 per cent between 1986 and 1999.

Within these overall trends there has been much variability. There were substantial increases in export volumes in 1990–1992, 1994–1995 and 1997–1999. The first and the last of these periods of rapid commodity export growth follow a succession of years (1988–1990 and 1994–1997) in which the export unit value index was above the 1986 level. But both the first and the second of these export volume increases were followed by a sharp downward movement

The volume of commodity exports from LDCs increased by 43 per cent between 1986 and 1999. But the purchasing power of commodity exports increased by only 3 per cent.

CHART 39. NON-FUEL COMMODITY TERMS OF TRADE OF LDCs, 1986–1999
(Index, 1986=100)



Source: UNCTAD secretariat estimates based on IMF estimates of world market prices of non-fuel primary commodity exports of LDCs (IMF, *World Economic Outlook*, various issues, Statistical Annex) and UN index of unit value of exports of manufactures from developed market-economy countries.

which followed a drop in export prices. The low point in the series with regard to export volume was 1994. Between that date and 1999, the volume of exports from LDCs increased by 54 per cent. The purchasing power of commodity exports from LDCs traced a U-shaped pattern. The purchasing power of commodity exports fell by 20 per cent from 1986 to 1993, but then rose by 28 per cent from 1993 to 1999 (see table 32).

Not only are the net barter terms of trade declining in the world's poorest countries, but there is also strong evidence that the adverse influences on developing countries that Prebisch and Singer warned against 50 years ago are at work in almost all the world's poorest commodity-exporting countries

The foreign exchange losses due to the changes in the commodity terms of trade in LDCs have been significant. The annual average foreign exchange losses associated with movements in the commodity terms of trade from 1986 to 1999 were equivalent to \$0.68 billion per year (at 1986 prices) during 1987–1989, \$2.25 billion per year during 1990–1993, \$0.99 billion per year during 1994–1997 and \$2.4 billion per year during 1998–1999.⁵ The average annual foreign exchange loss in the last period was equivalent to one third of the 1986 value of LDC commodity exports.

As the majority of LDCs are net food and net-oil importers, the effects of deterioration in the commodity terms of trade may be offset partly by trends in food prices and oil prices. The adverse effects of the commodity price declines since 1997 have been dampened somewhat in the LDCs, in the short term at least, owing to lower prices for food imports and until 2000 by lower prices for oil imports (Herrmann and David, 2001). But in LDCs that are highly dependent on primary commodity exports, the trends in real commodity prices remain central to trends in the countries' overall net barter terms of trade.⁶ Recent research shows that the decline in the net barter terms of trade is a particular problem for the least developed countries (Mendoza, 2001). Moreover, not only are the net barter terms of trade declining in the world's poorest countries, but there is also strong evidence that the adverse influences on developing countries that Prebisch and Singer warned against 50 years ago are at work in almost all the world's poorest commodity-exporting countries (see box 12). This is creating

TABLE 32. UNIT VALUE, VOLUME AND PURCHASING POWER OF NON-FUEL COMMODITY EXPORTS OF LDCs, 1986–1999
(Index, 1986=100)

Year	Export unit value ^a	Export volume ^b	Purchasing power of exports ^c
1986	100.0	100.0	100.0
1987	96.5	103.2	88.1
1988	112.7	96.9	91.0
1989	110.8	105.4	98.0
1990	106.0	102.1	82.5
1991	99.4	111.1	84.2
1992	89.8	127.2	84.5
1993	88.4	116.4	80.3
1994	114.7	93.1	81.2
1995	126.7	120.3	105.4
1996	110.1	113.0	88.9
1997	124.6	97.7	93.6
1998	99.8	125.0	98.9
1999	87.9	143.0	102.6

Source: UNCTAD secretariat estimates.

- Note:
- a The export unit value index is based on IMF estimates of world market prices of LDCs' non-fuel commodity exports (IMF, *World Economic Outlook*, various issues, Statistical Annex).
 - b The value of LDC commodity exports, based on UN COMTRADE data, divided by their average unit value.
 - c The value of LDC commodity exports, deflated by the UN index of unit value of exports of manufactures from developed market-economy countries.

an “uphill” external environment that is constantly undermining development and poverty reduction efforts, and inhibiting trade with more prosperous and growing parts of the world from acting as an engine of growth in the LDCs.

The magnitude of the effects of this external environment are worth underlining. World Bank estimates for non-oil-exporting countries in sub-Saharan Africa, most of which are LDCs, suggest that their cumulative terms-of-trade losses over the period from 1970 to 1997 amounted to 119 per cent of regional GDP in 1997 and 51 and 68 per cent of cumulative net resource flows and net resource transfers to the region respectively (World Bank, 2000). It has been estimated that if these resources had been available for domestic uses and invested productively, the annual growth of those countries could have been 1.4 per cent per annum faster. Without these losses, and assuming that resources were invested productively, income per capita could have been 50 per cent higher in those countries and poverty rates would have been concomitantly much lower (UNCTAD, 2000a).

The effects of primary commodity price instability are also particularly significant in the LDCs. As shown in *The Least Developed Countries 2000 Report*, what distinguishes these countries is not necessarily that they are exposed to greater shocks than other developing countries, but rather that the scale of these shocks in relation to domestic resources available to finance investment is extremely large. In a sample of 18 non-fuel commodity-exporting LDCs for which data are available, the maximum two-year terms-of-trade shock over the period 1970–1999 led to income losses of over 100 per cent of the domestic resources available to finance investment in any given year in eight of them, and income losses of over 25 per cent of domestic resources available to finance investment in a further eight (see UNCTAD, 2000b: 38–39).

Commodity price trends also affect the incidence of poverty through their impact on the employment opportunities and earnings of commodity producers. At the household and enterprise level, the impact of price changes depends on whether global and border price trends are passed through to the producer at the local level, and whether improvements in productivity and yields are compensating for falling prices. With regard to price transmission, marketing boards and *caisses de stabilisation* have in the past acted as a buffer between world prices and agricultural producer prices in many commodity-exporting LDCs. As these institutions have been dismantled within the framework of structural adjustment programmes, producers have been more closely exposed to the ups and downs of world commodity markets. Producers have often seen their share of national border prices of commodities increase, although the pattern is mixed (see Boratav, 2001) and has occurred particularly in more accessible and high-population-density areas. But in the face of declining world commodity prices, real producer prices have also declined.

The recent example of coffee is a good example of the problems which producers can face. Prices paid to coffee growers have declined between 1995 and 2000 in nominal terms by over 50 per cent in 10 out of 14 LDCs for which data are available (table 33). This implications of this for livelihoods in these countries, particularly in those countries almost completely dependent on coffee exports, cannot be over-emphasized.

The effects of primary commodity price instability are also particularly significant in the LDCs.

With the dismantling of marketing boards, producers have often seen their share of national border prices of commodities increase, although the pattern is mixed and has occurred particularly in more accessible and high-population-density areas. But in the face of declining world commodity prices, real producer prices have also declined.

BOX 12. THE TERMS OF TRADE OF THE WORLD'S POOREST COMMODITY-EXPORTING COUNTRIES

The Prebisch–Singer hypothesis that there is a long-term decline in the price of primary commodities relative to the price of manufactures continues to be an object of controversy. Most tests of the hypothesis use time series models to estimate trend growth rates in selected relative prices. The focus of concern has been either the net barter terms of trade between producers of primary products (equated with developing countries) and producers of manufactures (equated with industrialized countries), or the prices of a basket of commodities relative to the price of manufactures (the commodity terms of trade). A new approach which has been developed recently is to construct a structural model which seeks to identify different factors which impinge on the prices of manufactured goods and primary commodities (Bloch and Sapsford, 1997).

BOX TABLE 1. TRENDS AND VOLATILITY IN THE NET BARTER TERMS OF TRADE OF THE WORLD'S POOREST^a COMMODITY-EXPORTING COUNTRIES, 1960–1993^b

Country	Period 1	Trend	Volatility	Period 2	Trend	Volatility
		<i>Annual average percentage change</i>			<i>Annual average percentage change</i>	
Burkina Faso	1960–1968	0.00	0.127	1969–1991	-3.12	0.059
Burundi ^c	1965–1993	-7.99	-0.307	-	-	-
Chad	1960–1972	12.50	0.034	1973–1993	1.77	0.082
Dem. Republic of the Congo	1960–1984	-9.18	0.110	1985–1993	-6.18	0.037
Ethiopia	1960–1974	0.00	0.063	1975–1993	-10.38	0.192
Guineau-Bissau	1965–1977	-10.72	0.079	1978–1993	0.00	0.216
Madagascar ^c	1960–1991	-1.98	0.128	-	-	-
Malawi	1960–1973	21.95	0.054	1974–1993	-2.86	0.095
Mali	1960–1981	0.00	0.088	1982–1993	-1.47	0.030
Niger	1960–1986	-6.17	0.086	1987–1993	-0.72	0.020
Rwanda	1960–1974	0.00	0.081	1975–1993	-12.30	0.185
Sierra Leone	1960–1977	-2.60	0.072	1978–1993	-3.28	0.065
Sudan	1960–1987	-2.44	0.096	1988–1993	-5.77	0.033
United Rep. of Tanzania	1960–1973	0.00	0.050	1974–1993	-4.16	0.094
Zambia	1960–1979	-21.10	0.124	1980–1993	-7.50	0.099

Source: Sapsford (2001).

Note: A reported trend rate of growth of zero indicates that the relevant estimated coefficient is not significantly different from zero at conventional levels.

- a The poorest commodity-exporting countries are identified according to their GNP per capita (World Bank Atlas method) in 1997.
- b The net barter term of trade estimates are based on structural model which controls for the influence on the terms of trade of fluctuations in the level of production in the industrialized world.
- c Trend and volatility estimates cover the whole data series as there is no structural break in the trend.

Applying this approach, it has been found that the overall trend identified in the time series models is the net effect of separate divergent influences. On the one hand, there are Prebisch and Singer effects that exert a downward pressure on the commodity terms of trade. These effects arise because of differences in market structure (markets for primary products are more perfectly competitive) and differences in the factor bias of technical change (technical change in manufactures is assumed to save raw material inputs and labour). On the other hand, rising industrial output can have a counteracting effect, as primary products used in manufacturing activity experience rising prices when the level of manufacturing activity increases.

Box table 1 above shows estimates of the trend growth rates in the net barter terms of trade (expressed as per cent per annum) of 15 LDCs, which are the world's poorest commodity-exporting countries. The estimates cover the period 1960–1993, for which there is a consistent UNCTAD time series of the terms of trade for those countries. They have been made using a structural model, which controls for the influence on country-specific terms of trade of fluctuations in the level of production in the industrialized world. The OECD's Index of Industrial Production was used as a measure of the level of industrial production in the industrialized world. The table also includes estimates of terms-of-trade volatility for these countries, using the standard error of estimate about the regression line

Box 12 (contd.)

as a measure of volatility. Tests have been carried out to see if there is a structural break in the trend, and if so, this is reported, along with the measure of terms-of-trade volatility in each sub-period.

The table can be read across the rows. It shows for Ethiopia, for example, that, after controlling for the influence on this country's terms of trade of fluctuations in the level of production in the industrialized world, there was a change in the trend growth rate of its terms of trade in 1974, after which date the previous trendless situation was replaced by one in which the terms of trade deteriorated at an annual trend rate of 10.38 per cent. This worsening in trend was accompanied by a trebling of terms-of-trade volatility as between the pre- and post-1974 situations.

The main results of the table can be summarized as follows:

- Of the 15 poorest commodity-exporting countries, all but two experienced a significant change in the trend rate of growth of their terms of trade during the period 1960-1993.
- In 9 out of the 13 cases, the change in the trend occurred between 1972 and 1982.
- Nineteen out of 28 reported trend estimates are negative.
- Only three of the reported trend estimates are positive.
- In 9 out of the 13 countries where there is a trend shift, the pattern shows a worsening of the situation in respect of terms of trade.
- In 6 out of the 13 countries where there is a trend shift, the pattern shows an increase in the volatility of the terms of trade.

These results show that many of the poorest commodity-exporting LDCs in the world have indeed been subject to Prebisch–Singer effects on their terms of trade, which have exerted a continuous downward pressure on economic and export growth, offsetting the positive effects which they might have experienced as a result of the positive effect of expanding industrial output.

Source: Sapsford (2001).

TABLE 33. COFFEE PRICES PAID TO GROWERS IN EXPORTING LDCs, 1995, 1998 AND 2000
(US cents per pound, current terms)

	1995	1998	2000
Colombian milds			
United Rep. of Tanzania	71.32	70.95	64.00 ^a
Other milds			
Burundi	53.04	48.94	33.20
Dem. Republic of the Congo	81.65
Haiti	26.93	..	24.28 ^a
Malawi	108.96	67.36	48.99
Madagascar	88.61	52.14	20.82
Rwanda	56.92	46.29	26.38
Uganda	109.80	117.34	76.29
Zambia	107.84
Brazilian naturals			
Ethiopia	73.32	88.68	49.86
Robustas			
Angola	29.49	49.90	45.36 ^a
Burundi	41.11
Central African Republic	58.31	34.02	16.44
Dem. Republic of the Congo	45.36
Madagascar	66.46	43.45	17.35
Togo	69.08	48.60	12.40
United Republic of Tanzania	48.14	27.13	17.78 ^a
Uganda	94.41	115.02	26.07

Source: International Coffee Organization (2001).

a 1999.

2. PRODUCTIVITY, COMPETITIVENESS AND DYNAMISM OF LDC COMMODITY EXPORTS

It is possible to offset the consequences of adverse effects of declining terms of trade on material well-being through productivity and quality improvements, and diversification and upgrading within the primary sector. Diversification into more sophisticated primary products can also provide more dynamic growth effects than simple commodities. But within most commodity-exporting least developed countries, the negative effects of terms-of-trade movement on growth and poverty have been exacerbated by a weak primary commodity sector.

Diversification into more sophisticated primary products provide more dynamic growth effects than simple commodities.

The commodity-exporting LDCs generally export a narrow range of primary commodities for which the growth of global demand is slow. Productivity tends to be lower than in other developing countries and productivity growth is slow and certainly insufficient to offset the negative effects of falling commodity prices. In some of their traditional exports, commodity-exporting LDCs are losing market share, and diversification into more dynamic sectors and upgrading into more value-added segments of commodity production are occurring very slowly.

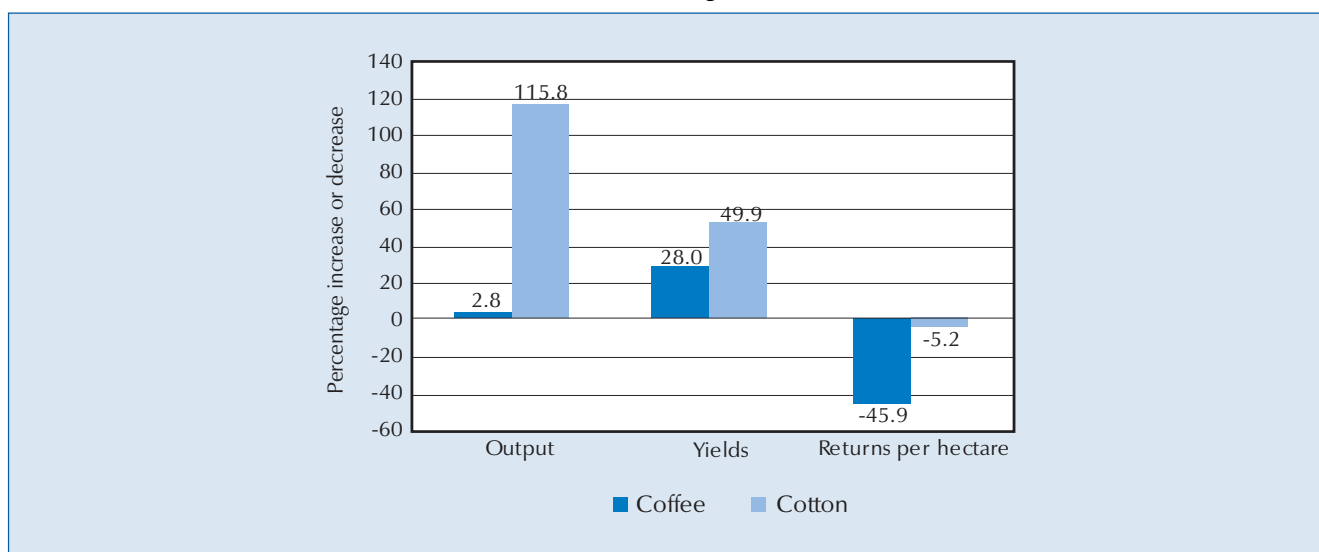
Enterprise-level studies indicate that there are important new developments in the commodity sector within the LDCs (ITC, 2001a, 2001b). But progress is still patchy and small islands of improvement and best practice have not yet been translated into economy-wide and sector-wide structural transformations. Indeed, this dichotomy between pockets of enterprise success at the micro level and a lack of dynamism and diversification at the economy-wide level is a key feature of commodity-exporting LDCs that needs to be addressed in policy terms (see chapter 5).

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The productivity gap between LDCs and other developing countries and the rest of the world is discussed extensively in *The Least Developed Countries 1999 Report*. Available evidence on crop yields for seven agricultural exports shows that crop yields were on average lower in LDCs than in other developing countries over the period 1980–1997 in all cases but cocoa. For the two most important agricultural exports of LDCs — coffee and cotton — yields would have to be 10 per cent and 59 per cent higher respectively to reach the average productivity level of other developing countries, and 147 per cent and 219 per cent higher to reach the level of the most advanced producers of these commodities (UNCTAD, 1999: table 23).

The evidence suggests that productivity for these crops is rising in a number of LDCs. But productivity growth on average has not been sufficient to offset the effects of declining commodity prices. For coffee and cotton, yields were 28 per cent and 50 per cent higher respectively, in 2000 than in 1980. But assuming that national prices moved in line with world prices, real returns per hectare would have been 46 per cent lower in 2000 than in 1980 for LDC coffee producers and 5 per cent lower for LDC cotton producers (chart 40). This is, of course, an imperfect measure of profitability as it is necessary also to take account of costs of inputs and labour. But declining real returns imply not only that producers, livelihoods are being squeezed, but also that it is difficult to attract investment and increase productivity. The correction to the oversupply in world commodity markets, which is the cause of low commodity prices, occurs through the market mechanism by the elimination of marginal producers such as those in the LDCs. Such market corrections occur, in real terms, either, as the economics textbooks indicate, through the reallocation of labour and land

CHART 40. CHANGE IN OUTPUT, YIELDS AND REAL RETURNS PER HECTARE^a
IN COTTON AND COFFEE PRODUCTION IN LDCs, 1980–2000
(Percentage)



Source: UNCTAD secretariat estimates based on UNCTAD (1999: tables 20 and 21), updated with FAO, FAOSTAT for output and yield changes, and UNCTAD *Commodity Price Bulletin* for estimate of output price changes.

a The estimates of real returns per hectare assume no change in input prices and labour costs.

resources by switching to more profitable crops or by migrating to work in cities, or through destitution, worsening health and rising death rates.

Not only are the commodity export sectors in LDCs characterized by low productivity, but also their traditional commodities are concentrated in sectors within which world demand is either slower than average or declining, and in a number of these sectors they are actually losing market share. It has been estimated that the LDCs' share in world commodity exports declined from 4.7 per cent in 1970–1972 to 1 per cent in 1998–1999 (Megzari, 2001). If the same share had been maintained as in 1970–1972 (and assuming that this would not have had any impact on prices) LDCs average export earnings would have been \$24.9 billion higher than they actually were in 1998–1999. This would have doubled LDC exports. The loss of world market share occurred in food and beverages as well as agricultural raw materials, with LDC market share in those sectors falling between 1970–1972 and 1998–1999 from 3 per cent to 0.9 per cent and from 5 per cent to 1.3 per cent respectively. However, the loss of market share is particularly pronounced for minerals and metals, where the LDC share fell from 8.6 per cent to 1 per cent of the world market.

Table 34 shows the situation in the mid-1990s at a more detailed level of product disaggregation and during a period of relatively good export performance. It is clear that the main products in which LDCs are gaining market share in growing world markets are clothing and textiles. There are only four primary commodity exports in which LDCs are gaining market share and world demand is growing faster than the average — tobacco, leguminous vegetables, fish fillets and tuna. Out of the total LDC non-fuel primary commodity exports recorded in the table of \$16.6 billion in 1998, only \$3.4 billion (20 per cent) were in products for which world imports were growing during 1994–1998 at above average rates and the LDCs were gaining market share. For agricultural exports, there are gains in market share in a range of commodities, but these are occurring in segments of the global market where growth of world imports is slower than the average or actually declining. For minerals, ores and metals, the picture is more mixed, but once again production is concentrated in products

In 1998, only 20 per cent of the total LDC non-fuel primary commodity exports were in products for which world imports were growing during 1994–1998 at above average rates and the LDCs were gaining market share.

TABLE 34. GROWTH OF WORLD IMPORTS AND CHANGE IN WORLD MARKET SHARE OF MAJOR LDC EXPORTS, 1994–1998

Change of world market share of LDC exports, 1994–1998						
Increasing				Decreasing		
Product	Type	1998 export value (million \$)	Product	Type	1998 export value (million \$)	
Fast growth rate ^a	T-shirts, singlets and other vests, of cotton, knitted	Manufactures	542	Logs, keruing, ramin, kapur, teak, jongkong, merbau, etc.	Primary commodity	219
	Mens/boys trousers and shorts, of cotton, not knitted	Manufactures	507	Natural uranium & its compounds; mixtures containing natural uranium/its compounds	Primary commodity	152
	Pullovers, cardigans and similar articles of man-made fibres, knitted	Manufactures	453			
	Tobacco, unmanufactured, partly or wholly stemmed or stripped	Primary commodity	335			
	Womens/girls trousers and shorts, of cotton, not knitted	Manufactures	290			
	Pullovers, cardigans and similar articles of cotton, knitted	Manufactures	268			
	Mens/boys anoraks and similar articles, of man-made fibres, not knitted	Manufactures	227			
	Mens/boys shirts, of cotton, knitted	Manufactures	162			
	Womens/girls anoraks & similar article of man-made fibres, not knitted	Manufactures	158			
	Leguminous vegetables dried, shelled, whether or not skinned or split, nes	Primary commodity	95			
	Mens/boys trousers and shorts, of synthetic fibres, not knitted	Manufactures	93			
	Womens/girls briefs and panties, of cotton, knitted	Manufactures	83			
	Fish fillets frozen	Primary commodity	78			
	Tunas, skipjack & atl bonito, prepared/preserved, whole/in pieces, ex-minced	Primary commodity	76			
	Total	All goods	3367	Total	All goods	371
Sub-total	Manufactures	2782	Sub-total	Primary commodities	371	
Sub-total	Primary commodities	585	Sub-total	Manufactures	-	
Slow growth rate ^b	Petroleum oils and oils obtained from bituminous minerals, crude	Primary commodity	4988	Copper cathodes and sections of cathodes unwrought	Primary commodity	369
	Diamonds non-industrial unworked or simply sawn, cleaved or bruted	Primary commodity	1777	Cobalt, unwrought, matte & other intermediate products, waste, scrap and powders	Primary commodity	239
	Coffee, not roasted, not decaffeinated	Primary commodity	1186			
	Mens/boys shirts, of cotton, not knitted	Manufactures	589			
	Iron ores & concentrates, other than roasted iron pyrites, non-agglomerated	Primary commodity	255			
	Hats & other headgear, knitted or made up from lace, or other textile mat	Manufactures	150			
	Cashew nuts, fresh or dried, whether or not shelled or peeled	Primary commodity	147			
	Sesamum seeds, whether or not broken	Primary commodity	139			
	Natural calcium phosphates, aluminum calcium phosphates, etc., unground	Primary commodity	75			
	Total	All goods	9306	Total	All goods	608
Sub-total	Primary commodities	8567	Sub-total	Primary commodities	608	
Sub-total	Manufactures	740	Sub-total	Manufactures	..	
Negative growth rate ^c	Cotton, not carded or combed	Primary commodity	925	Mens/boys shirts, of man-made fibres, not knitted	Manufactures	219
	Shrimps and prawns, frozen, in shell or not, including boiled in shell	Primary commodity	605	Logs, non-coniferous n.e.s.	Primary commodity	205
	Aluminium ores and concentrates	Primary commodity	418	Carpets of wool or fine animal hair, knotted	Manufactures	158
	Pullovers, cardigans & similar article of wool or fine animal hair, knitted	Manufactures	88	Womens/girls blouses and shirts, of cotton, not knitted	Manufactures	129
				Octopus, frozen, dried, salted or in brine	Primary commodity	122
				Diamonds unsorted whether or not worked	Primary commodity	86
	Total	All goods	2036	Grand total	All goods	919
	Sub-total	Primary commodities	1948	Sub-total	Primary commodities	505
Sub-total	Manufactures	88	Sub-total	Manufactures	413	

Source: UNCTAD secretariat estimates based on ITC (1999).

Note: Product labels correspond with the Harmonized Commodity Description and Coding System (HS), Rev. 0.

a Annual percentage growth of world imports of these products is above the average nominal growth rate of total world imports from 1994–1998 (5.75 per cent per annum).

b Annual percentage growth of world imports of these products is below the average nominal growth rate of total world imports from 1994–1998.

c Annual percentage growth of world imports of these products is negative.

where growth of world imports is slow or declining. From this analysis, it is clear therefore that the problem of export development in the LDCs is not simply a question of competitiveness in traditional sectors. The primary problem now is the failure to diversify into more dynamic sectors.

Comparison between the non-fuel commodity-exporting LDCs and those which have diversified into manufactures and/or services shows that even the primary commodity exports of the latter group are more dynamic than those of the former. As table 35 shows, static unprocessed agricultural products constituted 37 per cent of the primary commodity exports of non-oil commodity exporters in 1981–1983 and 43 per cent in 1997–1999. The share of dynamic agricultural primary commodities, both processed and unprocessed, increased only from 13 to 14 per cent of total primary commodity exports over the period. For the manufactures and/or services exporters, although commodity exports are much less important overall, there is a much greater share of dynamic agricultural products in their commodity exports. Moreover, this share actually increased over the period from 1981–1983 to 1997–1999, from 37 per cent to 48 per cent of their total primary commodity exports.

Commodity-exporting LDCs are also failing to capture more value added through quality improvement, product differentiation and local processing. It is difficult to measure trends in such upgrading in all its aspects. But country-level evidence suggests that decline in quality has been a side effect of agricultural market liberalization in some LDCs (Gibbon, 2001). Moreover, there is clear evidence that there has been a collapse of commodity processing in LDCs over the last 20 years (see table 27, chapter 3). Indeed, the share of processed commodities in total LDC exports fell from 21 to 8 per cent between 1981–1983 and 1997–1999. Thus, in terms of domestic processing, instead of moving up the value chain, the LDCs are sliding down it. This has occurred in both commodity-exporting LDCs and those exporting manufactures and services. The trend is particularly evident in mineral exporters.

The share of processed commodities in total LDC exports fell from 21 to 8 per cent between 1981–1983 and 1997–1999. Thus, in terms of domestic processing, instead of moving up the value chain, the LDCs are sliding down it.

TABLE 35. DIVERSIFICATION WITHIN THE COMMODITY SECTOR IN LDCs AND LDC SUB-GROUPS, 1981–1983, 1987–1989 AND 1997–1999
(Percentage of total primary commodity exports)

	Non-oil commodity exporting LDCs			Oil exporters			Manufactures and/or services 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
Unprocessed primary commodities	70.9	69.4	83.9	92.7	96.2	98.0	67.1	72.5	79.6	75.5	77.4	88.9
Static agricultural products	37.4	36.9	42.6	5.7	2.1	2.1	29.5	24.2	27.8	31.9	28.5	28.2
Dynamic agricultural products ^a	9.8	10.6	12.2	0.0	0.3	1.3	27.7	39.2	45.0	10.8	12.0	13.5
Minerals, metals and fuels	23.7	21.9	29.1	86.9	93.8	94.5	9.9	9.1	6.8	32.8	36.9	47.2
Processed primary commodities	29.1	30.6	16.1	7.3	3.8	2.0	32.9	27.5	20.4	24.5	22.6	11.1
Static agricultural products	5.1	4.5	2.6	0.0	0.1	0.0	13.3	8.0	6.2	5.5	3.8	2.3
Dynamic agricultural products ^a	3.2	2.5	1.4	0.0	0.2	0.0	9.4	10.4	3.2	2.3	1.9	1.1
Minerals, metals and fuels	20.8	23.6	12.1	7.3	3.5	1.9	10.2	9.2	10.9	16.7	16.9	7.7
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

Source: UNCTAD secretariat estimates based on UN COMTRADE data.

Note: The figures are weighted averages. For the countries in each sub-group, see annex table 2 in chapter 3. No data are available for Cambodia, Eritrea, Lao People's Democratic Republic, Lesotho and Yemen.

- a Dynamic agricultural products include items whose income elasticity of demand is greater than unity and much higher than that of traditional agricultural products. The group includes meat and meat products, fish and fish products, fruits, vegetables, nuts, spices and vegetable oils. For further discussion of this product classification, see Wood and Mayer (1998).

C. Elements of the international poverty trap

Primary commodity dependence is related to poverty not only through trade mechanisms per se, but also through the way in which the growth and composition of trade affect external indebtedness, and how external indebtedness in turn is related to access to external private finance and aid effectiveness.

Primary commodity dependence is related to poverty not only through trade mechanisms per se, but also through the way in which the growth and composition of trade affect external indebtedness, and how external indebtedness in turn is related to access to external private finance and aid effectiveness. The least developed countries where poverty is greatest are not simply primary commodity exporters focused on a narrow range of low-productivity, weakly competitive, low-value-added commodities. They also tend to have unsustainable external debts and to be enmeshed in an aid/debt service system in which donors, who are also the major creditors, have been allocating aid, explicitly but more often implicitly, so that debts can be serviced. This configuration of external finance and trade relationships can be traced back to the condition of generalized poverty, and these external relationships in turn reinforce the domestic vicious circles which cause generalized poverty to persist. It is the interrelationship between the domestic and external cause-and-effect relationships, together with the interdependence between trade and finance, which creates the international poverty trap.

The main elements and relationships of this international poverty trap are summarized in chart 41. On the left-hand side of the diagram are found the main domestic channels, discussed in the previous chapter, through which generalized poverty acts as a constraint on economic growth. On the right-hand side of the diagram are the external trade and finance relationships which interact with these domestic cycles of stagnation and together cause generalized poverty to persist. The pivot of this complex of interpenetrating external and domestic relationships is low productivity, low physical and human capital investment and low savings.

Five main interrelationships are identified as domestic aspects of the poverty trap. First, domestic resources available to finance physical and human capital investment and productivity growth are low owing to generalized poverty. Second, State capacities are weak as all activities, including administration and law and order, are underfunded. Third, corporate capacities, in business, finance and support services, are weak, even though there may be a thriving informal sector. Fourth, generalized poverty engenders rapid population growth and environmental degradation. Fifth, in a situation of generalized poverty, the probability of political instability and conflict is greater. Low productivity, rapid population growth, environmental degradation, political instability and conflict, weak State capacities and weak corporate capacities all serve to reinforce generalized poverty directly and indirectly. Generalized poverty in turn results in low savings and investment, and low productivity.

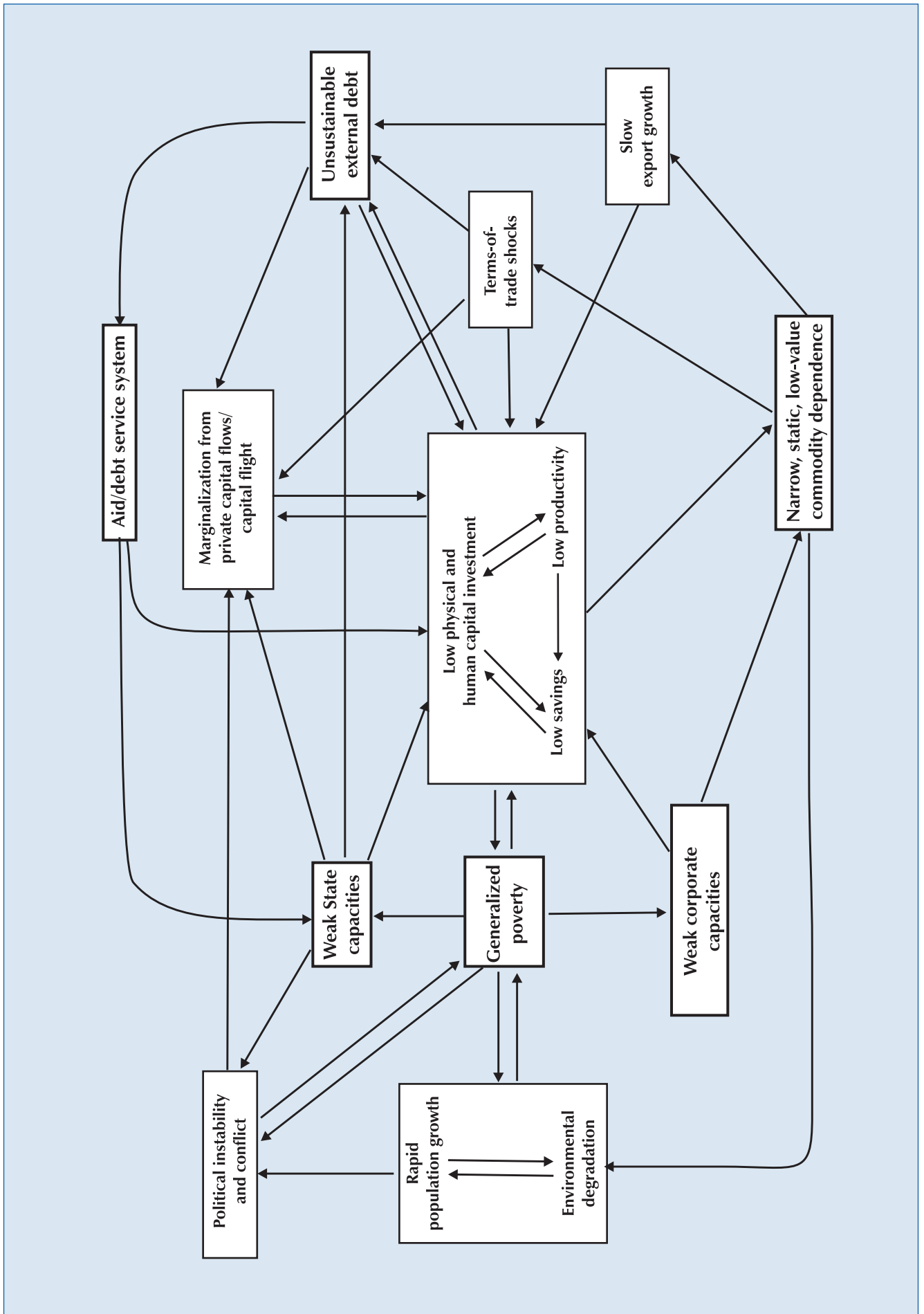
Three main interrelationships are identified as international aspects of the poverty trap — the form of primary commodity dependence; the build-up of unsustainable external debt; and the emergence of an aid/debt service system. Each of these is interrelated and each has various cause-and-effect relations with the nexus of generalized poverty and low savings, investment and productivity.

In situations of generalized poverty, poverty itself affects not only economic growth but also the form of a country's trade integration with the global economy.

1. THE FORM OF PRIMARY COMMODITY DEPENDENCE

In situations of generalized poverty, poverty itself affects not only economic growth but also the form of a country's trade integration with the global economy. The export structure of primary-commodity-exporting LDCs was in most cases originally established during the colonial period. Those

CHART 41. THE INTERNATIONAL POVERTY TRAP OF COMMODITY-DEPENDENT LDCs



countries continue to depend on a narrow range of undynamic and low-value-added commodity exports owing to low levels of investment in physical and human capital, as well as weak corporate capacities. It is this particular form of primary commodity dependence that then hinders economic growth and poverty reduction.

What distinguishes the successful commodity exporting countries is that they have developed highly productive commodity sectors and gained market share. They have also diversified into non-traditional commodity exports for which the growth of world demand is faster, and they have upgraded commodity production to capture more value-added.

The fact that it is the form of primary commodity dependence, rather than primary commodity dependence in and of itself, that matters for growth performance is evident in the experience of some more successful developing countries where primary commodity exports have been an integral element in economic growth and sustained development (see World Bank, 1996: chapter 4; Reinhardt, 2000). But what distinguishes the successful countries is that they have developed highly productive commodity sectors and gained market share. They have also diversified into non-traditional commodity exports for which the growth of world demand is faster, and they have upgraded commodity production to capture more value-added. This has enabled faster export growth, and they have sustained the momentum of development founded on productivity improvement, upgrading and diversification in the primary sector by gradually diversifying out of commodity exports into manufacturing and/or service exports.

The commodity exporting LDCs are by contrast characterized by a low-productivity, low-value-added and weakly competitive commodity sector that is generally concentrated on a narrow range of products serving declining or sluggish international markets. As discussed in the previous two sections, this form of primary commodity dependence is associated with slow export growth, due to falling real commodity prices, loss of market share, and an export concentration in products for which the growth of world demand is slow. But slow export growth rates, together with terms-of-trade shocks, in turn reinforce the nexus of low productivity, low investment and low savings. Slow export growth implies that most non-oil commodity exporting economies face foreign exchange shortages. Import volumes are low, and low levels of technology imports and lack of complementary imports result in a reduced level of investment, reduced efficiency of resource use and outdated production processes.

The commodity exporting LDCs are by contrast characterized by a low-productivity, low-value-added and weakly competitive commodity sector that is generally concentrated on a narrow range of products serving declining or sluggish international markets.

In situations of declining world real commodity prices, it is difficult to attract investment into commodity production unless there are special incentives created by government. If they can, smallholders react to falling producer prices for export commodities by switching from export production to food production oriented to domestic markets. The deterioration in commodity prices thus can itself lead to a decline in market share, with cumulative effects for the national economy.

2. UNSUSTAINABLE EXTERNAL DEBT

The low productivity of investment, slow export growth and large terms-of-trade shocks, together with weak State capacities (including corruption), are all key causes of the build-up of an unsustainable external debt burden. Table 36 groups LDCs on the basis of export structure and whether their external debt was sustainable at the end of the 1990s according to the international criteria of sustainability used in the HIPC Initiative. It is clear that for manufactured goods and service exporters there is a mixed picture in which some have unsustainable external debts and some do not. But for the commodity exporting LDCs there is a remarkable correlation between export structure and external debt. Eighty-five per cent of the LDCs dependent on non-oil primary commodities have an

TABLE 36. EXTERNAL DEBT SUSTAINABILITY IN LDCs GROUPED ACCORDING TO EXPORT COMPOSITION, 1998–2000
(Present value of debt to exports, %)

Sustainable ^a	Unsustainable ^a
Non-oil commodity exporters	
Bhutan (111) Eritrea (75) Solomon Islands (53) Uganda (138)	Benin (253) Burkina Faso (210) Burundi (985) Central African Republic (356) Chad (222) Dem. Rep. of the Congo (797) Ethiopia (343) Guinea (286) Guinea-Bissau (1321) Malawi (314) Mali (209) Mauritania (319) Niger (345) Rwanda (628) Sao Tome and Principe (1307) Sierra Leone (800) Sudan (1319) ^b Togo (199) United Republic of Tanzania (395) Zambia (537)
Oil exporters	
Equatorial Guinea (13) Yemen (99)	Angola (170)
Manufactures and/or services exporters	
Bangladesh (120) Cape Verde (128) Djibouti (71) Haiti (132) Lesotho (91) Maldives (32) Nepal (113) Samoa (115) Vanuatu (20)	Cambodia (158) Comoros (296) Gambia (217) Lao PDR (243) Madagascar (333) Mozambique (187) Myanmar (248) Senegal (151)

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance*, 2002.

- a The countries are divided into unsustainable or sustainable on the basis of whether the net present value of debt-to-exports (%) is over 150 or not. The ratio is based on the net present value of debt in the year 2000 and average annual exports of goods and services during 1998–2000. No data available for Afghanistan, Kiribati, Liberia, Somalia and Tuvalu.
- b Sudan began to export significant quantities of oil in 1999.

unsustainable external debt. The only exceptions are Bhutan, Eritrea, the Solomon Islands and Uganda.

The close association between an export structure focused on non-oil primary commodities and unsustainable external debt suggests that the debt problem of the non-oil commodity exporting LDCs is not purely national, but rather a systemic issue. This is not to say that domestic mismanagement did not play a role in the build-up of debts. Country case studies show that it did, and that domestic mismanagement was reinforced by poor donor policies, particularly export credit granted at the end of the 1970s and 1980s, poor forecasts, and the failure to realize the magnitude and dimensions of the debt

problem. However, there is a very high probability that any LDC that exports primary commodities has an unsustainable external debt. This suggests that common factors are at work.⁷

The debt problem of commodity-exporting LDCs is rooted in the low level of domestic resource mobilization, low rates of return on investment, the vulnerability to external shocks and slow export growth. One major condition for debt sustainability is that the rate of growth of exports must be greater than the rate of interest on outstanding debt. As we have seen, what distinguishes the commodity-exporting LDCs from others is that they have had much slower export growth rates. As a result, they have a strong propensity to develop debt problems and also to fall back into debt after debt relief. The commodity price recession of the early 1980s is a root cause of indebtedness in many LDCs, and terms-of-trade shocks associated with movements in primary commodity prices can at all times push poor countries back into unsustainable indebtedness.

There is a very high probability that any LDC that exports primary commodities has an unsustainable external debt.

Once a country has an unsustainable external debt, this has a number of negative features that further reinforce the trap of generalized poverty. Firstly, as a very large proportion of the debt is owed by Governments rather than by the private sector, debt servicing reduces resources available for public investment in physical and human capital. Secondly, the debt overhang acts as a deterrent to private investment, particularly because of uncertainty. Domestic interest rates may also be very high. Thirdly, debt service payments tighten the foreign exchange constraint. Together, these effects seriously damage growth prospects in poor countries. It is very difficult to establish the kind of investment–export nexus that is at the heart of sustained economic growth. Rather, there is the treadmill of an export–debt repayment nexus, with the return to external viability remaining a perpetual aspiration, as the preconditions for its realization, namely increased productive capacity and efficiency, are never fulfilled.

The probability of this outcome is increased since another important consequence of the build-up of an unsustainable external debt is that it affects the volume, composition and effectiveness of external finance. High levels of external debt deter private capital inflows, contributing to a general perception of risk that discourages lenders and investors. Although highly indebted countries still receive FDI, they have been effectively marginalized from international capital markets. One important consequence of this is that it is difficult to access short-term loans in order to moderate the effects of external and climatic shocks.

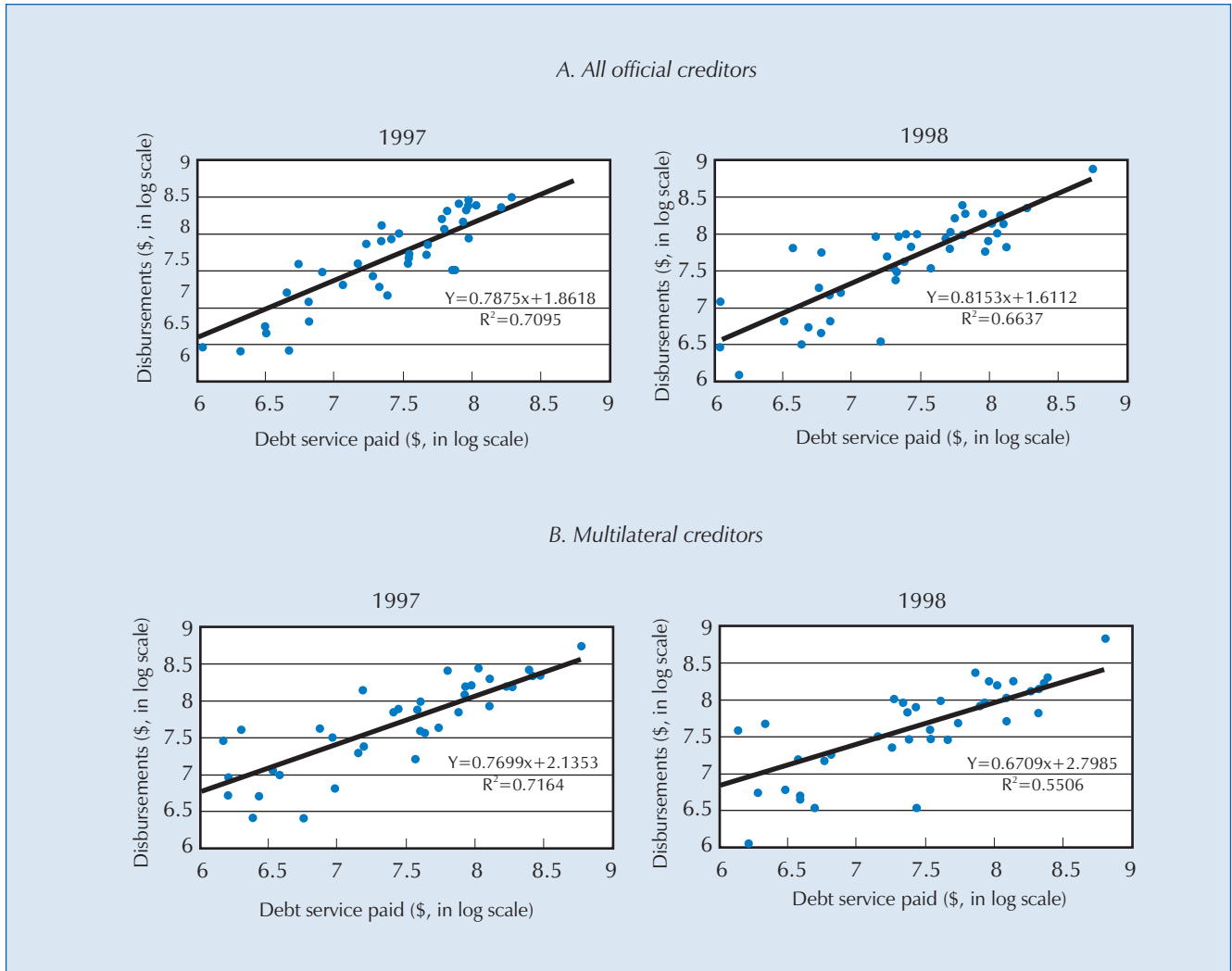
Unsustainable external debt also undermines aid effectiveness.

3. THE AID/DEBT SERVICE SYSTEM

Unsustainable external debt also undermines aid effectiveness. The importance of the relationships between aid flows and external debt has only recently received attention (Sachs et al., 1999; Kanbur, 2000; Birdsall, Claessens and Diwan, 2001). But there is now clear evidence that the build-up of external debt has influenced donor behaviour. Official donors, who are also the major creditors, have been supplying aid to ensure that official debts can be serviced.

Amongst LDCs this is apparent in the fact that throughout the 1990s gross aid disbursements were strongly correlated with debt service payments (chart 42). Birdsall, Claessens and Diwan (2001), focusing particularly on Africa, have conducted a rigorous econometric analysis to compare the extent to which net transfers are related to GDP per capita (as a proxy for poverty), the quality of policy and external debt during the period 1977–1987 and 1988–1998, under high- and low-debt regimes. They find that donors were much more responsive

CHART 42. GROSS OFFICIAL DISBURSEMENTS TO, AND DEBT SERVICE PAYMENTS OF, LDCs, 1997 AND 1998: ALL OFFICIAL CREDITORS^a AND MULTILATERAL CREDITORS^a



Source: UNCTAD (2000b: chart 42).

a Excluding the IMF.

to the quality of domestic policy and the level of GDP per capita in the low-debt regimes than in the high-debt regimes, and that within the high-debt regimes such responsiveness disappeared in 1988–1998. Within the high multilateral debt regimes, any increase in debt service was being offset by an equivalent increase in aid disbursements. Another study, focusing on 18 sub-Saharan African countries, has estimated that the sum of 31 cents of every additional dollar of grants and concessional loans was used to finance principal repayments of foreign loans, and that as much as 50 cents of every additional dollar of grants was used for the same purpose (Devarajan, Rajkumar and Swaroop, 1999).

The reasons why the “debt-tail” has been wagging the “aid-dog” are various. They include: efforts to mobilize resources to support economic reforms in countries facing debt problems; “defensive lending”, i.e. disbursements by official creditors to ensure that debtor countries can continue to service past credits; and “forced lending”, which can be attributed to the desire to avoid embarrassing arrears and avert the growing risk of documented development failure (Birdsall, Claessens and Diwan, 2001). But the result is what has been described as “a complex shell game, in which large-scale debt servicing is very imperfectly offset by debt postponements, arrears, new loans and grants from donor governments” (Sachs et al., 1999: 5), a process in which “creditor

The reasons why the “debt-tail” has been wagging the “aid-dog” are various.

governments have been taking away with one hand what they have given with the other" (Killick and Stevens, 1997: 165).

This "debt game" reinforces the cycle of economic stagnation, generalized poverty, slow export growth and external debt. It diminishes the developmental impact of aid, because it subtracts from the level of aid resources available for development purposes. It also adversely affects the quality of aid. From the donors' perspective, it curtails the ability to focus resources on countries with high levels of poverty and good policies (Birdsall, Claessens and Diwan, 2001). From the debtor countries' point of view, the situation is worsened as they become more aid-dependent, in the sense that higher levels of gross aid disbursements are necessary in order to ensure a given positive level of net transfers. Thus, for example in Africa, behind a pattern of high and relatively steady net transfers, there have been large increases in both gross disbursements, increasingly in the form of grants, and debt service payments. Grants have primarily come in the form of projects rather than budget support, and as a consequence Governments have been project-rich and cash-poor. Within this system there has been little room for ownership, and capital formation processes have become dominated by creditor-donors.

In summary, a high level of dependence on a narrow range of unproductive, undynamic and low-value-added commodity exports, an unsustainable external debt burden and enmeshment within the aid/debt service system together characterize the external trade and finance relationships of most commodity-exporting LDCs. These countries are commodity-dependent, debt-relief-dependent and aid-dependent. Each of the elements of this complex of external trade and finance relationships reinforces the other. These external relationships are reinforced by the effects of generalized poverty, and they in turn reinforce the complex of domestic relationships which cause generalized poverty to persist.

D. The new vulnerabilities of LDCs exporting manufactures and services

Although LDCs which have diversified into manufactures and services are doing better on average than the commodity-exporting LDCs, poverty levels are still unacceptably high when viewed on a global scale. As discussed in the last chapter, poverty levels are still increasing in some. Furthermore, the growth path of these countries remains fragile. The rate of growth of local value-added in production for manufactured exports is much less than the rate of growth of manufactured exports, as production is usually highly dependent on imported inputs (UNCTAD, 2002). Moreover, it is clear that some of the ways in which international primary commodity trade is associated with poverty can also apply to international trade in manufactures and services.

It is apparent that LDCs exporting manufactures have, like those exporting commodities, experienced the adverse effects of falling terms of trade in recent years. The possibility that simultaneous export expansion by developing countries in labour-intensive manufactures, in a situation where industrialized countries continue to protect their own markets and are failing to move out of low-skill products, will drive down the returns from manufactured exports is discussed in depth in UNCTAD (2002). The only study which examines trends in the terms of trade of manufactured goods for LDCs shows that there has been a significant deterioration in the terms of trade of manufactured goods (Maizels et al., 1998).

This "debt game" reinforces the cycle of economic stagnation, generalized poverty, slow export growth and external debt. It diminishes the developmental impact of aid, because it subtracts from the level of aid resources available for development purposes. It also adversely affects the quality of aid.

Although LDCs which have diversified into manufactures and services are doing better on average than the commodity-exporting LDCs, poverty levels are still unacceptably high when viewed on a global scale.

The LDCs exporting manufactures also tend to have a narrow export base which is concentrated in low-skill products, generally clothing and accessories, with few backward linkages within the domestic economy. In Bangladesh, where impressive and sustained falls in the poverty rate have occurred in association with the diversification out of commodities and into manufactures, over 85 per cent of the exports were concentrated in clothing and accessories in 1997–1999. All the LDCs exporting manufactures focus on low-skill activities (see table 26, in chapter 3) and compete mainly on the basis of costs. A particular cause for concern is that imports of machinery and equipment, which are a major channel of technology transfer, are also generally as low as in commodity-exporting LDCs. As table 37 shows, machinery and equipment imports as a percentage of GDP were less than 2 per cent of GDP in the period 1996–1998 in Bangladesh, Haiti, Myanmar and Nepal, and were at levels which were less than half those of other developing countries.

All this implies that LDCs exporting manufactures are particularly vulnerable to competition from other low-cost suppliers. A specific issue for LDCs exporting textiles and garments is that exports have traditionally been heavily regulated under the Multi-Fibre Arrangement (MFA), and cost-based competition for simple manufactures will become intense as these regulations are ended. Textiles and garments exports from LDCs have expanded on the basis of quotas within markets of industrialized countries under the MFA. In the Uruguay Round (1994) it was decided to phase out these restrictions by 2005, along with the reduction of non-tariff barriers. The WTO Agreement on Textiles and Clothing stipulates that trade in this sector should be completely free from quantitative restrictions and governed by normal GATT rules. Following the phasing out of the MFA in 2005, the textiles and garments industry in LDCs will face much stiffer competition, greater challenges and more stringent quality requirements.

Competition with producers in China, which currently accounts for over 20 per cent of global market shares, is a major concern of LDC producers. This is heightened by continuing tariff peaks in industrial country markets. While quantitative restrictions on textiles will end on 31 December 2004, there will be a safeguard mechanism in place until the end of 2008 permitting WTO member States to take action to curb imports in the event of market disruptions. But unless the LDC exporters of manufactures can develop and improve their own domestic supply capabilities, upgrade their productive capacities and acquire new skills in textile garments and sustainable economic activities in the future (see Mortimore, 1999), there could well be a reversal of recent progress in poverty reduction.

The LDCs exporting manufactures also tend to have a narrow export base which is concentrated in low-skill products, generally clothing and accessories, with few backward linkages within the domestic economy.

TABLE 37. MACHINERY AND EQUIPMENT IMPORTS AS A SHARE OF GDP^a
(Percentage)

	1981–1983	1987–1989	1996–1998
Bangladesh	3.35	1.17	1.55
Haiti	12.69	2.58	1.84
Madagascar	5.91	2.56	2.06
Myanmar	10.54	0.98	0.31
Nepal	3.21	1.69	1.75
LDCs	6.95	2.09	1.23
Other developing countries	8.46	3.05	3.80
Other low-income countries	5.76	1.93	2.60

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

a Based on 35 LDCs and 56 other developing countries for which data are available.

For LDCs that export services, the issue of sustainability of recent trends is rather different. For tourism, the key service export for LDCs, the sustainability of the activity depends critically on the quality of natural resources. Destinations are remote, and they are thus subject to cost increases in the airline industry. Moreover, tourist revenues are particularly vulnerable to fluctuations in demand and changes in fashion. The recent reversal of fortunes in some island LDCs indicates the fragility of their progress.

An important question is whether the current form of globalization is tightening the poverty trap and also increasing the vulnerabilities of those countries that appear to be escaping it.

E. Is globalization tightening the international poverty trap?

An important question is whether the current form of globalization is tightening the poverty trap and also increasing the vulnerabilities of those countries that appear to be escaping it. This is a complex issue which requires policy-oriented research in the future. Here the main concern will be to identify the main channels through which globalization can act to either tighten or loosen the poverty trap, and to give some indications of the nature of the relationships. Globalization will be understood as the increasing flow of goods and resources across national borders and as the emergence of a complementary set of organizational and institutional structures to manage the expanding network of international economic activity and transactions. The question of what is the appropriate national policy to harness potential positive effects of globalization and to minimize potential negative effects, including the way in which integration should be managed and the role of economic liberalization, will be deferred until the next chapter.

1. POTENTIAL FORCES LOOSENING THE TRAP

There are four major channels through which international economic relationships can help LDCs to break out of the poverty trap.

There are four major channels through which international economic relationships can help LDCs to break out of the poverty trap: access to foreign savings, international trade, access to available modern technologies, and international migration.

Firstly, the expanded access to foreign savings associated with increased international flows of capital provides an opportunity for poor countries to break out of the low-level equilibrium of low incomes, low domestic savings and low investment. Given the resource constraints associated with generalized extreme absolute poverty, an injection of external resources has historically almost invariably been necessary in order to catalyse take-off. Moreover, once growth starts and is sustained, foreign savings permit a faster rate of growth of private consumption without the degree of belt-tightening which would be necessary if growth were financed wholly through domestic savings.

Secondly, generalized poverty implies that national demand is very limited, and national markets tend to be undynamic and usually segmented in ways which enable people to survive. Exporting to international markets enables land and labour resources, hitherto underutilized owing to domestic demand constraints, to be productively mobilized. Local producers in LDCs can also break the constraint of small national markets on the scale of operations, and realize rates of growth far exceeding those possible through domestic demand. The increased participation of countries in international trade should also increase the efficiency of economies through specialization and the furthering of the division of labour. In addition, there will be added benefits from the discipline of increased competition, if domestic producers can survive.

Thirdly, increased access to available modern technologies enables latecomer economies to realize significant productivity increases without having continually to reinvent. Exporting can facilitate this because a major channel for technology transfer to poor countries is through imports of machinery and transport equipment which are constrained by limited foreign exchange earnings. Foreign direct investment can also serve as an important channel for technology acquisition under the right circumstances.

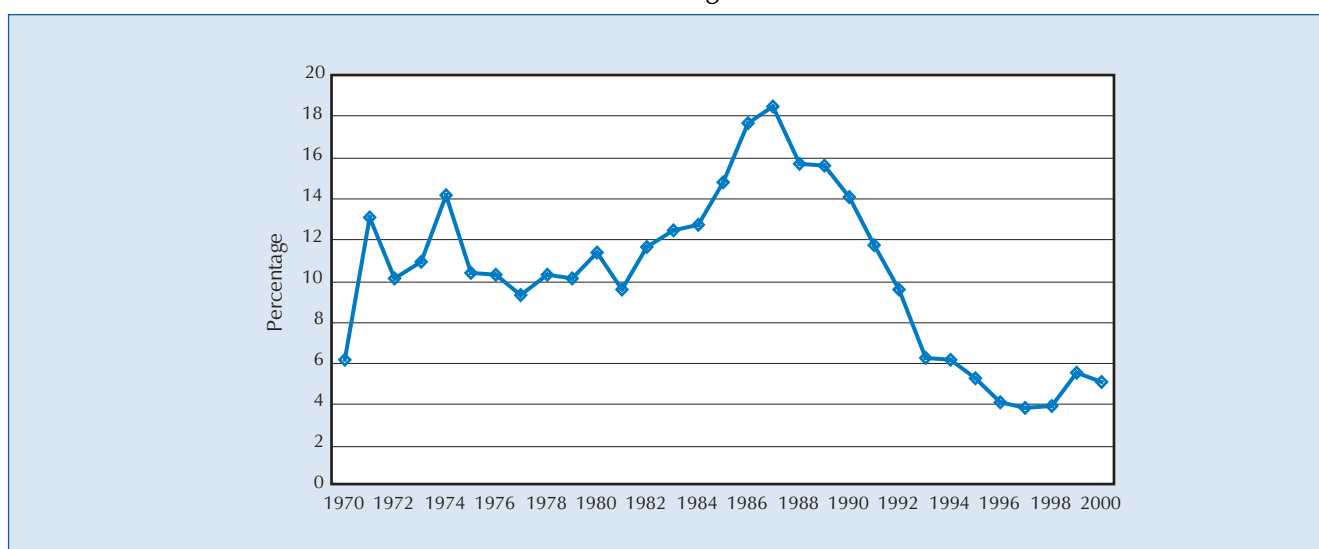
Fourthly, increased international migration enables poor people in poor countries to find employment even if opportunities are limited in their own country. Emigration can relieve population pressure on scarce resources such as land. Remittances can also provide an important national source of foreign exchange to the countries from which migrants originate, and boost the consumption of household and local community members left behind.

The globalization of production and finance could help to break the poverty trap if it helps LDCs to benefit from these channels of growth and poverty reduction. But globalization is a highly uneven process, both geographically and functionally. Given continued restrictions on international migration, particularly of unskilled labour, individuals exercising the emigration option to escape poverty generally make a choice between poverty at home, and social exclusion, as an illegal immigrant or second-class citizen, abroad. Moreover, many LDCs are marginalized from those aspects of globalization that are potentially beneficial.

We have already seen that primary-commodity-exporting LDCs are increasingly marginalized in international trade. Available evidence also shows that the LDCs are generally marginalized from expanding international capital flows and from the diffusion of technology, through FDI and machinery and equipment imports. The LDC share of total long-term net capital flows to all developing countries fell from 18 per cent in 1987 to about 5 per cent in 2000 (chart 43). The LDC share of net FDI inflows to all developing countries fell from 3.9 per cent in 1975–1982 to 2.1 per cent in 1994–2000. With regard to technology transfer, the evidence for one potential channel shows that the LDC share of total machinery and equipment imports to all developing countries fell from 5 per cent in 1982 to 1.8 per cent in 1998 (chart 44).

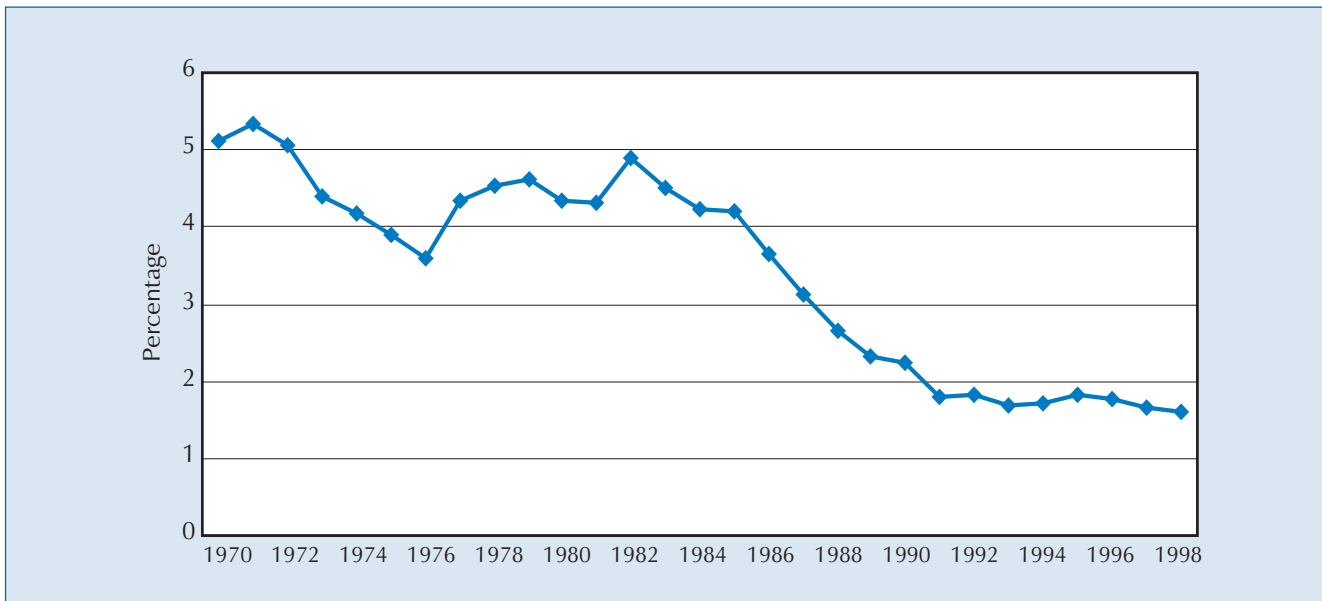
The LDCs are generally marginalized from expanding international capital flows and from the diffusion of technology, through FDI and machinery and equipment imports.

CHART 43. LDCs' SHARE OF LONG-TERM NET CAPITAL INFLOWS INTO ALL DEVELOPING COUNTRIES, 1970–2000
(Percentage)



Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2002*, on-line data.

CHART 44. LDCs' SHARE OF TOTAL MACHINERY AND EQUIPMENT IMPORTS BY 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.

2. FORCES TIGHTENING THE TRAP: DIRECT EFFECTS

The geographical unevenness of globalization, and the marginalization of many LDCs, particularly commodity-dependent LDCs, from expanding global capital and trade flows and the diffusion of technology, have led some to conclude that LDCs are “outside the globalization process”, and that their problem is “not a matter of too much globalisation but too little” (Barnevik, 2001: 37). But this is too simplistic. The current situation of LDCs is best seen as one in which they are marginalized from some potentially positive aspects of globalization and are at the same time experiencing some of the negative aspects.

The current situation of LDCs is best seen as one in which they are marginalized from some potentially positive aspects of globalization and are at the same time experiencing some of the negative aspects.

Two processes, both little understood, are relevant here. The first is the way in which globalization is changing the world commodity economy and the impact of this on the development opportunities of LDCs. The second is the way in which changes in more advanced developing countries associated with globalization are having indirect effects on the development opportunities of LDCs.

With regard to recent changes in the world commodity economy, UNCTAD's work has highlighted a number of changes that have taken place in commodity production and distribution chains, particularly for agricultural products, which are associated with globalization and which are contributing to the diminishing share of LDCs in world commodity exports. What is happening can be reviewed at three levels, namely the international markets, developing commodity-exporting countries and importing countries. But the common denominator of all three is a closer integration of international trade and production through the penetration of large transnationals and distribution companies, such as supermarket chains, into the agricultural supply structures of developing (and developed) countries. A few decades ago, the dominance of large companies in the world commodity economy was principally due to their actions in international markets. Now, increasingly, it is also due to their direct

influence on what is produced, and how. While unprecedented opportunities may be opening up for some producers and exporters, benefiting from this trend and avoiding its negative impacts require that developing country Governments and entrepreneurs have much greater business skills than before.

At the international level, there is a continuing concentration of trade and vertical integration of large firms. Mergers and acquisitions have led to dramatic reductions in the number of firms with significant market shares of commodities such as coffee, cocoa, vegetable oils and grains. Another important change is the disappearance of traders, who once acted as a bridge between buyers and sellers who were largely ignorant of each other and of prices, communications technology, including the Internet, having now closed this gap. Buyers and sellers can find each other much more easily and communicate instantaneously, increasing competition and cutting profit margins for traders. Intensified competition favours those with access to cheaper finance and good logistics. Being big provides advantages on both accounts. With deregulation and the disappearance of marketing boards, large companies with warehousing and shipping facilities in the producing countries are able to exploit their financial and logistical advantages, even buying the produce directly from the farmer.⁸ The current setting is characterized by the need for greater capital resources, sophisticated technology, including information technology, and human skills for competing in the more open but more sophisticated markets. Developed country firms are clearly at an advantage in all these respects.

At the level of commodity-exporting developing countries, liberalization, in particular the dismantling of marketing boards, has had three main consequences in terms of market structure. First, large numbers of atomized traders initially emerged but many were later eliminated under intense competition, mainly owing to lack of business skills, but also owing to difficulties with access to finance. Those that survive often have links with foreign firms. This helps them not only in market entry but also with securing finance. Second, the commodity sector was opened up to direct participation by foreign firms that deal with exporters, generally much smaller than themselves, and at times directly with producers. Third, the reduction of import barriers affected local production patterns. Imported processed products, mostly with well-known brand names and often sold through foreign-owned supermarkets, have made important gains in developing countries at the expense of locally produced items (box 13). It should be noted here that agricultural subsidies in developed countries play an important role in bolstering the competitiveness of those countries' agricultural exporters. In 2000, total agricultural support⁹ in OECD countries amounted to \$327 billion. This is to say that just under two-weeks' worth of total agricultural support in OECD countries was equivalent to the total net ODA disbursements (including imputed multilateral flows) from OECD/DAC members to all the LDCs in the year 2000.

Within importing countries, an important development in terms of market structure has been the growth of the modern retailing sector, particularly supermarkets. This has had little effect on bulk products that go through considerable transformation before reaching consumers. But for many dynamic food products, however, there is general agreement that it is the single most influential factor affecting changing conditions of supply and demand. For exporters of such "non-traditional" commodities as fresh fruit and vegetables, large retailers have provided important market access channels. Links with supermarkets provide producers with access to a growing market as well as incentives to improve quality and efficiency. Nevertheless, for many producers and exporters this is obtained at the expense of dependence on a single

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BOX 13. SUBSIDIZED EXPORTS AND WEST AFRICAN TOMATOES

After the United States and before Turkey, the world's second largest producer of tomato concentrate is the EU. Its tomato farmers are paid a minimum price higher than the world market price, which stimulates production. The processors, in turn, are paid a subsidy to cover the difference between domestic and world prices.

Some of the effects of these subsidies on West African LDCs in the 1990s have been documented. The subsidy is reported to have reached about \$300 million in 1997. The processors, then, need to find markets, and about 20 per cent of exports at that time went to West Africa. In the mid-1990s, about 80 per cent of demand in this region was covered by tomato products from the EU, which were cheaper than local supplies. Stiff competition from EU industries led to the closure of tomato-processing plants in several West African countries.

In Senegal, for instance, tomato cultivation was introduced in the 1970s, and progressively acquired an important position for farmers, for whom tomato production was synonymous with a key opportunity to diversify their farming systems and stabilize incomes. In 1990–1991, production of tomato concentrate was 73,000 tons, and Senegal exported concentrate to its neighbours. Over the past seven years, total production has fallen to less than 20,000 tons. One of the main reasons for this dramatic fall was the liberalization of tomato concentrate imports in 1994. Despite the positive impetus provided by the devaluation of the CFA franc, the tomato-processing industry could not compete with EU exporters. Imports of concentrates jumped from 62 tons in 1994 (value: \$0.1 million) to 5,130 tons in 1995 (value: \$4.8 million) and 5,348 tons in 1996 (value: \$3.8 million). SOCAS, the one Senegalese processing firm that has survived, buys imported triple concentrate and processes it into double concentrate. Other West African LDCs — Burkina Faso and Mali — have had similar experience of enormous increases in imports of EU tomato concentrate. Gambia, small as it is, imports even more tomato concentrate than Senegal, and consumption of concentrate is increasingly replacing that of fresh tomatoes.

The lack of credit, and low prices, have contributed to the stagnation of West African tomato-processing industries. If there is to be any hope of competitiveness, factories in the region will need new machines and massive investments. Foreign investment could be one option, but these factories will not interest potential foreign investors as long as the European products dominate the local markets.

Source: EUROSTAT: Eurostep Dossier on CAP and Coherence (www.oneworld.org/eurostep/cap.htm).

Even if LDCs have improved market access (in terms of reduced government restrictions), they will not effectively be able to enter markets if they cannot connect up to global commodity chains.

supermarket or importer in a given country for marketing, product innovation and technical assistance. An important consequence of the growth and internationalization of supermarkets has been increasing global brand-name recognition. As product attributes become more and more psychological, the importance of expenditures on advertising and related activities is increasing. This puts developing country traders at a disadvantage and contributes to concentration in the commodity economy. It is very difficult for developing country exporters to differentiate their products and establish new brand names to compete with the existing globally accepted ones.

The full effects of these trends in the international commodity economy in the LDCs are not well known. But one major danger is the potential for the increasing exclusion of many LDCs from global markets as buyers within commodity chains upgrade their volume and quality criteria for purchasing. Whether or not this phenomenon is occurring is an extremely important issue. Even if LDCs have improved market access (in terms of reduced government restrictions), they will not effectively be able to enter markets if they cannot connect up to global commodity chains.

There is little empirical evidence on this phenomenon; however, to become or remain "interesting" to international buyers, suppliers and supplying locations have to match certain price, volume and reliability criteria over the short to medium term. The reliability criterion has been a particular problem for landlocked LDCs owing to the risks and uncertainties of transit transport systems. Also, it is likely that LDCs may face difficulties because of volume criteria. For example, it has been reported that coffee traders now use a national production level of one million (60 kilogram) bags/year as a world market entry

qualification for non-premium suppliers (Economist Intelligence Unit, 1999: 2, reported in Gibbon, 2001). It is also clear that, in general, commodity producers and processors need increasingly large amounts of finance to compete in world markets. Modern technological advances provide considerable economies of scale in processing, but call for large investments in processing plants. For example, large crushing facilities are considered a necessity for competitiveness in the vegetable oils sector. More stringent market requirements call for ever larger investments to meet buyers' quality requirements and specifications.¹⁰ These conditions are, naturally, to the disadvantage of small producers, who need either to organize themselves into larger cooperative entities or to seek links with foreign firms that would extend the necessary finance and know-how. Large investments by Governments are also necessary in order to meet market exigencies. Although such investments often take the form of institutional and technical support, direct investment may be necessary as well.

Another consequence of recent changes in market structure is the increasing gap between international prices and consumer prices. This is associated with the continuing concentration of trade and the vertical integration of large firms. Several recent studies have found that in developed countries the spread between international prices, or import prices, and domestic retail prices first widened in the early 1970s and then widened at an accelerated rate in the 1980s (Morisset, 1998). Since import taxes as well as domestic logistic costs have fallen, the only factors that can explain this tendency are the relative weight and growth of other marketing and distribution costs in the value-adding process beyond the import price, or the market power of intermediary companies. A review of the coffee markets by the UNCTAD secretariat has shown that in countries where concentration in the coffee market is greater, the gap between international and retail prices has increased more than that in countries where the concentration is low. The clear implication of all this is that the producing countries obtain a decreasing proportion of the retail value of the final product. Moreover, this tendency, and the asymmetry just mentioned, have worked against potential increases in consumption that could have been generated had retail prices declined with international prices (United Nations, 2000).

Another effect of recent trends in the structure of the global commodity economy is increasing price instability, which is associated with increasingly close links between financial and commodity markets. The liquidity of commodity futures markets, combined with their large fluctuations, can make them attractive to investors who are drawn by the potentially large gains and not deterred by the correspondingly large risks of losses. The deployment of ever larger amounts of speculative funds has contributed to the increasing instability of commodity prices, although it does not change market fundamentals.

Finally, a number of observers have pointed out that the debt crisis of the 1980s led to supply-side pressures on real commodity prices, including through simultaneous structural adjustment in a large number of producing countries (see, for example, Bleaney, 1993; Spraos, 1993; Lutz and Singer, 1994). As one observer has put it,

"A global policy shift in the developing world toward greater outward orientation may depress the price of agricultural commodities and hence worsen the terms of trade of developing countries. The direct effects of this are likely to be small, but the indirect effect working through a tightening of the balance-of-payments constraints could be of considerable significance and may entirely offset the expected gains from trade liberalisation...For low-income countries, particularly those heavily

More stringent market requirements call for ever larger investments to meet buyers' quality requirements and specifications.

In countries where concentration in the coffee market is greater, the gap between international and retail prices has increased more than that in countries where the concentration is low.

It can be estimated that the adding-up problem (or fallacy of composition) affected 42 per cent of the total non-fuel primary commodity exports of LDCs in 1997–1999.

To the extent that more advanced developing countries meet a “glass ceiling” which blocks their development, there will be increasing competition between LDCs and other developing countries.

Globalization tightens the poverty trap within LDCs if it creates such a “glass ceiling” for more advanced developing countries.

dependent on agricultural exports, global liberalisation is likely to bring about a tightening of their import capacity constraints. Evidence for SAL [structural adjustment lending] programmes indicates that it is difficult to realise dynamic gains from liberalisation in these circumstances. Even after allowing for the burden of adjustment, countries with SALs do not succeed in raising their growth rates or investment rates above what they would otherwise have been according to the evidence to date. Because of this we should not be too surprised if the gains from global liberalisation are disappointing in many low-income countries” (Bleaney, 1993: 463–464).

The basis of this concern is that if several developing countries expand their exports simultaneously, they will experience a decline in their terms of trade. This is not an academic matter.¹¹ World Bank research has shown that this adding-up problem (or fallacy of composition) affects a number of agricultural commodities, notably bananas, cocoa, coffee, cotton, tea and tobacco (World Bank, 1996: 50). Moreover, other analysts have added copper, oil and vanilla to this list (Schiff, 1995: 603). Omitting bananas, oil and vanilla, these commodities constituted 42 per cent of the total non-fuel primary commodity exports of LDCs in 1997–1999.

3. FORCES TIGHTENING THE TRAP: INDIRECT EFFECTS

Globalization affects LDCs not simply directly, but also through the way it influences more advanced developing countries, and then in turn has secondary effects on LDCs. The relationships between more advanced developing countries and LDCs are very important to the development prospects of the latter. These relationships can be mutually supportive or competitive.

They can be mutually supportive as the more advanced developing countries could offer an important market for LDC exports. Outward FDI from these countries could, with the appropriate policies, also provide a source of know-how and investment funds for the LDCs, acting at the same time as a mechanism for production upgrading in the more advanced developing countries. Political stability within proximate LDCs is also vital for sustained growth in more advanced developing countries. Economic collapse in the LDCs can precipitate destabilizing regional population movements.

But there are also competitive relationships. In particular, LDCs and other developing countries can be competing in third markets both for commodities and for manufactures. These competitive relationships are heightened if the more advanced developing countries find it difficult to deepen industrialization and move up the technological ladder and out of simpler products being exported by the poorer countries. To the extent that more advanced developing countries meet a “glass ceiling” which blocks their development, there will be increasing competition between LDCs and other developing countries. Globalization tightens the poverty trap within LDCs if it creates such a “glass ceiling” for more advanced developing countries.

Recent trends in global inequality remain a matter of controversy. However, it is generally agreed that only a few developing countries have grown fast enough to substantially reduce the income gap with — and rapidly converge towards — the advanced industrial economies. Moreover, there is increasing polarization in the global economy since the middle strata of developing countries, namely those with incomes between 40 and 80 per cent of the average in the advanced countries, are thinner than in the 1970s (UNCTAD,

1997a). This is occurring because at the richer end of international income distribution there is a process of convergence upwards since the relatively poorer countries within the club of industrialized OECD countries (e.g. Ireland) have experienced faster growth rates than the richest countries, whilst at the poorer end of international income distribution there is a process of convergence downwards as some of the richer poor countries experience economic regression. According to the IMF (1997: 78), “the forces of polarization seem to have become stronger since the early 1980s”.

These trends imply that many of the more advanced developing countries are facing problems with deepening industrialization and moving up the technological ladder. Various issues of UNCTAD’s *Trade and Development Report* in the 1990s showed how asymmetries in the international system, together with global financial instability associated with the globalization of finance, are creating this situation. As a result, it is most likely that this is making the relationship between the more advanced developing countries and the LDCs competitive rather than complementary.

Heightened competition with other exporters of low-skill manufactures is a major process increasing the vulnerability of those LDCs that are seeking to escape the poverty trap by diversification out of commodities. But commodity-exporting LDCs are also affected by what is happening in more advanced developing countries. This is perhaps clearest in the effects of financial crises in emerging markets on the world commodity economy and thus on LDCs. The financial crises of the 1990s, which were associated with the globalization of finance, affected world commodity markets by acting on both the supply and the demand side. Before the Asian crisis in 1997–1998, demand for commodities had been growing rapidly in Asia over the previous two decades, but imports were severely curtailed as a result of the crisis as economic activity declined. At the same time, exports of some products increased, often in response to currency devaluations. The combination of these trends aggravated the cyclical decline in prices which had begun in 1995. This has been particularly difficult for LDCs owing to low productivity and the inability to offset falling prices with increased productivity.

It is thus highly likely that increasing polarization in the global economy is intensifying the cycle of stagnation and poverty in the poorest countries. To the extent that the current form of globalization — uneven, asymmetrical and under-managed — is leading to polarization, it is likely that it is tightening the international poverty trap within which many LDCs are stuck.

F. Conclusion

This chapter has argued that extreme poverty is persistent and pervasive in non-oil commodity exporting LDCs because they are caught in an international poverty trap. There is no inevitable relationship between primary commodity dependence and poverty. But commodity exporting LDCs have a low-productivity, low-value-added and weakly competitive commodity sector that is generally concentrated on a narrow range of products serving declining or sluggish international markets. The weakness of the primary commodity sector is rooted in the wider problem of low investment and low productivity that is characteristic of situations of generalized poverty. The pattern of export specialization is in turn associated with slow export growth, relatively large terms-of-trade shocks, the build-up of unsustainable external debts, high levels of aid dependence and enmeshment within an aid/debt service system. This

It is highly likely that increasing polarization in the global economy is intensifying the cycle of stagnation and poverty in the poorest countries.

There is no inevitable relationship between primary commodity dependence and poverty.

This negative complex of external trade and finance relationships reinforces the domestic vicious circles that cause generalized poverty to persist within many LDCs. Together, these domestic and external relationships create an international poverty trap.

The current form of globalization is tightening the international poverty trap of commodity exporting LDCs and intensifying the vulnerabilities of new exporters of manufactures and services.

negative complex of external trade and finance relationships reinforces the domestic vicious circles that cause generalized poverty to persist within many LDCs. At the same time, the domestic effects of generalized poverty — on savings, investment, productivity, State capacities and corporate capacities — reinforce the negative complex of external trade and finance relationships. Together, these domestic and external relationships create an international poverty trap.

Although LDCs which have diversified out of commodity production generally have a lower incidence of poverty than commodity-dependent LDCs, and in some poverty has been declining, there is no iron law that poor countries which have export specializations in manufacturing and services will be guaranteed income growth and poverty reduction. Poverty levels in LDCs which have managed to diversify out of commodity production are still high by international standards. Moreover, those countries remain vulnerable in that their export success has often been built on low-skill activities in areas where there is intense competition, their export structures are highly dependent on only a few types of product and they face the danger of erosion of special preferences, particularly in the field of textiles and garments.

Finally, it is clear that intensified external relationships of the right kind can have a major role to play in helping LDCs to escape the poverty trap. But it seems likely that the current form of globalization is tightening the international poverty trap of commodity exporting LDCs and intensifying the vulnerabilities of new exporters of manufactures and services. This is happening because LDCs are generally marginalized from aspects of globalization which are potentially beneficial, and are also adversely affected by aspects which may be detrimental. A particularly worrying trend is the association of globalization with the polarization of the world economy. This will make it more difficult to have beneficial subregional and regional relationships which can help countries to break out of the trap. The problem of persistent pervasive poverty in LDCs is not simply a matter of marginalization, but also of the polarization of the world economy.

Notes

1. As in the last chapter, commodity exporting LDCs refer to those countries in which primary commodities constitute over 50 per cent of total exports of goods and services.
2. Resource windfalls associated with commodity price booms have not been well managed in the past, particularly in Africa. But despite this, positive commodity price shocks generally have been found to have positive or neutral effects on growth (Deaton and Miller, 1995; Deaton, 1999). For further discussion of the effects of terms of trade volatility and shocks in Africa, see Bleaney and Greenaway (2001) and Khose and Riezman (2001).
3. The terms “real commodity prices” and “commodity terms of trade” are used interchangeably through this chapter to denote the ratio of non-fuel commodity prices to the prices of manufactured goods.
4. The export value deflated by the unit value of exports of manufactured goods from developing countries.
5. Estimates of the foreign exchange loss resulting from the change in the commodity terms of trade during these periods can be made by deducting the value of commodity exports from developing countries at 1986 prices for any given year from the corresponding value of the purchasing power of these exports in terms of the prices of manufactured goods exported by the industrialized countries.
6. The relative prices of exports and imports for a country.
7. The link between commodity dependence and the debt problem is analysed in further detail in Nissanke and Ferrarini (2001).
8. Improved logistics also allows large firms to buy increasingly on a just-in-time basis, thus reducing the cost of holding stocks and shifting the burden of such finance backwards.

Chocolate companies, for example, which used to hold inventories covering a year or more, have reduced this coverage to as little as four months.

9. Total support estimates (TSE) is “the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures which support agriculture, net of associated budgetary receipts”, and producer support is “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at farmgate level, arising from policy measures regardless of their nature, objectives or impacts on farm production and income” (OECD, 2001: 271).
10. For stringent market requirements, see UNCTAD (1997b).
11. For discussion of this issue in relation to commodities, see Akiyama and Larson (1994), Schiff (1995), and Sapsford and Singer (1998), and in relation to exports of manufactures, see UNCTAD (2002).

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