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**TRADE LIBERALIZATION AND SUSTAINABLE HUMAN DEVELOPMENT  
THE CHALLENGE OF PROMOTING SUSTAINABLE BUSINESS PRACTICES**

**Contribution by the United Nations Development Programme**

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## TRADE LIBERALIZATION AND SUSTAINABLE HUMAN DEVELOPMENT

### I. INTRODUCTION

1. The least developed countries (LDCs) seem to have been the losers from the negotiation of the Uruguay Round. Developing countries as a whole gain from the Round, although the gains to the developed world are proportionately much greater. On the other hand, the least developed countries stand to lose up to US\$600 million per year in generalized system of preferences (GSP) advantages. Preferential access to European markets under the Lomé convention will be eroded (or lost). And the Uruguay Round left the least developed countries with tariffs on their exports, some 30% above the global average since many of their basic exports such as leather and textiles are still subject to comparatively high tariffs. Escalation will remain a problem for those countries seeking to move up the value added chain, with tariffs 8 to 26% higher on the finished exports of the LDCs than on the underlying raw materials.<sup>1</sup>

2. Even some of the gains may yet prove to be illusory. Many observers feel that little will happen in textiles and agricultural subsidies, two of the major accomplishments of the Uruguay Round. As a recent OECD study put it: "The contrast between trade liberalization theory and practice in the industrialized countries is striking. Whereas OECD Member countries unanimously endorse liberalization as an economic ideology, their trade practices point in the opposite direction."<sup>2</sup> Early evidence on the subsidy front is not encouraging. Even after subsidy reduction, the Uruguay Round agreement still permits income support payments to farmers. "The end result is that the \$182 billion in producer subsidies provided by the OECD countries in 1995 - a sum representing 40 per cent of the value of output - is unlikely to decline (OECD 1996). It is worth mentioning that the 1995 subsidy figure was some 15 per cent higher than that at the start of the Uruguay Round."<sup>3</sup> The textile commitments are equally dubious. For political reasons, they are heavily "back loaded" in the sense that most of the changes are scheduled to happen in the later years of the phase-out period.

3. In any case, some least developed countries may well be harmed if the subsidy and the multi-fibre arrangement (MFA) changes are actually implemented. Some, such as Bangladesh and Nepal, will lose MFA quota access and face increasing competition from other developing countries. And if agricultural subsidies are reduced, the increased price of imported food will hit some countries hard. Food imports account for more than 15% of total imports in 13 of the 16 least developed countries, for which statistics are available.<sup>4</sup>

4. Finally, although the Round did develop some provisions designed to help the least

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<sup>1</sup> Human Development Report, UNDP; Oxford: Oxford University Press, 1977, p.85.

<sup>2</sup> Cited in David Reed (ed.), *Structural Adjustment, the Environment and Sustainable Development*, London: Earthscan, 1996.

<sup>3</sup> UNDP, *op.cit.*, p. 27.

<sup>4</sup> Ann Weston, "The Uruguay Round: Unravelling the Implications for the Least Developed and Low Income Countries", in *International Monetary and Financial Issues for the 1990's*, vol. 6, UNCTAD, 1995.

developed, it did not address the two issues which concern them most - relief from their high levels of debt and the dramatic deterioration in the terms of trade for their commodity exports.

5. Despite these inauspicious beginnings, the United Nations Development Programme (UNDP) believes that LDCs can benefit from trade liberalization and that trade liberalization can contribute to sustainable human development in the 48 poorest countries. The conventional policy package of the World Trade Organization (WTO) membership, structural adjustment, the development of export capacity, access to Northern markets and sources of export finance and a focus on the private sector may be a necessary, but far from sufficient, condition for sustainability.

6. For liberalization to fulfill its potential, the international community and the LDCs themselves must implement accompanying pro-poor, pro-environment policies simultaneously. Otherwise, export expansion and investment liberalization may contribute to the widening of already great income disparities and to the acceleration of environmental decline.

7. The mixed blessings from the Uruguay Round come against a background of the already dramatic deterioration in the trade positions of the 48 least developed. Between 1970 and 1991, the developing countries' share of world trade barely changed. But the distribution among regions has changed substantially. For example, Asian countries saw their share of world trade increase from 4.6% to 12.5%. The LDCs, with about 10% of the world's people, have 0.3% of global trade. Twenty years ago, their share was twice as high.

8. Much of this drop in market share can be attributed to the precipitous fall in commodity prices. UNCTAD estimates that commodity prices in 1990 were 45% lower than in 1980 and 10% lower than the lowest prices during the Depression.<sup>5</sup> This trend has continued into the 1990's (although the last two years have been more promising). And most of these countries are still heavily commodity dependent. The terms of trade for manufactured goods from developing countries have also worsened. One estimate puts the drop at 35%.

9. With falling commodity prices and a smaller share of GDP devoted to exports than the developing countries as a whole, the financial situation of most LDCs is precarious. This has been exacerbated by the drop in levels of foreign assistance, still an important element of the budgets of most LDCs. Their financial position is worsened still further by high levels of debt. Debt payments typically absorb 20% or more of export revenues.

10. And foreign direct investment (FDI) will not make up these shortfalls in the short term. Despite substantial efforts to implement major structural reforms, including privatization of state assets, market liberalization and removal of limitations on foreign ownership, very little of the remaining direct foreign investment has come to the least developed. The LDCs as a whole receive only 1.1% of all FDI flows to the developing

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5 Albert Berry, Susan Horton and Dipak Mazumdar: *Globalization, Adjustment, Inequality and Poverty*, prepared for the *Human Development Report*, 1996, p.15.

world. "The investment shares of GDP of both sub-Saharan Africa and Latin America and the Caribbean in the 1990's remained lower than the levels reached in 1971-80. Half of the developing countries receive little or no FDI, and in a third of them the ratio of FDI to GDP fell over the last decade."<sup>6</sup> " In 1994, for example, all of sub-Saharan Africa received FDI flows worth \$1.8 billion, or the equivalent of flows to New Zealand."<sup>7</sup>

11. Since the structural reforms have not had the desired effect on the agricultural sector, imported cereals imports now absorb one quarter of sub-Saharan Africa's export earnings. Between 1990 and 1994, per capita food production fell in 33 of the LDCs and gained very little in most of the remaining 15. "In Africa, the ILO (1995) estimates that during 1987-91 the median growth rate of food production per economically active person was -8.0 per cent while that of agricultural exports was -20 per cent."<sup>8</sup> As a result, dwindling supplies of foreign exchange are being used for food imports.. With debt repayments absorbing similar amounts and export receipts under threat because of deteriorating terms of commodity trade, little remains to create a favorable balance of payments and finance the costs of development.

12. Falling incomes, greatly reduced public services, and the increased incidence of poverty in the least developed have been accompanied by accelerated environmental degradation. And this degradation has made it even harder to earn a living. Virtually all LDCs are dependent upon their natural resource bases for the majority of their exports, and most of their populations are rural. It is here that the impacts of desertification, loss of biodiversity, soil degradation and deforestation are most keenly felt.

13. Finally, up to a third of the least developed countries have seen prolonged periods of civil strife and political instability which have seriously hindered any efforts toward economic development and have had devastating social and economic consequences.

## **II. THE BENEFITS OF LIBERALIZATION**

14. Trade liberalization and the policies that go along with it can offer the LDCs some important chances over the longer term to reverse the declines suffered over the last two or three decades.

15. However it is clear that more sustainable forms of development will not emerge simply if governments have more money from more trade to spend on environmental protection and poverty alleviation. It is likely, however, that more sustainable forms of development will not emerge without the new resources which increased trade can provide.

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<sup>6</sup> "Globalization and liberalization: the implications for poverty, distribution and inequality", paper prepared for UNDP Human Development Report Advisory Panel. Kevin Watkins, Oxfam UK and Ireland, 22 January 1997 p 4.

<sup>7</sup> Ibid., p. 15.

<sup>8</sup> Berry, et al., *ibid*, p. 12.

16. Liberalization and openness to foreign trade and investment can have a number of positive effects:

- (i) liberalization can reduce inefficiencies from resource misallocation;
- (ii) liberalization enhances learning, technological change and growth;
- (iii) increased export earnings provide increased revenues which could be used to invest in environmental protection and social services;
- (iv) FDI can bring with it more efficient, cleaner production technologies;
- (v) environmental standards can be raised through import requirements of purchasers in other countries and through 'best practice' TNCs; and
- (vi) outward looking economies seem better able to cope with external shocks.

17. The Uruguay Round agreement can help to open markets in the North to producers from LDCs. A number of these may well be 'niche' markets in areas such as horticulture, tourism and organic produce. They can also offer governments the opportunity to 'lock in' needed but unpopular domestic policy reforms. The agreement may also have indirect benefits. By expanding the exports of middle income developing countries, it may create new opportunities for LDC exports to these countries.

18. It should also be added that the new obligations which LDCs assume as a result of the Uruguay Round are not as arduous as many critics would believe. "The agreements offer much flexibility in the adoption of the obligations for developing countries. The adoption of many new rules is subject to long transition periods, which in many cases can be further extended. Many of the general exemptions or those for balance-of-payments support remain available. Apart from the increase in transparency from the notification requirements, few changes to policies are required by sub-Saharan Africa in the short run.."<sup>9</sup>

### III. HOW TO CAPITALIZE ON THESE BENEFITS

(a) Macroeconomic stability, outward oriented trade policies, more favorable treatment of foreign investments, and removing excessive distortions in markets are important prerequisites. Many of the least developed countries have already undertaken a number of the necessary reforms to open their economies. These policy reforms have produced some economic stabilization, helped along by recent increases in commodity prices; but they have yet to show the kind of significant stimulation to growth which these economies desperately need.

(b) Governments must place far greater emphasis on trade expansion. Despite the general endorsement of export-led development as one of the few remaining options for most LDCs, few governments have elaborated a comprehensive and coherent strategy to promote trade. This is not just a weakness in governments, it is also true of the private sector, civil society and donors in many countries. "To support a new generation of export-oriented firms will depend on governments' capacity to develop in collaboration with the private sector and other civil society leaders an overall development strategy that

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<sup>9</sup> Piritta Sorsa, "Sub-Saharan Africa and the Uruguay Round", *The World Economy*, vol. 19, No. 3, May 1996 p. 304.

places trade at its very center."<sup>10</sup>

(c) LDCs need to develop the capacity to implement these kinds of major policy and institutional change. That is the reason for this conference. The integrated programme of technical assistance set out elsewhere will be critical to the success of the least developed countries in world markets. And the assessments already received by the Secretariat make it clear how great the needs are.

19. A recently developed UNDP programme for Africa outlines the breadth of the challenge. It ranges from improving the ability of governments to negotiate in the WTO, to developing a capacity to analyse international trade trends, to enhancing information flows about trade and investment, to strengthening the capacity of NGOs and private sector organizations, to increasing the awareness of LDCs wishing to negotiate their accession to the WTO.

20. The Programme addresses three main capacity building goals for trade development, with an agenda of action for each. Under each agenda, the programme contains a number of modules, which includes a series of activities, such that each module furthers its respective agenda. However, the modules are somewhat discrete and can work as separate projects independent of each other, though ideally when combined, they provide the desired multifaceted approach.

### **The Three Agendas**

1. Under the area of human development resources, the programme contributes to the establishment of networks of national and regional trainers and training institutions that are equipped to train national and regional policymakers, private sector operators and civil society representatives in the areas of trade that are pertinent to them.
2. In the area of capacity for policy and strategy making, the programme attempts to strengthen the ability of governments and economic integration organizations throughout the region to identify policies that can move forward both subregional integration and the integration of subregional groupings within the global community.
3. In the area of enabling institutions for trade, the programme attempts to strengthen selectively the broad range of institutions upon which firms need to rely on to strengthen their competitiveness in export markets.

21. UNDP believes that the critical missing link between a vision of an export-led fast growing African economy and its realization lies in the absence of a strong supply side, which includes: (i) the supply of policymakers and business operators skilled in understanding how integrated economies work; (ii) the supply of strong trade policies; and (iii) the supply of export-oriented entrepreneurs and of meso-level institutions to

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<sup>10</sup> Weston, op. cit., p. 5.

support these new entrepreneurs to assist in the implementation of the new strong trade policies. In sum, what is lacking is the capacity among African actors to take full advantage of the host of trading opportunities. Consequently UNDP's initiative is designed to develop the supply side by building capacity among the various actors.

#### Basic Principles for Durable Capacity Building

22. UNDP also believes that for a capacity-building initiative to be effective and durable, it has to be consistent with three broad principles, which has necessitated the creation of a bold and innovative programme structure.
1. The capacity-building initiative has taken the form of an integrated, multifaceted exercise, as opposed to the traditional piecemeal approach.
    - (i) Under this Programme, UNDP brings together the expertise of various specialized agencies by drawing on the best each has to offer.
    - (ii) This structure also ensures that the agencies collaborate among themselves and among their local and regional institutional counterparts.
    - (iii) Even though the programme covers numerous sectors, regions and participants, it is still designed for manageability and accountability in mind. The modules each have a designated lead agency, and they apply to a limited group of institutions and countries at any one time. Only if successful, would the module migrate to a broader range of participants.
  2. The approach targets regional and national institutions; by targeting one without the other, countries are unable to effectively utilize the resources that are being built on their behalf elsewhere.
  3. The approach also emphasizes strong country ownership; this requires working to the greatest degree possible with local counterpart institutions, and the initiative includes a broad array of participants, such as NGOs, civil society and grass-roots groups, and not least of all the private sector entrepreneurs.
23. Although specific to Africa, it would be relatively easy to adapt this kind of approach to the needs of other LDCs. An international programme to expand the export capacity of LDCs must be a major priority of this Conference.

### **IV. THE ROLE OF THE INTERNATIONAL COMMUNITY**

#### **(a) A Renewed Commitment to Development Assistance**

24. Since the Earth Summit and its renewed commitment to official development assistance (ODA), foreign assistance has fallen dramatically to its lowest level in 25 years (at 0.28% of the developed countries' collective GDP). And International Development Association (IDA) assistance has barely been maintained in real terms, while the International Monetary Fund (IMF) is a net recipient of funds from developing



countries, including some of the poorest.

25. In order for any plan to have real expectations of success, ODA to the LDCs must be increased and more carefully targeted. In some countries, foreign investment and increased export earnings are filling the gap. But for all the reasons outlined above, the LDCs will remain dependent upon ODA for the short and medium term. And with parsimonious Northern parliaments unlikely to loosen the purse strings, greater targeting of aid on the poorest will be essential if they are to escape the poverty trap. This will require the kind of sustained political will demonstrated all too briefly at the Copenhagen Summit.

26. The need for assistance was put very powerfully by the one of the key figures in the Uruguay Round. Peter Sutherland stated in a recent article "...it is obvious to me that the market will never provide all of the answers to the problems of poverty and inequality. The fact is that there are those who will not be able to develop their economies simply because market access has been provided." He went on to add that, "The greatest economic challenge facing the world is the need to create an international system that not only measures global growth but also achieves a greater measure of equity, a system that both integrates emerging economic powers and assists currently marginalised countries in their efforts to participate in worldwide economic expansion...Some even see the reduction in support for the poor as a positive encouragement for economic growth. There are those who oppose redistribution policies in principle, whether in the domestic or the international context. This is wrong. It is morally wrong, it is pragmatically wrong and we ought not to be ashamed to say so."<sup>11</sup>

### **(b) Commitment to an Accelerated Programme of Debt Relief**

27. Success will also depend upon debt reduction. This would not only free up resources for investment in export growth, but it would also help the least developed to improve their credit ratings - a key ingredient where export financing is concerned. Although the recent initiatives in this area to deal with multilateral debt (typically up to half of the repayments) are encouraging, eligibility criteria are still a problem for a number of heavily indebted countries such as the United Republic of Tanzania and that Ethiopia will not qualify until at least the year 2000. If the liberalization and adjustment efforts are to be successful, the Group of Seven and the Bretton Woods institutions should aim to end the debt crisis for the poor countries by that year. Debt relief to the 20 countries deemed potentially eligible would not be particularly expensive. Estimates range between \$5.5 and \$7.7 billion.<sup>12</sup>

### **(c) Greater Market Access for LDC Exports**

28. The Uruguay Round must live up to its minimum promises in the areas of agricultural subsidies and textiles. Developed countries must be serious in the implementation of their Uruguay Round commitments. There is also a need to treat

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<sup>11</sup> *International Herald Tribune*, 20 Feb. 1997.

<sup>12</sup> *Human Development Report*, 1996.

products from the least developed countries on an equal footing with those of developed countries by accelerating the liberalization of markets of concern to these countries such as textiles and leather, and to institute a ban on dumping agricultural exports. In addition, many of the recommendations in the Comprehensive and Integrated WTO plan of Action for the Least Developed Countries should be implemented including:

- (i) Eliminating tariff escalation for semi-processed tropical agricultural products and natural resources;
- (ii) Deeper tariff cuts and eliminating duties which are still subject to high tariff peaks under preferential schemes;
- (iii) Exempting textile imports from small producers from restrictions, even if these countries are not WTO members.

**(d) R and D for Sustainable Development**

29. Finally, there is a real need for international R and D programmes for the poor. The recent Global Knowledge 1997 Conference pointed out how the poorest need not be left on a dirt road beside the information highway. And the time has come for an emphasis on international agricultural research on the crops and growing conditions produced by the 2 billion people who live on marginal lands, depending on rainfed crops such as sorghum and millet, who have so far not benefited from the green revolution.

**V. TRADE AND SUSTAINABLE HUMAN DEVELOPMENT**

30. The actions recommended above should help the least developed countries expand their export sectors and mobilize desperately needed resources for infrastructure improvements, capacity building, export finance and the like. But will they help to bring about sustainable development?

31. The answer is, not necessarily. Enough has been written in the *Human Development Report*, by UNICEF, and in other places about the impact of structural adjustment policies on the poor and especially on women, to dictate that they must include economic and social policies which empower the poor and increase their income earning opportunities. And these kinds of structural adjustments are the precursors for export expansion.

32. If increased exports start the engines of growth in many LDCs, will this growth lead to more sustainable forms of development? Again, not necessarily. Research conducted for the *Human Development Report* indicates that growth is the key to poverty reduction - without it, little can take place. But growth appears to be responsible for only about 50% of poverty reduction. The rest results from deliberate policies directed towards the poor. The experience of Southeast Asia is instructive. Indonesia, the Republic of Korea and Malaysia have had great success in dramatically expanding their exports and in reducing poverty since the 1970s. Their growth strategies expanded economic opportunities for poor people, with relatively equitable distribution of financial and physical capital, including land. And the resources generated by economic growth were heavily channeled into human development, especially into improving health,

education and skills."<sup>13</sup>

33. These strategies can be remarkably successful in combining rapid export growth with poverty reduction. In 1970, about 60% of the population of Malaysia lived below the poverty line. The percentage fell to 21% by 1985 and to 14% by 1993. The target is 7% by 2000.

34. Other countries, in contrast, have experienced rapid export growth and a widening of income disparities, with little impact on core income poverty.

35. Will liberalization and adjustment help to bring about environmentally sustainable development? Again, not necessarily. In the words of the World Bank, "Economic growth can generate resources to address environmental problems but it is not by necessity environmentally sustainable. Markets for environmental goods and services are often incomplete or nonexistent. Consequently, some environmental values are not taken into account in market transactions. This is particularly so in a context in which much of the environmental resources are common property. Free markets cannot be expected to produce efficient and sustainable results when property rights are not clearly defined, complete, enforced and transferable. Complete privatization of all environmental costs and benefits, however, is neither feasible nor desirable, which makes public policies that reflect ecological values necessary."<sup>14</sup>

#### The Environmental Situation in the Least Developed Countries

36. Virtually all LDCs are heavily dependent upon their natural resource bases from both an economic and social perspective. In a recent publication,<sup>15</sup> the World Bank described the situation in sub-Saharan Africa in graphic terms. Although specifically directed to Africa, many of these problems are present in equal measure in other LDCs.

37. Heavy Reliance on Natural Capital: About two thirds of the population of sub-Saharan Africa lives in rural areas and derives its main income from agriculture. A large percentage of export earnings from all African LDCs is derived from agriculture and forestry. This natural capital is rapidly deteriorating under the pressures of desertification and population growth.

38. And there are some major constraints on using natural capital in a fragile environment. African soils are comparatively poor and suffer from a chronic lack of phosphorus. Overgrazing and erosion has reduced this productivity even further. One estimate is that the soils have lost up to 20% of their productivity. Africa depends almost exclusively upon rainfed agriculture, and has the lowest percentage of irrigated land of any continent in the developing world.

Extreme Poverty along with rapid population growth: Poverty is both a cause and a

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<sup>13</sup> Ibid., p. 74.

<sup>14</sup> Toward Environmentally Sustainable Development in Sub-Saharan Africa, The World Bank, Washington, D.C. 1996, p. 20.

<sup>15</sup> The World Bank, *ibid.*, p.2.

result of environmental degradation.

Urbanization and Migration: Sub-Saharan Africa is the most rapidly urbanizing region in the world. It also contains some 35 million transnational migrants, including some 4 million refugees. These massive migrations not only place enormous pressures on political and social structures, but they also concentrate environmental pressures on certain "hot spots".

39. Because African economies have accumulated low levels of human made capital, they are forced to increase their reliance on natural capital. This can and does lead to land degradation, deforestation and the loss of biological diversity. This leads to food insecurity which can often lead in turn to migration into more marginal lands in an effort to expand acreage and into cities totally unequipped for the flood of migrants.

40. It has also led to longer-term dependence on food aid from the temperate countries which in turn depresses agricultural prices and leads to a substitution for wheat and rice for the more traditional food crops of the area.

41. Has the kind of structural adjustment necessary for liberalization helped to reduce or exacerbate these trends? Studies by the World Wide Fund for Nature<sup>16</sup>, the World Resources Institute<sup>17</sup> and UNRISD<sup>18</sup> have begun to shed light on the relationship between these programmes and the environment.

42. The environmental impacts of the structural adjustment process appear to have been mixed. Some of the price reforms have been good for the natural environment, encouraging intensified commercial agriculture, promoting crops which are less erosive and greatly reducing subsidies for agricultural inputs.

43. On balance, however, environmental degradation seems to have accelerated. Unemployment resulting from the structural adjustment programmes has led in some cases to urban rural migration which in turn results in increased cultivation of marginal soils and increased reliance on wildlife, forest and plant resources which in turn escalates pressures on soils, forests and biological diversity.

44. The removal of fuel subsidies results in a return to the use of fuelwood and charcoal with resulting increases in deforestation and desertification. There are indications in some countries of rapid increases in unsustainable timber exports as countries seek to increase their earnings of foreign exchange.

45. Poaching has increased, including endangered species, as rural people seek to supplement their incomes.

46. The agriculture sector has reacted in two ways to the adjustment process.

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<sup>16</sup> David Reed (ed.), *Structural Adjustment, the Environment and Sustainable Development*, London: Earthscan, 1996.

<sup>17</sup> Need ref for Philippines case study by Willy Cruz and Robert Repetto.

<sup>18</sup> UNRISD, States of Disarray: *The Social Effects of Globalization*, Geneva: United Nations, 1995.

Commercial farmers have responded to the new price signals by expanding and often diversifying production. And there have been some positive environmental improvements associated with these increases in intensified production. Smaller farmers have reacted in exactly the opposite way. Removals of subsidies on agricultural inputs, reductions in extension programmes and the uncertainty resulting from the privatization of farm to market distribution systems has led to an extensification of agriculture as farmers reduce their cash outlays and try to maintain production by bringing more and more marginal land under cultivation. "The mutually reinforcing character of deepening poverty and environmental degradation in broad areas of some countries indicates that environmental problems will worsen in coming years."<sup>19</sup>

47. The extractive industries in the countries studied reacted quickly to the new incentives provided by liberalization and exploration and exploitation activities expanded quickly. However, substantial cuts in the already modest environmental agencies which existed before adjustment have constrained the role of government to regulate this kind of activity.<sup>20</sup>

48. Both the adjustment and liberalization processes seem to assume that negative environmental externalities will be addressed by government action to correct market failures and to establish market based incentives to protect the environment. However, environmental agencies in most LDCs were never particularly strong or politically influential. They therefore suffered severe cutbacks such that, "The norm among these countries is cutbacks so severe that basic resource management functions have been gutted or paralyzed."<sup>21</sup>

49. In summary, although structural adjustment has resulted in some positive environmental changes..."Without exception... the studies affirm the fact that the current environmental impact trends are serious, have long term implications, and in many cases, show signs of irreversible damage. Of equal concern is the fact that the adjustment process' new economic incentives have prompted the conversion and intensified use of these resources without providing new sources of those environmental goods and services to match rising consumption rates."<sup>22</sup>

## **VI. SECTORAL POLICIES FOR TRADE LIBERALIZATION IN SUPPORT OF SUSTAINABLE HUMAN DEVELOPMENT**

50. There are a number of key sectors for LDCs which will require deliberate policy decisions to help ensure that liberalization and adjustment contribute to development that is both socially and environmentally sustainable.

### **(a) Commodities**

51. Perhaps the most difficult issue from both a social and environmental point of

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<sup>19</sup> Reed et al., op cit. p. 329.

<sup>20</sup> UNRISD, op cit.

<sup>21</sup> Ibid., p. 325.

<sup>22</sup> Reed, op cit., p. 349.

view in the short run is that of commodities. Although efforts at diversification are absolutely essential and must be a key part of both national and international efforts to assist the LDCs, most of these countries will remain dependent upon the export of primary commodities for the next few years. Yet commodity prices are notoriously volatile. The long-term decline in prices is due to a number of factors, partly a fall in the commodity intensity of production, partly from increases in supply because of technological innovation and a resort to 'desperation production' by countries seeking to generate foreign exchange, and partly by the development of substitutes for such commodities as sugar and copper. Part of the problem stems from the focus of commodity producers on one single product with little attention to potentially useful byproducts. Finally, many commodity based industries are demoralized by these long-term declines. As a result, levels of R and D are low, facilities are often outmoded and undercapitalized and investment levels are low.

52. The cumulative losses from declining terms of trade suffered by developing countries amounted to \$290 billion between 1980 and 1991. For sub-Saharan Africa, the loss was the equivalent of 5% of GDP.<sup>23</sup>

53. Attempts to stabilize, or even increase, commodity prices through international action have failed. And there seems little support for further international stabilization schemes. By default, the initiative seems to have fallen to the producers to develop their own supply management schemes. This is clearly unsatisfactory as producers are already bearing a disproportionate share of the risks associated with commodity production and are receiving a disproportionately small share of the revenues.

54. Export diversification is obviously crucial for most commodity producers and liberalization could be one of the keys to diversification. And here is where the donor community must step in to help. Support for the Secretary-General's appeal for \$75 million to support commodity diversification would be a good first step.

55. Commodities can present environmental and social problems. The growth of certain crops requires substantial application of pesticides, exposing workers to notorious health problems as well as damaging the environment. Working conditions in these industries are often primitive, even oppressive. Processing of some commodities, such as palm oil, can be environmentally very damaging and there is anecdotal evidence that the pressure to earn foreign exchange has driven some countries to cultivate high pesticide intensive or erosive cash crops for exports on land previously given over to food crops. This, in turn, has forced food farmers on to more marginal lands.

56. Because virtually all commodity producers are price takers and because virtually all commodities are in abundant supply, it is extremely difficult to internalize the environmental costs of commodities. The structure of the commodities business, in which the producers receive only a small part of the returns, exacerbates these problems.

57. The unlikelihood of securing the agreement of a large number of producers to

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<sup>23</sup> Maizels, quoted in Watkins, op cit.

supply management schemes, and the unwillingness of donors to finance stabilization funds and the chronic problems of oversupply make cost internalization extremely difficult. This has led to some innovative suggestions for reform.

58. For example there have been proposals for International Commodity Related Agreements (ICREAs)<sup>24</sup>. Two types of such agreement have been suggested. One would commit exporting countries to agree to certain technology related environmental standards for a specific commodity over an agreed period. This would require a high degree of producer and consumer cooperation, otherwise those who used the technology would be undercut by those who did not.

59. The second, and perhaps more viable variant, would seek to capitalize on the growing interest in green or organic foods in the North. Under this scheme, a compensation fund would be created from financial contributions from the importing countries. Their annual contribution would be based upon their import volume of the commodity and their per capita income levels. Exporting countries would be able to draw on the fund to finance new technologies, and better environmental management of the commodities involved.

60. The incentives for 'free riders' would be undercut if the importing countries agreed to charge the levy on commodities on a generic basis, thus ensuring that no price advantage was given for poor environmental performance.

61. Some innovative producers may also be able to increase their market shares through the development of 'niche' markets for their products. Producers may have some options for product differentiation through 'fair trading' schemes such as that of Max Havelaar and other schemes which take into account such issues as the social and environmental conditions under which the product was produced.

62. Some Northern consumers, especially in Western Europe, have been willing to pay additional costs for these kinds of product. The premium ranges from 20% for organically produced coffee to triple the price for some fruits. A study produced for the DPCSD suggests that the potential for these products may be substantial. It cites examples of textiles in India; chlorofluorocarbon (CFC) free refrigerators in Egypt and Swaziland; tourism in Senegal and Jamaica; coffee in Costa Rica, organic fruit in Chile and organic cotton in Uganda.

63. This could well provide income for poorer farmers provided the right financing and distribution facilities can be put in place. Because they are unable to afford modern inputs, such as pesticides and fertilizers, many poor farmers are forced to practice the kind of agriculture which produces products with low levels of pesticides and other residues which command a premium in some markets.

64. Research into new ways of producing agricultural commodities can also result in

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<sup>24</sup> Henk L. Kox, "The International Commodity Related Environmental Agreement: Background and Design", Free University of Amsterdam, ICREA Research Project, June 1994.

products which can appeal to these niche markets. The Mona Lisa and Goldfinger bananas, developed in Central America with the assistance of the International Development Research Centre, are resistant to all of the common banana fungi, thereby both reducing the costs of their production, as well as enabling the producers to meet organic criteria in the marketplace.

65. Admittedly, these 'niche' markets are small, but they are growing. And most of the LDCs are small producers of many of these commodities. A modest portion of the market in North America, Europe or Japan could make a major difference in their export prospects.

66. Another interesting approach has been pioneered by the ZERI project at the United Nations University. In applying both modern technology and a business approach to the palm oil industry, for example, they seek to maximize the utilization of the biomass (90% is now wasted and that waste is in itself a major environmental problem), greatly reduce pollution levels and to increase the value added by operating palm oil processing plants on the same basis as modern oil refineries.

67. The United Nations University research team has discovered that there is a major potential market for ecological cleaning products, based upon palm oil surfactants. In addition, their research indicates that "...some 90% of what is now considered waste could be recovered and transformed into marketable products sold at competitive prices, i.e., by extracting vitamins, anti-oxidants and beta carotene. These would reduce prices, thus stimulating demand, supporting new trade flows and motivating more vegetable oil processors to adapt their extraction systems to maximize the value of their raw material. Waste lignin, some 30% of the waste biomass, can be recovered as a clean fuel. It can also be used as a substitute for epoxies which would boost the production of formaldehyde free medium density fibreboard. Finally, waste fibres could also be used in the production of fibreboard."<sup>25</sup>

68. The key to this process is to change the entire outlook of the palm oil industry from one which is set up simply to produce an edible oil to one which is more akin to that of the petroleum industry where virtually every molecule is used to produce a salable product. While this approach will not work for every commodity the ZERI program is looking at its potential for other edible oils, and sugar, for example. It is a research approach worthy of increased international support.

## **(b) Agriculture**

69. While trade liberalization may well benefit the large commercial farming sector, it is unlikely to help smallholders who lack access to modern inputs, financing, farm to market distribution facilities, and often, secure tenure to their land. Yet there is plenty of evidence that these farmers are the key to food security. The 88 low-income food-deficit countries identified by the Food and Agriculture Organization (FAO) spend half of their foreign exchange on food imports. And this figure may well rise should the

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<sup>25</sup> Need reference from the Yale/UNDP book.



subsidies in the temperate countries be reduced under the Uruguay Round agreements. Many of these countries could become food self sufficient if they adopt policies aimed at stimulating smallholder agriculture.

70. Without positive action by governments and the donor community, the liberalization process could therefore produce the ludicrous situation where the foreign exchange earnings arising from increased exports of cash crops could be eclipsed by the increased cost of food imports. And these assumptions are not far fetched. As explained above, adjustment policies already seem to have resulted in reduced output from small farmers in a number of African countries.

71. If the temperate subsidies are not reduced, the world will continue to be faced with the equally ludicrous situation where Northern taxpayers continue to subsidize their farmers to the tune of 40% of the value of the crops. It will continue to be faced with the specter of the European Union, which was a modest net importer of sugar 20 years ago, being the world's largest single exporter of sugar, a crop perfectly suited to the tropics. These subsidies have helped to reduce the developing countries' share of world agricultural trade from 50% in the post-war period to about one quarter today.

72. Furthermore, continuing food aid made possible by these subsidies (not emergency food aid) has helped to depress local food prices in many LDCs, thus robbing farmers of the incentives to grow food. In many parts of Africa it has led to the substitution of wheat and rice for the more traditional cassava, sorghum and millet, thus aggravating the balance-of-payments problems.

73. This has been understood for years. But it needs to be tackled now if the least developed countries are to benefit from the opportunities to earn additional foreign exchange from expanded exports of manufactures and commodities.

74. If the expansion of food production in the poorest countries is to contribute to sustainable human development, it will require policies directed specifically to the smallholder. And in most of the least developed countries, they will need to be targeted at the low external input systems. "Farming systems in these areas are complex and diverse, agricultural yields are low, and rural livelihoods are often dependent upon wild resources as well as agricultural produce. They are remote from markets and infrastructure; they are located on fragile or problem soils; and are less likely to be visited by agricultural scientists and extension workers or studied in research institutions...Most of the food production in Africa comes from these low external input systems of agriculture. The extraordinary thing is that in the mid 1990's some 30-35% of the world's population, about 2 billion people, are directly supported by this forgotten agriculture."<sup>26</sup>

75. There have been a number of successes at stimulating this form of agriculture in Africa and in the poorer parts of Asia. But they have been very localized. Researchers have drawn the following lessons from the successes: "They have made use of resource

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<sup>26</sup> Jules N. Pretty, *Regenerating Agriculture*, Earthscan: London, 1995, p. 31.

conserving technologies, such as integrated pest management, soil and water conservation, nutrient recycling, multiple cropping, water harvesting, waste recycling and so on. In all, there has been action by groups and communities at local level; and there have been supportive and enabling external government and/or non governmental institutions. Most though are still localized...That is because a fourth element, a favourable policy environment, is missing."<sup>27</sup>

76. Two initiatives have been suggested to complement this favourable policy environment, both of which involve some external elements which could be helpful to small farmers. The first, is the suggestion that the next round of international agricultural research should be directed at small farmers practicing rainfed agriculture on marginal lands, rather than the emphasis on irrigated agriculture which has so far predominated. The second is the World Bank's ambitious proposal to help correct the poverty of African soils by a major campaign to increase the level of phosphorus.

77. Biodiversity and agriculture should go hand in hand. Yet many of the LDCs are losing their biodiversity at rapid rates. This is not only true for animals, but increasingly so for plants. One of the alarming aspects of this biodiversity loss is the disappearance of landraces. Landraces are genetically diverse forms of cultivated plants at the interface between wild and domesticated plant species. As repositories of traits such as resistance to disease, pests, drought, and other stress conditions, landraces are indispensable for modern crop improvements. And Ethiopian landraces are among the most genetically diverse in the world.

78. A UNDP Global Environment Facility project demonstrates how biodiversity conservation and smallholder agriculture can go hand in hand. The construction of community gene banks focuses on increased extension contact and local participation in landrace conservation. Incentives for conservation will be identified by an examination of market and non-market forces that affect the choice of what seed to plant. One goal of the project is to identify products based upon landraces for national and international markets.

79. Landrace conservation throughout the Africa region will be facilitated through the biodiversity network of the African Ministerial Conference on the Environment.

80. Other more traditional biodiversity conservation projects focus on the establishment of parks and protected areas. But the emphasis is now on the involvement of the local people in the success of the park such as a Global Environment Facilities (GEF) project in Nepal, which seeks to provide economic benefits to agricultural communities which surround the park area.

### **(c) Forests**

81. If biodiversity goes hand in hand with agriculture, then more sustainable forestry policies must accompany both of them.

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<sup>27</sup> Pretty, p. 19.

82. In much of sub-Saharan Africa, many of the problems stem from land clearance for agriculture and overcutting of the forest resource for fuelwood. Here policies to encourage and modernize low input agriculture, anti-desertification strategies and the kinds of decentralized energy supply technology described below should help.
83. In other parts of Africa, Cambodia and Laos, and some of the Pacific islands, commercial exploitation of the forest resource is a major problem. Chaotic concessions policies with very low rents, accompanied by illegal logging and lax supervision, are leading to rapid depletion of tropical forests, along with inadequate government revenue.
84. In a review of West African forest policy, the conclusion was that "In most West and Central African countries, and indeed in most tropical countries, concession fees are minor, almost inconsequential revenue sources. As a result, there is little or no cost to the industry acquiring and holding large concession areas. Sawmillers or loggers acquire concessions over vast forest areas, more for insurance purposes or speculation than for regular timber supplies. Not only does this mean that public resources are lying idle, but these unused forests are, paradoxically, also the ones that are especially prone to deforestation by shifting cultivators. The forest industry has little incentive to control encroachment if they have excess area."<sup>28</sup>
85. A recent World Bank, FAO and UNDP forest study in Cambodia revealed massive overcutting and government revenues of \$15 million per year versus potential revenues of \$100 million from a lower cut with proper forest charges.
86. As a first step in controlling this kind of forest exploitation, a new kind of concession arrangement is necessary. They would be designed to "achieve protection and sustainable management of forest lands for both timber and non timber forest land uses. They involve contracts with private sector forest industry companies to undertake management duties and responsibilities for both timber and non timber forest land uses in exchange for security of supply."<sup>29</sup>
87. These contracts would be initiated by governments, otherwise the better concessions will be taken up first, leaving public authorities with a patchwork of forests to manage. They should be publicly advertised and bidders prequalified before they are allowed to bid. And the whole process should be transparent.
88. Needless to say, this kind of concession forestry poses a major governance challenge to most countries and none of this will work without assistance to establish and maintain professional, effective forest services.
89. As in agriculture and commodities, there may well be important "niche" markets for forest producers in Northern markets. In recent years there has been a flurry of attempts to produce labels for sustainably produced timber. The Canadian Standards

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<sup>28</sup> John A. Gray, "Forest Concession Policies and Sustainable Forest Management of Tropical Forest". Prepared for the workshop on Forest Policies and Sustainable Development in the Amazon, UNDP, July 1997, p. 13.

<sup>29</sup> Gray, *ibid.*, p. 19.

Association has developed a scheme in partnership with the forest products industry and the European Union has been actively involved in labeling discussions. But the most successful appears to be the Forest Stewardship Council (FSC), an NGO initiative. The FSC, working with some forest products companies and the timber trade, is assembling a number of “buyers groups”. These groups have agreed to preferential or exclusive purchases of timber bearing the FSC label. The FSC is now in the process of certifying up to 10 million hectares of sustainably harvested forest to provide the supply to these groups. If successful, the FSC and other sustainable harvesting labels could provide an interesting market niche for timber producers in some of the LDCs.

#### **(d) Energy**

90. The LDCs are the lowest per capita energy users in the world. Any serious attempts to build export capacity or to increase domestic food production will require very substantial investments in energy production, especially in rural areas. And here there may be real opportunities for technological leapfrogging.

91. Traditional programmes of rural electrification, through power line extensions and stand-alone diesel power generation, have proven to be very costly and often financially unsustainable. These projects often have poor rates of return and diesel generators are notoriously difficult to maintain. Imports of crude oil and refined products can cut deeply into foreign exchange earnings.

92. Decentralized electric installations must be developed in concert with activities that address specific social and economic development needs. These include the development of village water supplies, support of dispensaries and pharmacies, support for health services, refrigeration of foodstuffs and development of dairy industries such as that with milk from camels and indigenous cattle in Mauritania.

93. The use of solar electric, wind mechanical/electric, biomass based and other renewable energy systems will avoid or minimize growth in carbon dioxide emissions. Widespread use of such systems, coupled with indigenous assembly and eventual production of the equipment, can ease the pressure on foreign exchange reserves, reduce the requirements for fuel imports and therefore contribute to the national economy.

94. A UNDP sponsored wind generation project in Mauritania has also proven to be cheaper than any of the available alternatives, such as small scale generators, which are the only other practical options.

95. Another project in Kiribati helped to create and strengthen a solar energy company to serve remote areas. The company should become commercially viable in 1998 and has brought the benefits of lighting and radio service to a number of isolated communities at a reasonable cost.

96. A new activity in Eritrea will combine several aspects of sustainable energy development. It seeks to accelerate the use of photovoltaic village pumps for drinking water. It will aid in the dissemination of improved cooking stoves and the establishment of village and farm woodlots to provide their fuel. It will help in the

installation of solar water heaters for reduction of the fossil fuel consumption of electricity generation stations.

97. Although these remain small projects, they help to demonstrate that reliance on the traditional system of relatively large central generating stations with their expensive and difficult to maintain network of fixed wires is no longer the only option for supplying essential energy supplies to the rural poor.

98. "Under sustainable development strategies, decentralized energy demand and supply technologies contribute significantly to improving the living conditions of rural populations in the near term by increasing the levels of energy services provided, i.e., via the introduction and diffusion of energy efficient lighting technologies, energy efficient cookstoves, PV systems that can provide electricity for households and medical and educational facilities".

99. "In the medium to long term, renewable energy is also used under sustainable development strategies to promote rural employment generation and rural industrialization. For example, modernized, energy efficient biomass electric generation technologies based upon the use of gas turbines and fuel cells coupled to biomass gasifiers offer the potential for providing electricity at small scales at costs competitive with conventional large-scale, fossil fuel power generating technologies." This kind of strategy provides opportunities not only to use residues, but also fuel from energy plantations.

100. Where larger scale energy supplies are required, such as in urban areas and industrialization zones, there are again more sustainable options than many of the traditional ones. For example, the ZERI-style approach to many commodity processing plants (treating the biomass as a whole) can yield substantial dividends in co-generation. Many sugar refineries, for example, are able, through advanced technologies, to generate enough electricity through the use of bagasse, a by product, not only to run their own operations, but also to generate a surplus for sale. This same technology may also make it possible to produce electricity economically from biomass plantations.

101. Finally, depending upon the outcome of the Kyoto Conference of the parties to the Convention on Climate Change, the least developed countries may well benefit on the energy front. Planting biomass crops on marginal lands to "lock up" carbon could prove to be an attractive option for companies or countries in the North seeking to meet any targets which might be set at Kyoto. Retrofitting of existing electricity generation stations to reduce their emissions of carbon dioxide and other conservation projects could well be more cost effective in the developing world and contribute more to energy efficiency, than similar improvements in the North.

## **VI. Conclusions and Recommendations**

102. Globalization and the investment and trade liberalization policies which facilitate it, is the dominant force in the world economy today. And the least developed countries must participate in these processes if they are to be able to mobilize the kind of resources necessary to reverse their increasing marginalization of the last two or three decades.

## 1. The Role of the International Community

### (a) A Reformed Development Assistance

103. But liberalization is no panacea. In order to be able to benefit from these processes, the LDCs will require substantial assistance from the international community. As the UNDP Administrator put it in his presentation to UNCTAD IX: "It's a myth that the market in a globalized economy is enough to replace aid, that the developing countries can hitch their wagon to globalization and be on a ride to prosperity."...We need a reformed development assistance that recognizes that economies exist for people (and not people for economies), that benefit the poor and that the polity is as important as the economy, growth with employment and environment."

### (b) Accelerated Debt Relief

104. Further debt relief initiatives are also needed urgently, especially on the multilateral front where the year 2000 needs to be the end of the process for all of the most seriously indebted, rather than the beginning for some.

### (c) Greater Market Access for LDC Exports

105. WTO members should take action to further increase export opportunities for the least developed by fully implementing the Comprehensive and Integrated WTO plan of Action for the Least Developed Countries. Northern members must demonstrate that they are prepared to honour their commitments on agricultural subsidies and textiles in both the letter and the spirit.

### (d) R and D for Sustainable Human Development

106. New international initiatives must be taken on R and D for the poorest. Here the priorities should be directed toward reducing food imports through efforts to increase the yields of the traditional crops of poor farmers on marginal lands. And it must not simply be restricted to agricultural research stations. New techniques in participatory research and rural appraisals promise to reach farmers more directly. "The second green revolution should not be a copy of the first. It should aim at environmental sustainability, low cost inputs and higher returns for small scale holdings and at minimizing the risk for poor farmers. It should focus less on crops and more on systems, on finding ways to diversify production and use the range of natural resources available. It should focus on tree crops, agroforestry and mixed livestock, pasture and crops. The revolution must learn from indigenous systems developed over centuries that have enabled people to survive in the most hostile and fragile environments. It must also consolidate the community's capacity for collective action and bolster social capital."<sup>30</sup>

107. Research designed to make the commodity business more viable must be pushed further. There is a need for initiatives to demonstrate the real, practical possibilities for

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<sup>30</sup> Gray, *ibid.*, p. 70.

technological leapfrogging, especially in the areas of decentralized energy technologies, and the kinds of initiatives in information and communications technologies illustrated at the recent Global Knowledge 97 Conference in Toronto.

**(e) Capacity Building**

108. Even with greater market access and structural adjustment, many LDCs lack the capacity to expand their exports. The integrated programme for technical assistance must address needs ranging from assistance to some LDCs in applying for WTO membership, through the development of analytical skills and institutional strengthening to take advantage of emerging trade opportunities, to the strengthening of the broad range of institutions which firms rely upon to strengthen their competitiveness in export markets. These efforts should also be extended to strengthen the capacity of developing countries and in particular their private sector to provide connectivity to the Internet and to make use of the potential of information technologies.

109. UNDP has already begun to assist LDCs in that respect in a wide range of programme and projects. For one, The UNDP Regional Bureau for Africa, in cooperation with UNCTAD, the World Intellectual Property Organization (WIPO) and International Trade Centre (ITC), has launched a comprehensive programme on trade and development to strengthen the capacity of African countries to fully participate in the global trading system. Furthermore, special efforts are being made with UNCTAD to develop a joint global programme to assist low income countries to access the benefits of globalization and liberalization of the world economy.

110. As regards the information technologies, UNDP has not only launched two global projects<sup>31</sup>, but all its regional bureaux are already engaged or preparing specific regional programmes to strengthen connectivity, build capacities and demonstrate the sustainability of these technologies through pilot projects. More specifically, the Regional Bureau for Asia has just launched the Asia-Pacific Development Information Programme to help equip developing countries in these regions, with the basic infrastructure and know-how needed to make equitable use of new communication technologies in a cost effective manner.

111. Above all, there is an urgent need to tackle the infrastructure problems of the poorest countries, including telecommunication infrastructure. And this will be critical for the poorest within these countries for they are always the furthest from farm to market roads and storage facilities, and are left aside in communication and networking. They receive fewer visits from extension officers and have the worst access to modern inputs. This is a particularly urgent problem for the landlocked countries. As the Ethiopian needs assessment graphically points out, some of their export problems can only be solved through port and rail improvements in other countries. International action is essential to help break these kinds of bottleneck.

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<sup>31</sup> Namely, the Information and Communication Technologies for Sustainable Human Development (ICT/SHD) and the Sustainable Development Networking Programme (SDNP).

112. But there is another infrastructure problem which may be even more urgent. The majority of the population of the LDCs lives in rural areas, often on marginal lands. They depend upon the quality and quantity of natural resources for their survival. Yet all indications are that these natural infrastructures of soils, water, forests and fisheries of virtually all LDCs are deteriorating rapidly, often irreversibly. There is an urgent need for international support for a programme to restore this natural infrastructure through efforts to combat desertification, deforestation, soil degradation and the loss of biodiversity. Absent these kinds of effort, the potential gains from export expansion may be limited. Worse, they may even be neutralized by the need for expensive food imports.

## **2. Actions by National Governments**

### **(a) Putting Trade at the Centre of National Agendas**

113. For their part, the least developed countries must give far greater priority to the expansion of exports and to the development of the kind of dialogue with the private sector and civil society organizations necessary to reorient priorities. Trade experts often say that 80% of the problems with trade stem from inappropriate policies.

114. Policies must be based upon cooperation with the private sector and the development of appropriate incentives for private investors. In many countries there is little dialogue with the private sector and excessive regulation and intervention do not stimulate expansion and innovation. Both "voluntary" and "involuntary" structural adjustment programmes have gone some way to breaking down these barriers, but more remains to be done.

115. Special attention needs to be devoted to small- and medium-size enterprises (SMEs). They are more labour intensive and will provide the bulk of the jobs for the poor. They are also critical creators of jobs and incubators of innovation in the most technologically advanced economies. The bulk of the jobs created during the current US economic expansion have been created by these sectors and the role of small companies as suppliers to the most sophisticated industries in Japan is well known.

116. SMEs are often neglected by governments and often suffer the most from a lack of vital information about potential export markets. For example, a joint UNDP/UNCTAD study of the effects of environmental regulations in Northern markets on Southern producers found that large scale producers faced no real problems in this area, but that smaller producers suffered a good deal. Similar studies in China have shown the same problem.

117. Priority should be given to investment in human resources. Experience has shown that an educated labour force is one of the key factors in a country's ability to climb the value-added chain. And that climbing the value-added chain from primary exports to labour intensive manufactures or assembly operations to a modern technology-based export sector is the key to success in the global marketplace. Wage inequality seems to have increased in countries which liberalized trade (Chile, Costa Rica, Colombia, Philippines and Argentina as well as Mexico) except in those countries with a strong increase in the supply of relatively well-trained workers such as the Republic of Korea or



Singapore. This seems also to be true for the four African countries which achieved above average success in adjustment - Ethiopia, Ghana, Nigeria and the United Republic of Tanzania.<sup>32</sup>

118. It is important to realize that the Uruguay Round agreements do not require the LDCs to open up their economies immediately or completely. The LDCs have a good deal of freedom to choose both the speed and degree of liberalization which they require. Here the Asian experience provides a useful lesson. A selective approach to the global market could follow the example of most East Asian economies - with time-bound performance - related protection for potentially viable industries.

### **(b) Policies for Trade and Sustainable Human Development**

119. The role of the state in most LDCs is changing dramatically. As privatization and cutbacks in public expenditures reduce both the size and the reach of government, rethinking the role of governance becomes critical. Time and time again, experience has shown that the weakening of already fragile environmental agencies has led to an acceleration in environmental degradation. Experience has shown that almost no governments derive a true economic rent from forest exploitation because of poor management practices, rent seeking from concessionaires, and uncontrolled illegal exploitation.

120. Governments must develop pro-poor, pro-environment policies if trade expansion is not to further widen income gaps and regional disparities and not to further degrade fragile natural environments. Some examples of these types of policy have been mentioned in previous sections. These policies are not theoretical. They have worked on the ground in a number of countries. They should aim to promote small scale agriculture, and rural development, small- and medium-size enterprises and education.

121. These programmes should be based on a more dynamic rural sector. From the early days of Sir Arthur Lewis, it has been clear that countries which ignore their agricultural sectors are in peril. "...Such a healthy rural sector has been a hallmark of the most successful development experiences around the world, including those of Japan, Taiwan Province of China, Indonesia, Costa Rica and others; it has been the normal precursor to healthy overall development. Achieving it involves continued attention to raising productivity in small-scale agriculture, especially in countries where this remains the dominant sector of the economy and in low-income regions where agriculture is the main source of income."<sup>33</sup> Policies should also include incentives for micro-enterprises and micro-credit.

122. Export policies will often be targeted at larger commercial farms for their export potential. But research by both FAO and the International Fund for Agricultural Development (IFAD) point out that returns are even higher from investment in small and marginal farmers. And reductions in food imports will depend upon the performance of

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<sup>32</sup> Ibid., p. 22.

<sup>33</sup> Watkins, *ibid.*, p. 34.

this sector.

123. As mentioned above, there is also a need for a more imaginative approach to commodities. The potential of ICREAs and the ZERI approach of by-product utilization should be further explored. Niche market and fair trading opportunities should also be pursued.

124. Forest policy raises a difficult governance issue for many countries. These can only be resolved with the strengthening of professional forest services and with much more transparent processes of awarding forest concessions. Concessions which deliver economic rents to governments can be an important source of revenue to governments, as well as a help to ensure that forests are managed on a more sustainable basis.