UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES REPORT 2004

OVERVIEW

by the Secretary-General of UNCTAD

UNITED NATIONS

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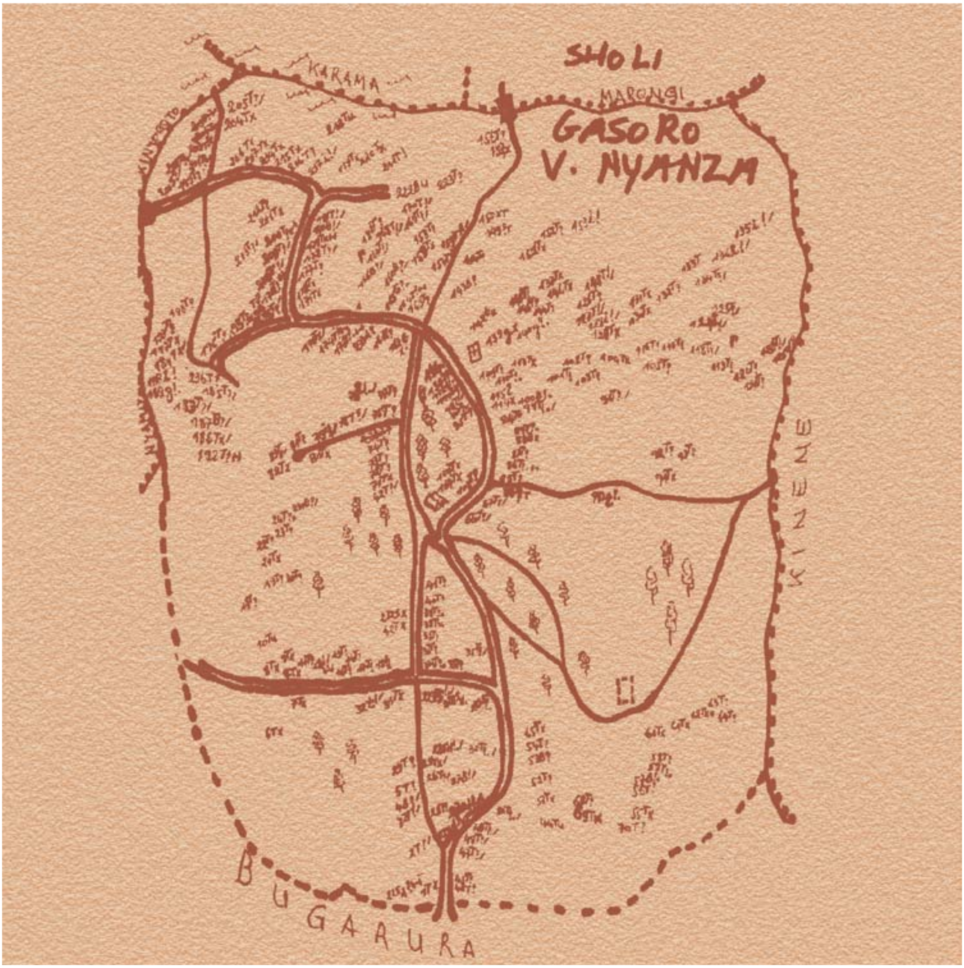

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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Overview

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Overview

The challenge of poverty reduction in the least developed countries

International trade is vital for poverty reduction in all developing countries. But the links between trade expansion and poverty reduction are neither simple nor automatic. The purpose of this Report is to clarify the links and to contribute thereby to a better understanding of the national and international policies that can make international trade an effective mechanism for poverty reduction in the least developed countries (LDCs).

On the front cover of this Report, to put the problem in perspective, is a map of poverty. This map, reproduced from the Rwanda Poverty Reduction Strategy Paper, is the result of a participatory process in which a community — Sholi in Nyanza District, Rwanda — sought to identify its most important development problems. The map shows every household's location, its type of shelter, and also, most crucially, the community members' own assessment of their social category. There are 230 households and they were classified as follows:

- Umutindi/Umukene Nyakujya (43 households). They have to beg, for they have nothing — no clothes, no food, no shelter. Their children cannot go to school, they cannot afford medical care and they have no farmland.
- Umutindi/Umukene (114 households). They do not have sufficient food but can work for others to survive; they dress poorly, have insufficient farmland and can hardly get medical care. They have shelter but no livestock and are always suffering.
- Umutindi/Umukene wifashije (60 households). They have shelter, but it is small and poor. They have a minimal harvest; their children can go to primary school; they can clothe themselves but with difficulty; they can scarcely access medical care, but manage to have sufficient to eat and they have small ruminants.

- Umukunga (13 households). They have excess harvest to sell and livestock; they can afford medical care, and have a little money. Their children can go to secondary school. They eat well, are neat, have a good house and a bicycle, and can engage others as labour.

The situation in Sholi in Rwanda illustrates the nature of poverty in the LDCs. Poverty in these countries is not a phenomenon that affects a small proportion of the total population. Rather, it affects the majority. Moreover, this is a situation in which the majority of the population are living at or below income levels which are sufficient to meet their basic needs. In these societies, the available resources, even when equally distributed, are barely sufficient to cater for the basic needs of the population on a sustainable basis.

Conditions of life such as those in Sholi are an ethical affront to a civilized world. But they are not rare in the LDCs. Both World Bank and UNCTAD poverty estimates suggest that 49–50 per cent of the population in the LDCs were living on less than $1/day at the end of the 1990s. Although the LDCs had a much better economic performance in the late 1990s, the overall incidence of extreme poverty for the group as a whole did not decline during that decade. If these trends persist, it may be estimated that the number of people living in extreme poverty in the LDCs will increase from 334 million people in 2000 to 471 million in 2015. By that time, and assuming that the current progress in China and India continues, the LDCs will be the major locus for global poverty in 2015.

Living conditions such as those in Sholi exist in other developing countries. But dealing with these conditions in the LDCs is especially challenging because extreme poverty is so pervasive throughout society. In this situation, mass poverty reinforces the tendency towards economic stagnation, and vice versa. Amongst the domestic vicious circles the following may be noted:

- There are few surplus financial resources available for investment and for funding vital public services, including education, health, administration, and law and order. Low income leads to low savings; low savings lead to low investment; low investment leads to low productivity and low incomes.

- To reduce risks in conditions of extreme scarcity, people pursue economic activities with low but certain returns, including production for their own subsistence and survival through multiple activities.
- The lack of effective domestic demand associated with all-pervasive poverty reduces profitable investment opportunities.
- There is a dearth of domestically available skilled personnel, and the lack of domestic opportunities encourages skilled people to seek work outside the country.
- Pervasive poverty leads to environmental degradation as people have to eat into the environmental capital stock simply to survive, but this in turn undermines the productivity of key assets on which livelihood depends.
- There is a high risk of civil conflict in countries where low per capita income is associated with economic stagnation or regress.

Three facts illustrate the situation most clearly. First, in the second half of the 1990s the average per capita income in the LDCs when measured in terms of current prices and official exchange rates was $0.72 a day and the average per capita consumption was $0.57 a day. This implies that on average there was only $0.15 a day per person to spend on private capital formation, public investment in infrastructure and the running of vital public services, including health, education, administration, and law and order. Second, in 2001, 34 per cent of the population aged between 15 and 24 were illiterate in the LDCs. Third, 60 per cent of the LDCs experienced in the period 1990–2001 civil conflict of varying intensity and duration that, in most cases, erupted after a period of economic stagnation and regression. In Rwanda, for example, average private consumption per capita fell by over 12 per cent between 1980 and 1993, the year before the genocide occurred. Average private consumption per capita is somewhat higher now than it was in 1993.

The challenge of poverty reduction in the LDCs is how to reduce poverty given this starting point. The households in Sholi have a good idea of what to do. They see increasing their assets and the productivity of those assets to be the key element. The priority is quite simply to get goats that will provide all kinds of by-products, including manure to increase and maintain the productivity of their fields. But does this mean that international trade is irrelevant for poverty reduction? What has international trade got to do with poverty reduction in such circumstances?

This Report is about the relationship between trade and poverty in the LDCs. The central questions that it seeks to answer are:

- What is the potential role of international trade in poverty reduction in the LDCs?
- How does the relationship between international trade and poverty work in practice in the LDCs?
- What are the national and international policies that can make international trade a more effective mechanism for poverty reduction in the LDCs?

Why international trade matters for poverty reduction in the LDCs

This Report argues that in conditions of mass poverty such as those found in the LDCs, poverty reduction requires sustained economic growth of a type that substantially increases average household incomes and consumption. Sustained poverty reduction cannot be achieved through welfare transfers, although these may be used, at any moment in time, to alleviate instances of the most extreme misery. Rather, it requires the efficient development and utilization of productive capacities in a way in which the working-age population becomes more and more fully and productively employed.

International trade can play a powerful role in poverty reduction in the LDCs. It is important because exports and imports facilitate a process of sustained economic growth, the development of productive capacities and expansion of employment opportunities and sustainable livelihoods. For most LDCs, the primary sector, particularly agriculture, dominates production and employment in the economy, and productive capacities are weakly developed. In this situation, exports enable the acquisition, through importation, of goods which are necessary for economic growth and poverty reduction, but which are not produced domestically. These include food, manufactured consumer goods, fuel and raw materials, machinery and equipment and means of transport, and intermediate inputs and spare parts. Through exports it is possible to transform underutilized natural resources and surplus labour into imports which support economic growth. Exports must grow fast enough, and in a sufficiently stable way, to meet growing import demand. If they do not, the sustainability of economic growth will be threatened by the build-up of an unsustainable external debt.

International trade is particularly important for poverty reduction in the LDCs because, contrary to popular impressions, their "openness", measured by the level of trade integration with the rest of the world, is high. During 1999–2001, exports and imports of goods and services constituted on average 51 per cent of the gross domestic product (GDP) of the LDCs. This ratio is somewhat smaller than that for low- and middle-income countries. But the average level of trade integration of the LDCs was actually higher than that of high-income OECD countries, which stood at 43 per cent in those years. In only 10 of the LDCs for which data are available was the trade/GDP ratio lower than that in the high-income OECD countries.

In addition, international trade matters for poverty reduction because the LDC economies are highly "import-sensitive". The higher the proportion of imports that are essential to the continuation of ongoing economic activities and their development, the higher the import sensitivity of an economy. In LDCs, import bottlenecks hamper the full utilization of domestic productive capacities. In addition, the import