

## Trade and development in advanced developing countries and least developed countries: Empirical patterns and policy implications.

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### 1. Introduction

The passed decades have witnessed a series of United Nations systems conferences on distinct aspects of the United Nation's development agenda. These conferences have helped to identify core areas of development cooperation and to better coordinate the activities of development partners. In addition, these conferences have lead to a broad consensus on the core priorities of development activities and the identification of international development goals. At the center of these international development goals stands the objective of halving extreme poverty by the target year 2015 against the base year 1990.<sup>2</sup>

The achievement of these development objectives, and especially the objective of poverty reduction, requires the attainment of significant economic growth (Karshenas 2001; UNCTAD 2002a). Such growth, in turn, depends on a variety of complementary factors that are influenced by national and international policies (see chart 1). Amongst these, international trade assumes a key role. This is because

<sup>1</sup> Please note that the opinions expressed in the paper are those of the author and are not necessarily reflective of the institutions he is associated with.

<sup>2</sup> International development goals were first identified by the OECD (OECD 1996) but received wider recognition only later (IMF/OECD/UN/World Bank 2000). International development goals were also outlined during the United Nations Millennium Summit (UN 2000; UN 2001a), and Third United Nations Conference in Least Developed Countries (UNLDC III) (UN 2001b). There are strong similarities between the different development goals cited in the different documents, but there are important differences as well. These differences concern the goals themselves, their indicators and base years (for a discussion, see UNCTAD 2001a). But despite these differences there is agreement on one central development objective, namely the development objective to reduce extreme poverty by half by the year 2015 vis-a-vis the base year 1990. Extreme poverty is identified by an international poverty line set at Dollar 1 per day in 1985 purchasing power parities (PPP). For a discussion of other development goals see the contribution by Kawai in this volume.

trade – exports and import capacities – can be an important facilitator for capital accumulation and technology transfers. In short, trade is vital for the stimulation of economic growth, the achievement of overall development and the reduction of poverty.<sup>3</sup>

This paper looks at the role of international trade in the process of economic development in some of the world's most advanced developing countries on the one side, and the world's least developed countries on the other. The advanced developing countries correspond with the countries that are the focus of the MDT project, while the least developed countries are a country group that was identified by the United Nations.<sup>4</sup> The former will be referred to as MDTCs and the latter as LDCs (for a comprehensive categorization of MDTCs and LDCs see annex table 1). Both, the MDTCs and the LDCs are subgroups of the broader developing countries group, which will be contrasted with a developed countries group. The MDTCs and the LDCs are outstanding subgroups of the developing countries group as they represent the two extremes of the development spectrum. The MDTCs – which tend to outperform the broader group of developing countries with respect to economic and social indicators – comprise many newly industrialized countries and the most successful transition economies; the LDCs – which tend to fall further behind the group of developing countries with respect to the same indicators (UNCTAD 2000, 2002a) – include mainly commodity-export dependent economies characterized by limited industrialization.

Developments in trade have implications for the impact of trade on development. In correspondence, the paper looks at developments in trade before it turns to the implications of trade for development. In the first section (trade patterns), the paper deals with international trade integration and marginalization as well as export performance and import capacities. In the second section (trade and development), the paper compares virtuous development trajectories with vicious development traps and subsequently it focuses on the poverty trap and its policy implications. In the third section (trade capacity-building), the paper – based on trade theory – outlines strategies to increase export competitiveness and import capacities. In this context, the paper draws on lessons to be learned from more advanced developing countries, some of which are discussed in more depth in other contributions to this volume. The final section, the conclusion, summarizes the results of the analysis.

## 2. Trade patterns

The MDTCs and the LDCs display a very different performance with respect to GDP growth and poverty reduction.<sup>5</sup> These differences are frequently attributed to differences in their national economic policies and global economic integration. Correspondingly, it is suggested that successful developing countries pursue sound economic policies and are well integrated into the international economy and that the least successful developing countries typically have weak economic policies and are not well integrated into the international economic environment. But viewed on the aggregate, these broad claims are unsustainable.

<sup>3</sup> For selected contributions to the debate on trade, poverty and growth, see Dollar and Kraay (2001), Karshenas (2001), Mayer (2000, 2001), UNCTAD (2000a), Winters (1999, 2001), World Bank (2002a, 2002b).

<sup>4</sup> The United Nations identify the least developed countries on the basis of three core criteria: Low income (measured by GDP), weak human resources (measured by the so called Augmented Physical Quality of Life Index) and economic vulnerability (measured by the Economic Vulnerability Index). For a detailed discussion of the methodology that is used to identify the least developed countries of the world, see for example UNCTAD (2001a).

<sup>5</sup> Please note that the comparison advanced in this paper is a comparison between country groups. The presented trends therefore reflect group averages and they do not preclude exceptions. In other words, the patterns that can be found for a group as a whole may very well differ from those that can be found for individual countries within it.

Many of the MDTCs have been criticized for strong market interventions, while most LDCs have pursued structural adjustment programmes. Indeed, the majority of LDCs has implemented structural adjustment programmes for the largest part of the past two decades. And while not all LDCs have equally complied with the structural adjustment programmes, many LDCs have implemented rigorous economic reforms. A recent study of the World Bank (2002b) finds that the majority of low income countries, including the majority of LDCs, now has sound economic policies in place. UNCTAD data show that many LDCs have gone further in liberalizing their financial markets than other developing countries, and IMF data show that many LDCs have also made substantial progress in liberalizing their trade regimes (UNCTAD 2000).

In short, low economic growth and persistent poverty is not necessarily related with weak economic policies at home. Furthermore, it is not necessarily related with a low integration in the world economy. At the end of the 1990s, the integration in world trade of the LDCs was about the same as that of the OECD countries. In correspondence, the paper will argue that it is not so much the level of integration in the world economy as the form of integration into the world economy that influences the development prospects of developing countries.

## 2.2 Trade integration and marginalization

A country's integration in international trade is generally measured by the value of its total trade, expressed as a percentage of its GDP.<sup>6</sup> Measured by the total trade-to-GDP ratio, chart 2A shows that developed countries as well as LDCs have seen only a small change of their trade integration between 1980 and 1999. In this time, the trade integration for developed countries increased from 38.5 to 38.7 percent of their GDP, while the trade integration of the LDCs increased from 41 to 44 percent of GDP. But the developing countries and the MDTCs saw a significant change of their trade integration between 1980 and 1999. During this period the trade integration of developing countries increased from 49 to 61 percent of their GDP, and the trade integration of the MDTCs increased from 34 to 50 percent of their GDP.

In sum the 1999 level of trade integration shows that the trade integration for developed countries remains lowest, and highest for the developing countries. The trade integration of both MDTCs and LDCs, by contrast, falls in-between these extremes. A comparison between the LDCs and the MDTCs also shows that for the largest part of the 1980s the LDCs have been more integrated in world trade than the MDTCs, and that the MDTCs have increased their trade-GDP ratios only in the 1990s. In short, the trade integration of country groups appears disassociated from

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<sup>6</sup> Note that the discussion of trade integration and liberalization is characterized by a great deal of conceptual and semantic confusions in the sense that similar indicators such as the trade-to-GDP ratio are utilized to measure different things, including the integration of countries in global trade and the openness of countries to international trade. But trade integration and trade openness can only be equated on the basis of various ad-hoc auxiliary assumptions, none of which necessarily reflect reality. These assumptions, for example, entail the assumption that countries which pursue external liberalization, decrease trade barriers and open up to international trade automatically see an increase of their trade. But the capacity to trade is not only associated with the level of trade barriers, but also with domestic supply capacities and productive potentials. Correspondingly, trade integration and trade openness should not be confused as identical facts and should not be measured by an identical indicator. The integration of countries in international trade, or its flip-side the marginalization of countries in international trade, is most appropriately measured by the ratio of total trade to GDP, whereas the openness of countries to international trade is most appropriately measured by their effective rate of protection, tariff rates, tariff peaks, and non-tariff barriers. Finally, the ratio of exports or imports to GDP is also sometimes equated with the inward-orientation or outward-orientation of countries in international trade. This is wrong for a similar reason: The level of exports or imports is not necessarily positively associated with export promotion or import substitution policies. Instead, the ratio of exports and imports to GDP should merely be taken as an indication for the type of international trade integration, while outward or inward orientations should be associated with nothing else than export promotion or import substitution policies.

their development level. Correspondingly, the paper argues that it is rather the form of trade integration that influences the development prospects of countries.

Chart 2B provides a glance behind the level of trade integration at the form of trade integration. The chart shows that the net trade for all country groups, with the exception of the least developed countries, varies in a band of around +/- 3 percent of GDP over the 1980-1999 period. For the least developed countries, by contrast, it varies between -7 and -11 percent of GDP. In 1999 the net trade for the developing countries group and for MDTCs is positive (1.7 % GDP and 2.6 % GDP respectively), while the net trade for developed countries and LDCs was negative (-0.4 and -9.2 % GDP respectively). But the chart not only shows that the LDCs are the only country group that had a negative trade balance in excess of -2 percent of their GDP, it also shows that the LDCs are the only country group which did not have a positive trade balance over the entire period of 1980-1999.

Charts 2C and 2D show the level of exports and imports for MDTCs and LDCs. The difference between the two country groups with respect to these trade patterns is stark: The MDTCs witnessed an increase of total goods and service exports and imports over the 1980-1999 period. The exports grew by about 10 percent from 16 to 26 percent of GDP, and imports grew by about 6 percent from 18 to 24 percent of GDP. The LDCs saw initially a decrease of total goods and service exports and imports that was reversed only in 1994. Over the entire period, their exports grew by about 2 percent from 15 to 17 percent of their GDP, and also their imports grew by only 2 percent from 25 to 27 percent of GDP. These trends show: the MDTCs have benefited from a relatively positive trade integration over the past years as the growth of both exports and imports of goods and services as a percent of GDP was significant and balanced. But the LDCs are characterized by a negative trade integration over the past decades. This is because the growth of their exports and imports of goods and services as a percent of GDP was neither significant nor balanced. The MDTCs' integration in world trade displays a harmonized increase of exports and imports, whereas the LDC's integration in world trade was dominated by high levels of imports throughout the entire period 1980-1999. An increase of imports however must not have negative implications for economic development. By contrast, large imports in the present may help countries to increase their exports in the future. This is the case, if the imported goods are capital goods that are used for investments rather than consumer goods that are eaten up by the population. But in LDCs the high levels of imports are – as will be shown below – associated with declining imports of investment goods (i.e., machinery) and increasing imports of consumption goods (i.e., foods).

While these differences between MDTCs and LDCs are not clearly linked to different types of economic policies (i.e., good policies versus bad policies), they may be related to a different sequencing of economic policies (i.e., late liberalization versus early liberalization). Amongst the MDTCs are many South East Asian countries which are known for the pursuit of strategic trade policies. It is a characteristic of these trade policies that they encouraged only a gradual liberalization of markets after the local entrepreneurs had achieved international competitiveness. By contrast, amongst the LDCs are many countries that underwent structural adjustment programmes. It is characteristic for these programmes that they encouraged a rapid liberalization of markets, even though many local entrepreneurs could not withstand international competition. The difference in the sequencing of economic liberalization helps to explain why MDTCs have managed to successfully promote the competitiveness of their export sector and to bring about an increase of their exports, while the LDCs have seen the collapse of their export sector paired with an increase of imports.

## 2.2. Export performance – import capacity

Table 2 shows exports of goods and services for the different groups of countries in values and shares. The table illustrates a remarkable growth of all export categories, but it also highlights an uneven distribution of export shares. The growth of total world exports far outpaced the growth of world GDP in the period 1980-1999. During this period, world GDP increased by about 69 percent, while total world exports grew by 135 percent. A disaggregation by export categories shows the following increases vis-à-vis the 1980 base: total world exports 135 percent; world service exports 309 percent; world merchandise exports 222 percent; world manufactures exports 314 percent; and world non-fuel primary commodity exports 46 percent.<sup>7</sup> These trends show two extremes: Non-commodity exports (services and manufactures) have seen an increase that exceeds the growth of world income and the growth of total world trade, and commodity exports (excluding oil) which fell short of the increase of world income and total world trade. In accordance with this difference it can be suggested that the world demand for the former type of exports is relatively dynamic and that the world demand for the latter type is rather unfavorable.

Table 2 also shows the specialization of country groups in the different exports categories, and shows how their shares in these export categories developed over time. Between 1980 and 1999, the development of the export shares of developed countries, on the one side, and developing countries, on the other, were mirror images of each other. The developed countries lost export shares in all export market segments with the exception of total merchandise exports, and the developing countries gained market shares in all export market segments with the same exception: total merchandise exports. The final aggregate changes in export shares for the two country groups were -- with the exception of service exports for the developing countries group -- relatively small.

But within the developing countries group there are noteworthy differences. The MDTCs outperformed the developing countries group in all export market segments, while the LDCs fell further behind other developing countries in all export markets. Indeed, while all developing countries saw an increase of their shares in world exports, with the exception of aggregate merchandise exports, the LDCs saw a decrease of their share in world exports with the exception of manufactures exports. Between 1980 and 1999 the LDCs' share in world exports of non-fuel commodities decreased by more than 50 percent, the MDTCs' share in the same group increased by 14 percent; the LDCs' share in world exports of manufactures climbed by 10 percent, but the MDTCs' share in this category increased by more than 47 percent; the LDCs' share in world exports of merchandise decline by about 43 percent, while MDTCs' share in this category increased by 69 percent; and the LDCs' share in world service exports deteriorated by 36 percent, while the MDTCs' share in this category increased by 48 percent.<sup>8</sup> The cumulative effects of these changes are reflected in the developments with respect to goods and service exports. The MDTCs' share in world exports of goods and services has increased by about 64 percent against the 1980 base, while the LDCs' share in world exports of goods and services has tumbled by about 42 percent to 58 percent of the 1980 level.

Table 2 also estimates gains and losses of the different groups of countries that are due to changes of their shares in world exports in selected export categories.

<sup>7</sup> Calculations based on World Bank, World Development Indicators 2001, CD-Rom and UN Comtrade database.

<sup>8</sup> The categorization of export items into non-fuel primary commodities and manufactures corresponds with the Standard International Trade Classification (SITC), revision 3. According to it non-fuel primary commodities are defined as all food items (sections 0, 1 and 4, plus 22), agricultural raw materials (section 2, minus 22, 27 and 28), and minerals, ores and metals (sections 27, 28 plus 68). Manufactures include sections 5, 6, 7 and 8 minus 68. Please note, however, that the totals of non-fuel primary commodities and manufactures do not add-up to total merchandise, as fuel items (section 3) and non-classified goods (section 9) are excluded from this analysis.

Accordingly, it can be found that if the LDCs had maintained their shares in world exports of non-fuel primary commodities of 1980, the value of their exports of non-fuel primary commodities in 1999 would have been US-Dollar 22 billion instead of US-Dollar 11 billion in real terms; and if they had maintained their share in total world exports of 1980, the value of their total exports in 1999 would have been US-Dollar 58 billion rather than US-Dollar 34 billion in real terms. In other words, LDCs would have been US-Dollar 24 billion richer in 1999 if they had maintained their market shares of 1980. This is more than twice the net ODA disbursements of OECD/DAC donor countries to LDCs in 1999, and only a little more than net ODA disbursements of the OECD/ DAC donors to LDCs in 2000.<sup>9</sup> This difference is important and it underlines that the achievement of export competitiveness and the increase of export shares is a vital precondition for developing countries to raise resources for development financing.

But the estimated losses are in fact understatements of the actual situation. This is because in commodity exporting LDCs the loss of export revenues, which is associated with declining shares in world export markets, is exacerbated by a loss of export revenues that results from declining world market prices of their major export items. Chart 3 shows trends in real world market prices from 1960 to the first quarter of 2002. The chart shows both a strong short-term volatility of non-fuel primary commodity prices and a long-term decline of these prices. By 2001, the deflated world market prices of non-fuel primary commodities stood at only 54 percent of their average 1979-1981 level. During the same period, the following world market price declines can be observed: foods 47 percent; tropical beverages 68 percent; agricultural raw materials 35 percent; and minerals, ores and metals 33 percent. Furthermore, since the Asian financial crisis of 1997 non-fuel primary commodity prices saw a further rapid decline, and since 2000 fuel prices witnessed a large increase. Between 1997 and 2001, coffee prices declined by 66 percent, cotton prices fell by 39 percent and copper prices fell by 27 percent, but crude oil price rose by 24 percent, to name just a few random examples of commodities. Due to the structure of their trade, the group of LDCs is particularly hard hit by these opposed developments in commodity prices. This is because the majority of LDCs are net-exporters of non-oil primary commodities and net-importers of oil. Consequently, these price developments cause a further deterioration of their trade balances and a significant loss of their incomes (Herrmann and David 2001).<sup>10</sup>

In combination with declining market shares, the declining world market prices cause a fall of the LDCs' income terms of trade. Furthermore, the combination of deteriorating non-fuel primary commodity prices and relatively stable manufactures prices also cause a fall of the commodity terms of trade. Finally, a look at the barter terms of trade for the 1990s shows that the LDCs' barter terms of trade declined by about 20 percent vis-a-vis the 1990 base, and that the MDTCs' barter terms of trade declined by only 1 percent against the same base year.<sup>11</sup>

In sum, there is a remarkable difference between the MDTCs and the LDCs: Aggregate data for the 1980-1999 shows that the MDTCs, which specialize in manufactures exports, gain market shares in dynamic markets, while the LDCs, which largely specialize in non-fuel primary commodity exports, lose market shares in sluggish markets. But the LDCs not only lose export shares in sluggish world markets, they also lose export revenues due to deteriorating world market prices. In combination of these two processes leads to a shortage of foreign exchange and contributes to the accumulation of large external debt. UNCTAD shows that in the

<sup>9</sup> ODA stands for official development assistance; OECD/ DAC countries are those OECD countries that are members of OECD's Development Assistance Committee (DAC). The value of net ODA disbursements is provided by the OECD.

<sup>10</sup> Calculations based on UN Commodity Price Bulletin.

<sup>11</sup> Calculations based on UNCTAD data. The calculations are based on simple averages of unit value ratios, weighted averages can be expected to provide starker results.

LDCs there is a strong link between the dependency on non-fuel primary commodity exports and the accumulation of unsustainable external debt, according to the debt sustainability criteria of the HIPC Initiative.<sup>12</sup> The fact that these countries have limited foreign exchange revenues and that large international debts further subtract from the foreign exchange earnings, places a significant limitation on the capacity of these countries to import goods.

Chart 4 contrasts the shares of MDTCs and LDCs in the food exports of developing countries with the shares of MDTCs and LDCs in machinery imports of developing countries.<sup>13</sup> The MDTCs' share in both categories increased: food exports increased by 17 percent by 1999, and machinery imports increased by around 49 percent by 1997, the year before the Asian financial crisis triggered through. The LDCs' share, by contrast, decreased. Food exports declined by 52 percent by 1999, and machinery imports fell by 51 percent by 1998, the last year for which this data series is available. In short, the LDCs appear unable to size what is commonly regarded as their comparative advantage and to increase their traditional exports in order to finance increasing machinery imports. But worse, the LDCs did not only witness a decline of their food exports during the past two decades, they even become net-food importers in 1988. Thus, rather than spending export receipts on imported investment goods, including imported machinery that are important for the upgrading of production structures and ultimately industrialization, the LDCs now spend much of their export revenues on imported consumer goods, including especially foods in order to ensure food security and sustain livelihoods at home.

### 3. Trade and development

A closer look at the structure of and world demand for the exports of MDTCs and LDCs is provided by tables 3 and 4. The tables divide the exports of MDTCs and LDCs into different market segments, ranging from a very dynamic market segment – the countries' share in world exports increases and the world demand for the countries' export increases above average – to an extremely weak market segment – the countries' share in world exports is decreasing and the world demand for the countries' exports also decreases below average. A look at table 3 shows that between 1980-1984 and 1995-1999, the MDTCs saw an increase of their merchandise exports that is associated with the most dynamic market segment from 25 to 44 percent of their total merchandise exports, but they also saw an increase of their merchandise exports that is associated with the weakest market segment from 14 to 21 percent of their total merchandise exports. By contrast, table 4 shows that the LDCs saw only a very slight increase of their merchandise exports that fall into the most dynamic market segment from 18 to 21 percent. But they did see a relatively large decrease of their merchandise exports that fall into the weakest market segment from 39 to 23 percent. Comparing the changes in the most dynamic market segments for both country groups, it becomes evident that the share of primary commodities in the most dynamic market segment has witnessed a large decrease. The increased share of merchandise products in the most dynamic market segment is subsequently due to an increased share of manufactures. Between 1980-1984 and 1995-1999, the MDTCs increased their share in the most dynamic market

<sup>12</sup> The Highly Indebted Poor Country (HIPC) Initiative is an initiative of the International Monetary Fund (IMF) and the World Bank. The initiative provides debt relief to countries that are acknowledged to have an unsustainable debt burden and that have completed so called Poverty Reduction Strategy Papers. In these papers – the PRSPs – the developing countries are supposed to outline how they intend to spend their financial resources, including those that are released through debt relief, in order to reduce extreme poverty and to stimulate economic growth.

<sup>13</sup> Both commodity groups are defined on the level of SITC 2. But while the category of food exports that is used here corresponds with the category of foods that is provided by SITC, the category of machinery imports that is issued here is distinct from the category of manufactures that is provided by SITC. The category of machinery is based on a definition by Jörg Mayer (2000, 2001) and it is his dataset on machinery imports that was used for the corresponding calculations in the analysis.

segment especially through a remarkable increase of high-skill manufactures from about 6 to 31 percent, and the LDCs increased their share in the most dynamic market segment primarily through an increase of low-skill manufactures from 0.6 to about 12 percent.

But it must be stressed that these positive developments in the LDCs are largely due to a small group of LDCs (8 countries) that specialize in the export of manufactures.<sup>14</sup> The largest group of LDCs (27 countries) specializes in the export of non-oil primaries. What is remarkable is that the LDCs which specialize in non-oil commodities not only saw their share of primary commodities in world merchandise exports decline, they also saw the share of processed primary commodities in their merchandise exports decrease. Between 1981-1983 and 1997-1999, the share of processed primary commodities in their merchandise exports decreased from a level of 26 percent to 12 percent. In other words, these LDCs experience a deterioration of their productive capacities, they are increasingly unable to increase exports with a higher value added and to enter supply chains at higher stages. The inability of these countries to gain through the export of non-oil primaries contributes to the deterioration of their productive capacities as it impedes their ability to import important investment goods.

### 3.2. Virtuous trajectories – vicious traps

Chart 5 shows a strong covariance of important economic indicators, namely exports, imports, investments and savings, for different country groups and over time (Aküz and Gore 2001). In all country groups, these economic indicators grew in tandem. On average, they grew more in developing countries than in developed countries. And within the group of developing countries, they grew much more in the MDTCs than the LDCs. In short, the MDTCs ones again outperformed the broader group of developing countries and the LDCs ones again fell behind the group of developing countries. The stark difference between MDTCs and LDCs is also highlighted in chart 6. The chart displays the development of the share of MDTCs in world exports, imports, investments and savings and it also shows the development of the share of LDCs in world exports, imports, investments and savings. The chart shows that in 1997 the share of the MDTCs in these world totals dropped, but afterwards the share of the MDTCs in these world totals continued to increase. Furthermore, the chart shows that in the late 1990s the share of LDCs in world savings and investments improved and that the share of LDCs in world exports and imports stopped falling. But whether this bottoming-out of the downward trend signifies a turning point for the least developed countries still remains to be seen. In sum, the chart shows an increasing share of the MDTCs in world exports, imports, investments and savings, and a decreasing share of the LDCs in these world totals. These opposed trends display two distinct development trajectories of the MDTCs and the LDCs which resulted in a widening gap between the former and the latter. The development trajectory of the MDTCs is a development trajectory that is associated with virtuous development processes, the development trajectory of the LDCs, by contrast, is associated with a vicious development process.

The distinct developments with respect to exports, imports, investments and savings also resulted in distinct developments with respect to income, consumption and poverty reduction. Table 5 shows developments in real GDP and real GDP per capita for the different country groups. For the period 1980-1999, both indicators

<sup>14</sup> The LDCs specializing in manufactures exports include Bangladesh, Cambodia, Haiti, Lao PDR, Lesotho, Madagascar, Myanmar and Nepal. Of these countries Bangladesh is the largest exporter of manufactures and, thus, it has the largest weight in the analysis. If only Bangladesh is excluded from the analysis, we find already a very different pattern: We find that between 1980-1984 and 1995-1999, the share of merchandise exports in the strongest market segment increased by less (15-16%); the share of merchandise exports in the weakest market segment decreased by less (41-25%); and the share of low-skilled manufactures in the strongest market segment increased by much less (0.7-7%).

show that the MDTCs grew by more than developing countries, while the LDCs grew by less than the developing countries group. In real per capita terms, the GDP growth for the 1980s was 2.5 percent for the MDTCs and 0.0 percent for the LDCs; for the 1990s it was 2.9 percent for the MDTCs and 0.7 percent for the LDCs.

These differences in income growth are strongly related to differences in poverty reduction. This is because in developing countries, especially poor developing countries, economic growth is necessary for an increase of the average private consumption per capita, and an increase of the average private consumption per capita is necessary for poverty reduction. The strong correlation between poverty reduction and average private consumption per capita – which was discovered by Massoud Karshenas (2001) -- is outlined in chart 7. Chart 7 shows two distinct poverty curves: One poverty curve shows the relation between extreme poverty (which is defined by \$1 per day in 1985 PPP) and average private consumption per capita; the other poverty curve shows the relation between less extreme poverty (which is defined by \$2 per day in 1985 PPP) and average private consumption. The curves show that a relatively small increase of the average private consumption per capita will lead to an overproportionate decrease of the percentage of the population that lives in extreme poverty, and a significant decrease of the percentage of the population that lives with Dollar 2 per day or less.<sup>15</sup>

In coherence with the previous findings, we see that the reduction of dollar-1-poverty and dollar-2-poverty was most successful in the MDTCs over the 1960-1999 period, and that it was least successful in the LDCs over the same time. The developments in dollar-1-poverty and dollar-2-poverty in different developing country groups are highlighted in chart 8A and 8B respectively. Both charts illustrate a noteworthy fact: In 1960-1964 dollar-1-poverty as well as the dollar-2-poverty in the MDTCs, for which data were available, were higher than the comparable poverty rates in the LDCs. But in 1995-1999 dollar-1-poverty and the dollar-2-poverty in MDTCs was much lower than the comparable poverty rates in LDCs. Indeed between 1960-1964 and 1995-1999 dollar-1-poverty in MDTCs has fallen significantly from 59 percent to around 2 percent, while the dollar-1 poverty in LDCs has increased from 48 percent to 50 percent. Similarly, over the same period the dollar-2-poverty in MDTCs has decreased from 90 percent to 16 percent, while the dollar-2-poverty in LDCs has remained unchanged at around 81 percent. The poverty developments in the MDTCs, however, are based on data for only three countries. If other newly industrialized countries are included in the sample of MDTCs, which already includes mostly newly industrialized countries, the poverty developments for the MDTCs, albeit less favorable, are still comparably good. The poverty trends in the LDCs stand in contrast to poverty trends in all developing countries for which data were available.<sup>16</sup>

<sup>15</sup> It must be noted however that this strong correlation holds true only in low-income countries, including the least developed countries, and is weakened in countries with higher incomes. In other words: in countries with higher levels of income and higher levels of average private consumption per capita, additional economic growth does not inevitably translate into poverty reduction and therefore effective poverty reduction programmes require explicitly pro-poor policies.

<sup>16</sup> There are important differences within the LDC group however. A closer examination of the LDC group shows that extreme poverty is highest in LDCs that are located in the African region and those LDCs that specialize in non-oil primary commodity exports, and that extreme poverty is much lower in LDCs that are located in the Asian region and that specialize in manufactures exports. The overlaps between the LDC classifications according to geographical location and export specialization have a systematic nature. This is because the majority of African LDCs is dependent on non-oil primary commodity exports, while the majority of Asian LDCs specializes in manufactures exports and/or services exports. For a detailed classification of LDCs based on their export specialization, see UNCTAD (2002a) and export International Trade Centre UNCTAD/ WTO (2001a, 2001b).

### **3.2. Poverty trap and policy implications**

The poverty trap in which poor developed countries are caught is reinforced by a variety of factors on multiple levels of analysis. The factors include cultural, social, political and economic factors, and the analytical levels include the micro, meso, macro, regional and international levels. The different factors at the different analytical levels form a complex web of overdetermined relationships. Within this web of relationships, this analysis has identified one relationship that strongly influences poverty developments but has been neglected by poverty analyses so far. It is the relation between export specialization on the one side and poverty on the other.

It was highlighted that the form of international trade integration and the type of national export specialization have important implications for the countries' ability to gain from trade and develop their economies. In contrast to the most successful developing countries, which benefit from a positive development trajectory, the least developed countries are following a negative development path. This development path ultimately leads to an underdevelopment trap in which low export revenues, low import capacities, low savings and low investments reinforce each other and in which low economic growth, low employment rates, low private consumption and high rates of extreme poverty continue to persist. The relations that reinforce this low-level equilibrium trap are particularly pronounced in those least developed countries that specialize in non-fuel primary commodity exports. These countries witness a deterioration of their shares in world exports and they are also confronted with the long-term decline of the international prices of their export items. The combination of these factors leads to declining terms of trade and a shortage of foreign exchange. In times of foreign exchange shortages, poor countries accumulate additional debt, in times of foreign exchange inflows, they are confronted with high debt service payments. There is a clear link between export dependence on non-fuel primary commodities and the accumulation of large unsustainable debt. Furthermore, there is a link between the resulting shortage of foreign exchange and a low capacity to import. The inability to import technology goods and develop domestic productive capacities reinforces the inability to boost export competitiveness and increase export revenues.

But countries that cannot successfully promote economic growth and cannot reduce widespread poverty, are also not very attractive to international investors. Correspondingly, it can be observed that the private resource flows to LDCs are very small. Indeed, portfolio flows to LDCs are virtually nil, and foreign direct investment flows to LDCs are also marginal. Furthermore, the foreign direct investment flows to LDCs are strongly concentrated in only four LDCs that specialize in oil exports (Angola, Equatorial Guinea, Sudan and Yemen) . The limited ability to independently generate financial resources and attract private resource inflows, implies that the least developed countries are strongly dependent on external assistance. They require increased debt relief, increased aid and increased aid effectiveness. A significant increase of financial resources for investments is a precondition for the least developed countries to build trade capacities, to diversify export baskets, increase competitiveness, increase export volumes and ultimately increase export revenues.

### **4. Trade capacity-building**

It is clear that trade is very important for national economic development and therefore it is also clear that developing countries should concentrate on developing trade capacities. But in countries that are strongly integrated into the global trading system and that have relatively open trade regimes, this is a difficult challenge. This is because economic liberalization introduces two opposed pressures: On the one side, economic liberalization promotes and increase of international competition and raises concerns about national competitiveness, but on the other side economic liberalization also limits the use of macroeconomic policies that were traditionally

important for the management of national competitiveness. Thus, while countries have the need to increase their competitiveness, they increasingly lack the means to that end. This is, the paper argues, because economic liberalization increases international interdependencies and decreases policy autonomy. This is especially so in small countries and it is even more so in small developing countries. For all small countries it is difficult to act autonomous of large countries, but for small developing countries it is especially difficult "to blow against the wind". This is because they often lack credibility and, furthermore, they generally are strongly dependent on external assistance.

#### **4.1. The policy environment of capacity-building strategies**

In theory, the international competitiveness of domestic producers could be achieved through a variety of economic policies and policy mixes including mercantilist trade policies and exchange rate manipulations as well as interest rate manipulations and fiscal policies. But, the paper argues that these economic policies are constrained by the global economic environment. The pursuit of mercantilist trade policies is limited by the rules of the international trading system<sup>17</sup>, and manipulations of monetary policies are discouraged by the danger of strong negative feedback effects. Accordingly, misaligned exchange rates and unreasonable interest rates may for example encourage financial speculations. In addition, unreasonable interest rates can also give wrong price signals to the real sector economy. Either outcome would harm sustainable economic developments. Therefore, it can be expected that countries with relatively open economies will pursue similar monetary policies with similar aims, namely the aim to avoid exchange rate misalignments and the aim to avoid inflationary pressures.

In short, economic liberalization encourages relatively liberal trade and "neutral" monetary policies. The relative paralysis of these two policy instruments places an increased pressure on fiscal and wage policies. But both of these policy instruments face important constraints as well: Limited budgetary resources, especially in poor developing countries, limit the possibility of these countries to increase the competitiveness of local companies through various direct and indirect subsidies. In addition, already low effective labor costs in many developing countries preclude the possibility that these countries increase the competitiveness of local companies by offering even lower wage rates and payroll fringe costs.<sup>18</sup> Indeed,

<sup>17</sup> While the international trading system cannot entirely preclude unilateral actions, it can significantly constrain these actions. The system, however, opens up space for a special and differential treatment of developing countries and particularly least developed countries. While least developed countries are also required to dismantle import restrictions, they are permitted to maintain export subsidies. But the value of this special right is ambiguous, as is the effectiveness of export subsidies. Export subsidies may make sense for goods that cannot be easily substituted by consumers and/ or are characterized by a steep demand curve. But export subsidies make little sense for normal goods that can be easily substituted by consumers and that are characterized by very elastic demand. Most exports of least developed countries, be they agricultural goods (foods and raw materials) or low-tech manufactures (especially no-name clothing and accessories), fall in this category of goods. Foreign consumers will purchase these goods when they are subsidized, but they will switch to competing goods when they become less expensive. Thus, least developed countries, through the subsidies, effectively transfer their income to foreign consumers. This is meaningless, especially since a temporary expansion in low-tech export sector – that is contingent upon the provision of export subsidies – can be expected to have only little positive learning effects and to generate only limited process improvements, innovations and inventions. In short, while LDCs have the possibility to subsidize exports, export subsidies may not be reasonable method to increase their export competitiveness.

<sup>18</sup> In developing countries, especially the least developed countries, labor costs associated with wage rates, payroll fringe costs and labor standards are already at minimal levels. It is not in the interest of developing countries to encourage a further decrease of these costs, by contrast. But an increase of labor costs in developing countries is frequently impeded by two types of labor-cost ceilings: One, low levels of productivity in the primary commodity sector of the developing countries often fix the labor costs in the developing countries at a minimal level. Second, high levels of subsidies for low-tech sectors in the industrialized countries also fix wages in developing countries at a minimal level. Contrary

most constraints on macroeconomic policies are negatively correlated with the development level so that the constraints increase as the development level decreases.

In sum, today many countries, including especially developing countries and the least developed countries, face important constraints with respect to the use of macroeconomic policies. Correspondingly, the question arises what alternative means are available to countries to increase their export competitiveness. Trade theories hint at answers. The theories of comparative advantage stress that comparative advantage is dependent on the price of the exported good (P) which in turn is determined by operation costs (oc) over productivity levels (Y):

$$P = oc / Y$$

This formula is modified in order to better reflect realities:

$$P = (oc / Y) - QUAL + pi$$

$$oc = pc + tc$$

$$pc = w+r+l+(t-s)$$

$$tc = i+f+dlc$$

P: product price; oc: operation cost; Y: productivity; QUAL: quality adjustment factor; pi: profit rate; pc: production costs; tc: transaction costs; w: wages; r: rental rate; l: land rent; t: taxes; s: subsidies; i: insurance; and f: freight; dlc: delivery lag costs<sup>19</sup>;

It is this modified formula<sup>20</sup> that guides the subsequent recommendations on how to promote trade capacities in developing countries. It is important to note however that the policy recommendations depend on several core assumptions: (1) the countries pursue liberal trade policies; (2) the countries pursue non-interventionist monetary policies as defined above; (3) the countries cannot significantly expand fiscal expenditures; and (4) the countries cannot significantly reduce labor-related costs. These assumptions follow from the previous elaboration. But the paper makes an additional assumption: (5) the profit rates offered by companies are fixed at an internationally acceptable level and therefore profit rates are assumed to be invariable. This assumption is based on the fact that the international liberalization of capital markets has established the international mobility of capital. Capital can essentially flow to all companies around the world and therefore the different companies must essentially compete for capital out of the same pot. This requires

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the first type of labor-cost ceiling, the second type receives only little attention, but it is no less important. It must be recognized that industrialized countries that provide large subsidies for their basic economic sectors enforce developing countries to maintain low levels of labor costs. Otherwise especially poor developing countries will see a further decline of their agricultural exports as well as their low-tech manufactures exports.

<sup>19</sup> The delivery lag costs signify the costs that arise due to a time lag between the order of a goods and their supply to the customer. A large time lag increases the cost; a small time lag decreases it.

<sup>20</sup> The formula combines the classical trade theory of comparative advantage (i.e., Ricardian trade theory), with neo-classical trade theory of comparative advantage (i.e., Heckscher-Ohlin trade theory). In correspondence with Ricardian trade theory it stresses that the prices of products are determined by the combination of factor costs and factor productivity, and in correspondence with the Heckscher-Ohlin trade theory it includes more than one factor of production. Thus, unlike Ricardian trade theory which assumed that labor was the only factor of production and therefore the only cost of production, the formula here assumes that there are multiple factors of production and multiple cost of production. In accordance the formula associates production costs with the factors of production (labor, capital, land) and associated transaction costs with other aspects of operations, including for example freight and insurance. The sum of production cost and transaction costs are the total operation costs.

that all companies offer internationally competitive returns and this demands that they offer internationally expected profit rates. In other words, the effective profit rate that is offered (after risk adjustments) tends to correspond with the profit rate that is expected by international investors. If it does not, companies may not be able to attract investment capital, may not be able to prevent capital flight and may ultimately witness a credit crunch.

Considering these assumptions, the formula suggests the following possibilities to increase competitiveness: through a decrease of operating costs ( $w+r+l+(t-s)+i+f+dlc$ ), an increase of the productivity ( $Y$ ), and/ or and increase of the product quality (QUAL). In correspondence with the outlined assumptions, a decrease of labor costs ( $w$ ) and a decrease of business-related taxes ( $t$ ) are limited. Furthermore, a decrease of profit rates ( $\pi$ ) is excluded. In short, the focus of competitiveness enhancing strategies falls on cost factors, productivity levels and quality management. The question how these core factors can be influenced cannot be answered by (neo-)classical trade theories. But answers are hinted at by new trade theories. Unlike the Ricardian trade theory for example, which acknowledges the importance of productivity differences but fails to give reasons for these differences, the new trade theories not only acknowledge the influence of productivity differences but also provide explanations for these differences. The differences in productivities are attributed to a long list of factors, including scale economies and externalities, technological dynamics and path dependencies. In addition, new trade theories also consider the influence of quality and taste and transaction costs, especially related to transport and communications.

#### 4.2. Policy priorities for capacity-building strategies

Drawing on new trade theories and endogenous growth theories, the paper outlines various possibilities to increase export competitiveness and build trade capacities. These possibilities include (1) a decrease of operation cost, (2) an increase of productivity levels, and (3) an increase of product quality.<sup>21</sup> Chart 9 outlines that these three factors, which may be termed primary determinants of capacity-building strategies, are influenced by a variety of other factors, which are referred to as secondary determinants of capacity-building strategies. Countries may choose to enhance trade capacities and export competitiveness by concentrating on either one of the primary determinants or, alternatively, they may choose to promote trade capacities and export competitiveness by concentrating on all three primary determinants together. The latter strategy is certainly more comprehensive and its success is more promising. This is because a simultaneous decrease of production costs, an increase of productivity levels and an increase of the product quality will allow for a maximal decrease of the product prices or a maximal increase of the profit rate or a combination of these two possibilities.

The primary determinants combined with the secondary determinants for capacity-building strategies define the area of policy priorities for developing countries as well as their development partners. The chart associates the primary determinants with secondary determinants and it associated the secondary

<sup>21</sup> It was already stressed that the scope for reducing wage rates is relatively limited in the developing countries. Furthermore it needs to be stressed that the scope for reducing rental rates in developing countries is limited as well. This is because rental rates are, at least partially, endogenous to the development process. This means that it is difficult to reduce rental rates as long as development is weak and that rental rates are automatically reduced as development takes off. This is because weak development is naturally associated with limited capital, and strong economic development naturally causes capital accumulation. But aside from wage rates and rental rates, which may be difficult to reduce, developing countries have other costs that remain excessively high. In countries where property rights are unclear, the cost of land-intensive activities is very high; in countries where infrastructures are underdeveloped, the cost of freight is very high; and in countries that are exposed to high operation risks, the cost of insurance is very high as well. In many poor developing countries all these factors are given and therefore significant reductions of production costs are theoretically possible.

determinants with different analytical levels, encapsulating the level of the enterprise, the level of the enterprise periphery, the level of macroeconomic policies and the level of broad societal prerequisites. It must be noted that while the developing countries have the core responsibility for the pursuit of corresponding policies, the industrialized countries have the responsibility to provide support through complementary policies. In the least developed countries that have very low levels of investment capital, such complementary policies must include the provision of more financial resources. Correspondingly, the international community should increase the level of debt relief and the donor countries must also increase the level of their development assistance. Furthermore, they must increase the effectiveness of their development aid. For this purpose, the donor countries need to untie their aid to least developed countries, eliminate their subsidies for their agricultural sectors, eliminate their subsidies for their low-tech manufactures sectors, and provide meaningful market access for LDC exports. While developed countries make progress in some of these areas, many developed countries increase wage subsidies for low-tech manufactures sectors and virtually all developed countries maintain very high subsidies for their agricultural sector.

The subsidies that are poured into uncompetitive sectors in industrialized countries decrease the effectiveness of the aid that is spend on productive sector development in developing countries. This is because the subsidies make it impossible for entrepreneurs in developing countries to compete with their counterparts from developed countries on an equal footing. The imbalance between subsidies and development aid highlight the extend and severity of the situation. For comparison, in 2000 alone the aggregate support measures of OECD countries for their domestic agricultural sector were worth US-Dollar 327 billion; and the total net aid disbursements of OECD countries to all 49 least developed countries were worth only US-Dollar 12.5 billion. In other words, total aid was worth less than two weeks of aggregate agricultural support.<sup>22</sup> The agricultural subsidies of OECD countries certainly contributed to the fact that many LDCs, which used to be net-exporters of food items until the late 1980s, are net-importers of food items since then.

But these policies of the industrialized countries not only have a direct negative impact on the LDCs; they have an indirect negative impact on the LDCs as well. This is because subsidies in the industrialized countries also impede the development prospects of more advanced developing countries, and a limited development in the more advanced developing countries impedes the development prospects of the least developed countries. In other words, if more advanced developing countries face a glass ceiling and get stuck on the ladder of development, the least developed countries cannot, despite increased development assistance, move up on the ladder of development. This is because the more advanced countries will continue to compete against the least developed countries in a market for agricultural goods and basic manufactures and, subsequently, the more advanced countries will prevent the least developed countries to significantly increase their share in both agricultural exports and basic manufactures exports. This has negative implications for their export revenues, their income levels, and their poverty reduction efforts.

Finally, the elimination of subsidies is itself an insufficient condition to actually boost exports of LDCs. Another important condition to support the exports of LDCs is the provision of meaningful market access. To this end, industrialized countries -- which already dismantled many quantitative import restrictions<sup>23</sup> -- now need to also

<sup>22</sup> Calculations based on OECD/ DAC electronic data-base and OECD (2001).

<sup>23</sup> Examples for which are recent initiatives of the QUAD countries for LDC exports. These include Canada's extension of trade preferences under the Generalized System of Preferences, the EBA (Everything-But-Arms) Initiative of the EU, the AGOA (American Growth ad Opportunity Act) of the USA, and the 99% Initiative of Japan. For a discussion of these initiatives and their expected impact see Hoekman, Ng and Olarreaga (2001), UNCTAD (2001b) and UNCTAD/ Commonwealth Secretariat

dismantle high technical import barriers. Furthermore, the more advanced developing countries must reduce both their quantitative import barriers and their technical import barriers. So far too many developing countries maintain too many tariff lines and have too many tariff peaks.

In sum, all efforts of least developed countries to develop their export competitiveness will be futile if more advanced countries do not pursue complementary policies. The developed countries must provide sufficient financial resources so that the least developed countries can effectively develop their export sectors. But furthermore they must quite simply provide export opportunities so that the least developed countries can actually increase their export volumes. Both developed countries and more advanced developing countries should concentrate on developing new and dynamic industries rather than subsidizing old and uncompetitive ones. Finally, the developed countries and the advanced developing countries should further dismantle their quantitative import restrictions and they should also eliminate non-tariff barriers.

## 5. Conclusion

Development cooperation today is sometimes guided by the slogan “more trade not aid”. Instead it should be guided by the formula “more aid and more trade”. This is because, as the paper argues, trade has a very important influence on the development process, but the influence of trade on the development processes is not automatically a positive one. The comparison between more advanced developing countries – represented through the MDTCs – and underdeveloped developing countries – represented through the LDC group – shows that trade can have a very different impact on development. Its impact on development depends less on the level than on the form of integration into international trade. In other words, it matters what countries specialize in and it matters what they trade. The MDTCs, which have managed to diversify into manufactures exports, have benefited from increasing market shares in relatively dynamic markets and they have also benefited from relatively stable international prices for their export items. Correspondingly, the MDTCs have increased their export revenues and their import capacities which positively influenced their ability to upgrade their domestic production structures and to further increase their export competitiveness. By contrast, the LDCs, which strongly specialize in non-oil primary commodities, have witnessed declining market shares in sluggish markets and they have also been hit by declining international prices for their exported goods. Consequently, they have witnessed deteriorating export revenues and deteriorating import capacities which negatively effected their ability to upgrade domestic production structures and to support their export competitiveness. Negative terms of trade for LDCs and high levels of subsidies in the OECD countries have worsened the situation of the least developed countries: They saw a collapse of processed commodities in their export baskets and they also saw a decline of food items in their exports. Neither is problematic, if they had managed to increase their exports in other areas instead. But they did not.

The distinct trade capacities – export performances and import possibilities – had also effects on investments and savings. For the largest part of the 1980-1999 period, the MDTCs benefited from increasing shares in world exports, imports, investments and savings, while the LDCs suffered from deteriorating shares in these world totals. The different economic performance of the two country groups brought about different economic growth rates and had different poverty reducing effects. Contrary to the MDTCs, the LDCs saw low rates of economic growth and an increase of extreme poverty. To reverse these trends, the least developed countries must be supported in their efforts to develop national export competitiveness and, more

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(2001) . It is interesting to note that the different analyses derive at vastly different conclusions about the benefits of these initiatives for the LDCs.

broadly, trade capacities. For this purpose development partners are encouraged to provide more financial resources, but they are also encouraged to provide quite simply export opportunities. Therefore, they should open their markets to LDC goods and they should also decrease their subsidies at home.

In short, a comparison between country groups and commodity groups on a highly aggregated level show that a specialization in manufactures is superior to a specialization in non-oil primary commodities. This is because the trade in manufactures, contrary to the trade in non-oil primary commodities, brings about remunerative export revenues. But the production of manufactures, contrary to the production of non-oil primary commodities, also brings about other positive economic effects. These type of economic effects are associated with the technology-intensity of the production processes. Industrial production is typically characterized by a high technology-intensity and agricultural production is typically associated with a low technology-intensity, especially in developing countries. The different degrees of technological intensity influence the propensities to increase productivity. This is because the level of technology intensity is positively correlated with the propensity to increase productivity.<sup>24</sup> Finally, the different propensities to increase productivity levels also have implications for a country's ability to boost its export competitiveness. Countries that have a relatively large propensity to increase productivity levels are less dependent on the possibility to increase export competitiveness through a decrease of production costs and/ or an increase of product quality, while those countries that have a low propensity to increase productivity levels face a relatively high pressure to increase export competitiveness on the basis of production costs and/ or improvements of the product quality. This in turn also has implications for the type of competitiveness strategies that more industrialized countries can pursue on those that the least developed countries can effectively concentrate on.

In conclusion, the production and trade of manufactures and primary commodities have different developmental implications. But while it is important to take note of this difference, it is equally important to take note of the fact that the specialization in manufactures is not necessarily a blessing and that the specialization in non-oil commodity exports is not necessarily a curse. The former does not automatically lead to a virtuous cycle of development, nor does the latter automatically cause a vicious trap of underdevelopment to persist. It can be observed that the world market for many low-tech manufactures increasingly resembles the world market for many non-oil primary commodities (adding-up problems and declining prices), and that the world market for selected primary commodities resembles more closely the world market for more sophisticated manufactures (strong demand and remunerative prices).<sup>25</sup> This implies that the growth path of many countries that specialize in low-tech manufactures is highly fragile and that the development prospects of countries that specialize in primary commodities are not necessarily gloomy.<sup>26</sup> In fact, a comparison between farm-gate prices and retail prices of most commodities shows a large increase of the price spread. These price

<sup>24</sup> Moreover it appears that the different degrees of technology-intensity are related to different types of productivity increases. In capital-intensive industrial sectors, where the production is characterized by a relatively high technology-intensity, productivity increases are primarily based on technological learning and technological improvements; in labor-intensive primary commodity sectors, which are characterized by a low technology-intensity, productivity increases are mainly based on a reorganization of work. The former type of productivity increases appears essentially unlimited and dynamic, but the latter type soon confronts its limits.

<sup>25</sup> For a discussion of the difficulties associated with trade in low-tech manufactures, see UNCTAD (2002b).

<sup>26</sup> In its contribution to the Third United Nations Conference on LDCs, the International Trade Centre UNCTAD/ WTO has introduced a number of entrepreneurs from least developed countries that have managed to overcome various export hurdles and have successfully diversified into dynamic export markets (International Trade Centre UNCTAD/ WTO 2001c; von Kirchbach 2001). But so far these are only islands of success.

trends suggest that countries, which manage to upgrade their commodities and move-up in the value added chain, can size substantial gains. It is this where the least developed countries should aspire to and what their development partners should actively support. And in accordance it is important that developing countries better mainstream trade in their development strategies, including their poverty reduction strategies, and that their development partners more actively support strategies to develop productive capacities and export competitiveness.<sup>27</sup> In small and poor developing countries, such as the least developed countries, the development of export competitiveness is a precondition for import capacities and the combination of both is a precondition for these countries to better integrate in international trade, to gain from trade and to reverse their marginalization.

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<sup>27</sup> One important venue through which development partners could deliver aid in this area is through the Integrated Framework for Trade-related Technical Assistance, especially if the stakeholders in the Integrated Framework – which include the IMF, ITC, UNCTAD, UNDP, WTO and World Bank – pool their respective competencies and engage in concrete capacity-building projects.

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