Rigged Trade and Not Much Aid: How Rich Countries Help to Keep the Least Developed Countries Poor

Ten years have passed since the international community promised to arrest the decline of the Least Developed Countries. The intervening decade has been one of abject failure, with rich countries reneging on their commitments. Oxfam believes the UN LDC 111 provides an opportunity to show that international co-operation in the interests of poverty reduction and more equitable globalisation is possible. It is an opportunity that should not be lost.

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Executive Summary

In May 2001, the international community will gather in Brussels at the Third United Nations Conference on Least Developed Countries (UNLDC 111). The Conference provides an opportunity to arrest the social and economic decline of a group of the world's poorest countries. It also gives political leaders in the industrialised countries an opportunity to show that they are capable of managing globalisation to reduce, rather than reinforce, inequalities between rich and poor nations. The danger is that UNLDC 111 will become yet another high-cost, low-output UN talk-shop, with rich countries offering pious declarations of intent before continuing business as usual in the form of trade and aid policies that are reinforcing poverty.

The case for action

There is an overwhelming case for international action to address the problems facing the Least Developed Countries (LDCs).[1] Their 614 million people suffer some of the most intensive deprivation in the developing world. More than 40 per cent live on less than US$1 a day. Life expectancy is 25 years lower than in the industrialised countries. Excluding Bangladesh, which accounts for almost one-quarter of the total LDC economy, per capita income increased by just 0.4 per cent a year in the 1990s, widening the gap in living standards between the LDCs and the rest of the world. **Twenty years ago, the ratio of average income in the LDCs to average income in rich countries was 1:87. It is now 1:98.** If current trends continue, only one country will reach the US$900 per capita income threshold for exiting LDC status in the next 50 years. Moreover, the LDCs will miss by a wide margin the 2015 human development targets of halving poverty, reducing child mortality by three-quarters, and achieving universal primary education.

Ten years ago, the industrialised countries promised 'urgent and effective action' to support LDC development efforts, including improved market access, increased aid, and effective debt relief. The commitments made have been comprehensively broken, undermining efforts to reduce poverty in the LDCs.

Trading double standards

Nowhere is the failure of international co-operation more apparent than in trade. Having pledged to improve market access, the industrialised countries have operated a policy of highway robbery masquerading as preferential treatment. In areas where they have a capacity to export, LDCs face *higher* tariffs than other

[1] LDCs are countries with a low income per capita (the threshold for graduation is US$900), weak human resources (life expectancy, nutrition, education), and a low level of economic diversification (share of industry in GDP and employment, energy consumption, and degree of export concentration).

countries, including developed market economies. Average import tariffs in industrialised countries are in the region of five per cent. However, 11 per cent of exports from LDCs face ‘tariff peaks’ in excess of 15 per cent. **This is almost three times the share of imports from other countries affected by such tariff peaks**.

Tariff peaks and quotas deprive LDCs of approximately US$2.5bn per annum annually in export revenues. This financial loss translates into wasted opportunities for economic growth, employment, and poverty reduction. The USA and Canada are the worst offenders, each depriving LDCs of more than US$1bn in export earnings. For every US$1 that the USA provides Bangladesh in aid, it confiscates another US$7 through restrictive trade practices. Indeed, losses associated with US trade barriers are roughly equivalent to total US aid to the LDCs.

The financial losses caused by market access restrictions erode the potential benefits of aid. In effect, the rich world is giving with one hand and taking away with the other, providing a graphic illustration of the need for greater consistency between aid and trade policies.

'Everything but Farms'

The European Union provides more generous trade preferences than other OECD countries, but it too has failed to honour commitments to the LDCs. In October 2000, the Commission of the EU proposed to grant immediate duty-free access for all LDC goods under its ‘Everything but Arms’ (EBA) proposal. The proposed measures would have generated benefits far in excess of those offered by other major industralised countries – such as the USA, Canada, and Japan – which have specifically excluded products of particular interest to LDCs. The main sectors in which the LDCs might have benefited were sugar and rice. Following intensive lobbying from powerful vested interests in the agricultural sector, liberalisation in these sectors was deferred to 2009. **In practice, ‘Everything but Arms’ has been transformed through power politics into ‘Everything but Farms’.** Arguably more important than the foreign exchange losses has been the lost opportunity for the EU to play a leadership role in championing LDC interests.

Unfair competition

While access to Northern markets remains restricted, many LDCs have introduced radical trade liberalisation programmes. In some cases, this has occurred under the auspices of International Monetary Fund (IMF) and World Bank (WB) programmes. Unlike negotiations on liberalisation at the World Trade Organisation (WTO), liberalisation under these programmes is not reciprocated, locking LDCs into an unequal bargain. In some cases, highly inappropriate liberalisation policies have been introduced. This is especially true in agriculture. **The removal of trade barriers has left highly vulnerable food producers facing competition from industrialised countries, which spend US$1bn each day on production and export subsidies.** In Haiti, the liberalisation of rice markets and a resulting flood of subsidised imports from the USA has contributed to a wholesale destruction of rural livelihoods. It has also undermined national food security by creating a dangerous dependence on food imports.

Inadequate aid and debt relief

The performance of the industrialised countries on aid to the LDCs has been completely inadequate. Under the 1990 Programme of Action, the industrialised countries reaffirmed their commitment to provide 0.2 per cent of collective gross national product (GNP) to LDCs in the form of aid. Only five donors (Sweden, Luxembourg, The Netherlands, Denmark, and Norway) have met this target. Today, the OECD countries are transferring less than 0.05 per cent of GNP to the LDCs. More alarming still is the fact that real aid transfers fell dramatically in the 1990s. **Development assistance flows at the end of the decade were US$3.5bn lower than at the start, representing a real cut of approximately 30 per cent in constant dollar terms**. In aid, as in trade, the USA represents the OECD 'basket case'. It provides only 0.02 per cent of GNP as aid to the LDCs, or around half of the OECD average.

The Heavily Indebted Poor Countries (HIPC) Initiative has failed to provide the LDCs with debt relief on anything like the scale required. Research by Oxfam shows that at least seven LDCs are spending more than 15 per cent of government revenue on debt servicing *after* receiving debt relief. Given the pressing need for public investment in social and economic recovery, this is not consistent with a poverty-focussed definition of debt sustainability. Several LDCs in need of debt relief – including Haiti and Cambodia – are ineligible under existing HIPC rules.

Primary commodities

LDCs have borne the brunt of the collapse in prices for primary commodities. They are among the most commodity-dependent exporters – and they are the least well equipped to deal with falling prices. Since 1997, the composite index of non-oil commodity prices has fallen by almost one-third. Coffee-producing countries have been especially badly affected. Apart from hampering growth prospects and intensifying balance-of-payments pressures, falling commodity prices are undermining the livelihoods of desperately poor households. Research by Oxfam in Tanzania shows that the slump in farm-gate prices for coffee is undermining the ability of communities to meet education and health costs. There is now a real danger that the crisis in commodity markets will undermine prospects for longer-term recovery.

Recommendations

UNLDC 111 provides an opportunity for the industrialised countries to show that they are willing to share the benefits of globalisation more equitably. That opportunity will be lost, and the credibility of the UN will suffer, if the Conference fails to agree concrete measures for delivering on the commitments made ten years ago. These measures should include:

- **Immediate duty-free and quota-free access for all products exported by LDCs to industrialised-country markets, and adequate technical assistance to enable LDCs to seize increased export opportunities.**
- **Reform of the EU's 'Everything but Arms' proposal to include the immediate liberalisation of sugar and rice markets.**

- **A commitment to exclude trade liberalisation in LDCs from IMF/World Bank loan conditions.**
- **Recognition in the WTO Agreement of the right of LDCs to protect their agricultural sectors in the interests of food security.**
- **An end to all forms of support for agricultural exports by the OECD countries.**
- **A timetable for all OECD countries to reach the target of 0.2 per cent of GNP in aid for LDCs by 2005.**
- **Reform of the HIPC Initiative to provide deeper debt relief.**
- **Commitment from OECD Development Assistance Committee (DAC) countries and International Financial Institutions (IFI) to provide political and financial support to initiatives aimed at stabilising prices for primary commodities at more remunerative levels.**

Introduction

'Refusal to accept the marginalisation of the least developed countries is an ethical imperative. It also corresponds to the long-term interests of the international community. In an increasingly interdependent world, the maintenance or deepening of the gap between rich and poor nations contains serious seeds of tension.'

Paris declaration and Programme of Action for the Least Developed Countries, 1990.

This was the far-sighted conclusion reached by the international community ten years ago when it gathered to address one of the great development challenges of the day: namely, the relentless marginalisation of a group of the world's poorest countries. At the Second United Nations Conference on Least Developed Countries (UNLDC 11) in Paris, governments adopted a bold declaration promising 'urgent and effective action' to reverse the social and economic deterioration in the LDCs. Rich-country governments pledged to improve access to their markets and to increase aid. Governments of the LDCs undertook to accelerate and deepen economic reform programmes which most had embarked on in the 1980s.

In May 2001 the same cast of actors will gather again, this time in Brussels, at the Third United Nations Conference on Least Developed Countries (UNLDC 111). Another far-reaching declaration of intent on the part of the industrialised world is a guaranteed outcome. Yet all of the commitments made ten years ago by the industrialised countries have been broken.

While the LDCs have continued, often under the auspices of the World Bank and the International Monetary Fund (IMF), to implement the market reforms advocated by Northern governments, their efforts have not been reciprocated. Rich-country governments have stifled trade opportunities for the LDCs by failing to liberalise access to their markets, undermining opportunities for economic growth and poverty reduction. The record on aid is even less impressive. Development assistance budgets for the LDCs have suffered deep cuts, hampering efforts to lay the foundations for more equitable growth through investment in health and education.

The failure of Northern governments to act on commitments made to the LDCs raises fundamental questions about international co-operation aimed at achieving more equitable forms of globalisation. The 49 LDCs (Annex 1) are falling further and further behind not just the industrialised world, but also other developing countries. While the picture is not uniformly bleak, as a group, their share of world trade is shrinking, their average incomes are growing at a derisory rate (even stagnant in a large group of countries), and their human development indicators for health and education are among the worst in the world.

Improved international co-operation will not resolve the development crisis faced by the LDCs. Problems associated with conflict, governance, and national capacity continue to restrict opportunities for social and economic recovery. Ultimately, solutions to these problems must come from the LDCs themselves. However, industrialised countries could do far more, at minimal economic cost to themselves. The commitments that have been made on aid are easily affordable, but rich-country governments have chosen not to make the investments needed. Improving market access would impose minimal costs on industrialised countries since the LDCs represent only a tiny fraction of their imports. Yet governments have allowed vested interests to undermine even the most modest reform proposals, as witnessed by the European Union's shameful retreat from the original 'Everything but Arms' proposal.

UNLDC 111 provides an opportunity to act on some of the commitments made ten years ago. The danger is that it will become yet another high-cost, low-output UN talkshop. In order to avert this outcome, there needs to be a fundamental change of attitude on the part of industrialised countries. It is simply not acceptable at a time when rich countries are enjoying unprecedented prosperity to tolerate mass poverty and deprivation on the scale suffered by people living in the LDCs.

This paper starts by briefly summarising the social and economic conditions of the LDCs. It then reviews progress in areas such as trade, aid, and debt relief. The paper concludes by setting out an agenda for action.

The social and economic state of the LDCs

In the early 1990s, the received wisdom was that globalisation and the liberalisation of trade and finance would spur growth in the poorest countries, diminishing income disparities within the global economy in the process. The LDCs provide living testimony to the fallacy of this view. Their growing marginalisation within an increasingly prosperous global economy raises important questions about the ability – and willingness – of Northern governments to manage globalisation in a manner which narrows the obscene gap in life-chances separating the people of rich and poor countries.

When UNLDC 11 met in 1990, there were 42 LDCs. The aim was quickly to reduce this number by fostering more rapid growth. In the event, the accession of Senegal in 2001 has increased the number of LDCs to 49, as a growing number of countries have succumbed to deep and protracted economic recession.

While the number of LDCs has grown, their marginalisation in the global economy has continued. They account for 11 per cent of the world's population, but only 0.5 per cent of global income, and less than 0.4 per cent of world trade and capital flows (fig.1, Annex 2).

The LDCs are not homogenous. Their 614 million people are spread across large countries such as Bangladesh, which accounts for approximately one-fifth of the total LDC population, to small island states such as Vanuatu, with just 200,000 people. Sub-Saharan Africa accounts for almost three-quarters of the LDCs, though their membership spans all developing regions.

Over the past twenty years the income gap between people living in the LDCs and in the industrialised world has widened. Twenty years ago, the ratio of average income in the LDCs to average income in the industrialised world was 1:87. Today it is 1:98, and the gap is widening at an accelerating rate. Average per capita income in the LDCs is now US$287, less than one-quarter of the level for all developing countries (fig.2).

At first sight the picture appears to have improved slightly in the 1990s, with economic growth rates rising to three per cent per year. However, the improvement is more apparent than real, for two reasons. First, rapid population growth means that per capita incomes have increased by less than one per cent per year, so that the LDCs have fallen even further behind the rest of the world (fig.3). Second, a significant part of overall growth in gross domestic product (GDP) is attributable to Bangladesh, which accounts for almost one-quarter of the total LDC economy. Removing Bangladesh from the equation cuts the overall per capita income growth to just 0.4 per cent per year in the 1990s. Even this figure tells only part of the story. Twenty-two LDCs suffered either a decline or stagnation in average incomes during the 1990s.

Slow economic growth is at the heart of the problem of income poverty. Approximately 40 per cent of the LDC population is living on less than US$1 a day. Bangladesh accounts for the largest number of poor people, with around 35 million people living below the US$1 a day threshold. However, the incidence of poverty there is falling, per capita incomes having increased by three per cent per annum during the past decade. The incidence of poverty rises to more than 60 per cent in countries such as Zambia, Mali, and Niger. With the exception of a small number of countries – such as Uganda and Mozambique – poverty rates among the sub-Saharan African LDCs have not declined, with the result that the overall number of poor people has increased.

Income poverty contributes to other forms of deprivation. LDCs account for 32 of the 35 countries in the lowest category of the UNDP's Human Development Index. Average life expectancy in the LDCs is 52 years, which is 13 years less than the average for all developing countries, and 25 years less than in developed countries (fig.4). During the 1990s at least 11 LDCs, including Tanzania, Zambia, Malawi, and Uganda, suffered a reduction in life expectancy. Child death rates are exceptionally high, with 15 per cent of children not reaching their fifth birthday. There are twelve countries – including Afghanistan, Malawi, Mozambique, and Zambia – in which more than 20 per cent of children die before the age of five.

Education indicators for the LDCs are dire, raising serious questions about their capacity to participate on more equitable terms in an increasingly knowledge-based global economy. Nearly half of all girls and one-third of all boys aged between 6 and 11 are out of school. This represents a massive waste of human potential, with serious implications for the prospects of more dynamic and more equitable growth. The gender gap in education also widened during the 1990s, reinforcing other aspects of deprivation affecting women in areas such as health and employment.

Progress towards the 2015 targets

If prevailing trends continue, the LDCs will miss the 2015 human development targets by a wide margin. This outcome could be avoided by effective national policies backed by international co-operation. But the point is fast being reached at which, for the group as a whole, the targets for income, health, and education will be missed.

Income: Data on progress towards the target of halving income poverty is lacking. Success in this area will depend on two factors: achieving higher levels of growth, and a better distribution of the benefits of growth. The minimum per capita annual growth requirement is probably in the region of three per cent – a target that only ten LDCs achieved during the 1990s. An illustration of the problems associated with slow growth is to consider the length of time it will take the LDCs to reach the average income target of US$900 per capita – one of the criteria for graduating from the group. On current trends only one country (Lesotho) of the 43 with incomes below this level will meet the target in the next 50 years.

Child mortality: Only four countries, accounting for less than two per cent of the total LDC population, are within range of the target of cutting child deaths by three-quarters by 2015. If prevailing trends continue, the average LDC child mortality rate in 2015 will be more than 110 deaths per 1000 live births, more than double the average for all developing countries.

Education: There are some bright spots in education performance. Bangladesh has succeeded in increasing enrolment sufficiently to achieve the 2015 goals, and the gender gap in the country is narrowing. However, this positive case is massively outweighed by the problems facing sub-Saharan Africa, where enrolment rates are rising more slowly than population, so that total numbers out of school are increasing. If current trends continue, there will be 46 million children aged between 6 and 11 not attending school in the LDCs in 2015 – nearly seven million more than today.

Trade: market access restrictions and unequal liberalisation

International trade has the potential to generate important gains for the LDCs. It provides a mechanism linking them to faster-growing economies with higher levels of purchasing power, with attendant benefits for economic growth. In areas such as textiles, footwear, and agriculture, where production is relatively labour intensive, production for export has the potential to generate more equitable patterns of economic growth, creating employment and livelihood opportunities for highly vulnerable populations. There are potentially powerful inter-linkages between exports and poverty reduction in many LDCs, though a commitment to redistribution and to environmental sustainability would strengthen the benefits of trade. The problem is that trade policies in industrialised countries are carefully designed to prevent LDCs from taking advantage of export opportunities.

Tariff peaks and quotas

Industrialised countries make much of the trade preferences provided to the LDCs under various schemes. These preferences typically take the form of lower tariffs on LDC imports. However, contrary to the impression created by trade ministries in rich countries, the advantages of these preferences are wildly exaggerated. They are concentrated on products where tariffs are already low (and preferences therefore minimal), and conspicuous by their absence in areas where they might yield real benefits, such as textiles, footwear, and agriculture. Moreover, the capacity of LDCs to take advantage of trade preferences is undermined by quota and other restrictions, as well as by the byzantine procedures associated with Rules of Origin restrictions. These require exporters to use raw materials originating in the country providing preferential market access. The result is that, in areas where they have the potential to penetrate markets, LDCs often face trade barriers which are higher than those faced by their competitors.

Industrialised-country policies on tariffs illustrate the problem. Average tariffs in the EU, the United States, Canada, and Japan – the so-called 'Quad' countries – are relatively low, at approximately five per cent. However, the average obscures very high tariffs in sectors of most relevance to poor countries. Tariffs on some agricultural commodities are more than 300 per cent in the EU and, as in the case of groundnuts, over 100 per cent in the USA.

One way of measuring the real effect of tariffs on LDCs is to focus on tariff 'peaks', or products for which import duties exceed 15 per cent. Taking the Quad countries as a group, less than four per cent of total imports attract tariffs at this level. However, 11 per cent of imports from the LDCs are affected. **In other words, the incidence of tariff peaks on imports from the LDCs is some three times higher than the average, despite the fact that this group of countries accounts for such a small share of world trade.** Tariff peaks are especially pronounced in the USA and Canada, where they affect 15 per cent and 30 per cent respectively of all imports from the LDCs. The average level of duty faced by the LDCs on products covered by tariff peaks is 28 per cent – almost six times the average OECD tariff.

Because of these tariff peaks, the LDCs are losing significant potential export revenues (figs.5 and 6). Providing duty-free and quota-free access for all products exported by LDCs currently affected by tariff peaks could generate an estimated additional US$2.5bn in increased export earnings. Putting this figure in context, it represents less than 0.1 per cent of total imports into the Quad countries. Most of these gains would be concentrated in the USA and Canada, with exports rising by approximately US$1bn to each market. Exports to Japan would increase by approximately US$400m. In Europe, duty-free access would increase exports from LDCs by US$185m, with sugar accounting for over 60 per cent of the gain.

The main beneficiary of duty-free access in the Quad countries would be Bangladesh (fig.7). The country's export revenues would be increased by an estimated 45 per cent, with exports of textiles and apparel to the United States and Canada increasing by over US700m in each case. The implied financial losses resulting from existing trade barriers have important implications for poverty reduction efforts. There are currently over one million women employed in the textile sector in Bangladesh. This sector is the engine of growth in manufacturing, and because production is labour intensive it generates a wide dispersion of benefits. Increasing exports to the USA and Canada through the withdrawal of tariff peak and other restrictions would not only generate a substantial increase in employment, it would also help to generate the investment resources that the industry needs to prepare for more intensive competition in the future.

Other countries, such as Cambodia, Nepal, and Haiti, would also benefit, with their overall export earnings increasing by over 20 per cent in each case (fig.8). Once again, there would be important social benefits. In Cambodia the textile industry has grown rapidly in recent years, and now provides employment for more than 200,000 women. Remittances from these workers to families in rural areas have helped to reduce rural poverty. Since increased export opportunities would translate into wages and employment for relatively poor people in Cambodia, they could be expected to contribute to poverty reduction in the country.

The financial losses associated with the trade policies of industrialised countries cast a less favourable light on their claims to generosity in aid. The Quad countries provided LDCs with approximately US$9.6bn in aid in 1999. But for every US$4 provided in aid, the same countries confiscated US$1 through unfair trade practices. This is a graphic illustration of the lack of consistency between trade policies on the one hand, and development co-operation policies on the other.

In some cases this lack of consistency reaches epic dimensions:

- **Trade restrictions in Canada cost LDCs an estimated US$1.6bn – approximately five times aid flows to the LDCs.**

- **Trade restrictions in the USA cost LDCs approximately US$1.1bn – slightly less than US aid to LDCs in 1999.**

For individual countries, financial losses caused by trade restrictions can dwarf the amount of aid provided, especially by the USA and Canada:

- **For every US$1 that Bangladesh receives from Canada in aid, it loses another US$36 through trade restrictions. For every US$1 it receives from the USA, it loses another US$7.**

- **For every US$1 that Cambodia receives from the USA, trade restrictions cost the country another US$4. Duty-free access for Cambodian exports to the USA would increase foreign exchange earnings by US$58m.**

- **Japanese trade restrictions cost Bangladesh more than double the amount provided in aid.**

- **Canadian trade restrictions cost Haiti an estimated US$49m per annum, or double the amount provided in aid.**

In addition to tariff peaks, LDCs face problems related to tariff escalation, or duties which increase with the scale of processing undergone. Processing before export is important to the development of LDC economies, since it increases the share of the final value of the product captured locally, with attendant benefits for foreign exchange earnings, investment, and employment. Escalating tariffs create disincentives for processing in precisely those areas where LDCs and other developing countries might be expected to develop a strong comparative advantage. For example, fully-processed manufactured food products face tariffs twice as high as products in the first stage of processing in both the EU and Japan, rising to 12 times as high in Canada. The effect of such tariffs is to transfer earnings from poor countries to the politically powerful food processing industry of the industrialised countries.

With the possible exception of the EU's 'Everything but Arms' proposal, initiatives aimed at improving market access have failed to address the real problems facing LDCs. Most have been carefully designed to maximise the public relations benefits for industrialised-country governments, and to minimise the real trade benefits for the LDCs.

The ‘Africa Growth and Opportunity Act’, passed by the US Congress last year, is a case in point. Unveiled as a radical move to grant completely unrestricted access to US markets for all sub-Saharan African exports, it offers almost nothing, since the US market is already quite open. The areas in which it is not open, such as textiles, are of limited interest to Africa because the region is not competitive. Just to ensure that the textile sector was protected, the recent US-Africa-Caribbean trade bill stipulates that exporters of apparel from Africa are required to use yarn and fabrics imported from the USA to benefit from duty-free access. Similarly, the Japanese government's offer of free market access focussed on industrial products which are not exported from LDCs, while explicitly excluding sensitive agricultural products in which LDCs might have a competitive edge with some preferences.

It is well known that trade barriers are not the most important constraint on economic recovery or export performance in the LDCs. It follows that duty-free access will not resolve the problem of their marginalisation in world trade. However, duty-free access could help to create a more supportive environment. **To this end, the industrialised countries should agree at UNLDC 111 to immediate duty-free and quota-free access for LDCs in industrialised-country markets, and for adequate technical assistance to enable LDCs to seize increased export opportunities.**

The European Union’s ‘Everything but Arms’ proposal – and the 'Everything but Farms' policy

The EU has special responsibilities towards the LDCs. It is their largest market, accounting for over 40 per cent of export earnings. Moreover, the EU is linked to 39 of the LDCs through the Cotonou Convention – a trade and development pact focussed on the Africa, Caribbean, and Pacific (ACP) group of countries.

Alone among the industrialised countries, the EU provides relatively generous preferences on products covered by tariff peaks. However, market access, especially in agriculture, is constrained by quotas and seasonal marketing arrangements.

In October 2000, the Commission of the EU put forward a proposal to enhance market access for the LDCs. In brief, the proposal advocated duty- and quota-free access on all products exported from the LDCs, except armaments. The effect of the proposal would have been to improve the position of the LDCs in EU markets, enhancing their preferences relative to those of other suppliers.

Symbolically, the 'Everything but Arms' proposal was important. Had it been adopted in full it would have sent a strong signal to other industrialised countries, enabling the EU to play a more effective role in championing LDC interests. In financial terms, the benefits would have been more modest. Most LDC exports already receive duty-free access to the EU. Moreover, the supply capacity of LDCs is very limited. Projections by the World Bank suggest that implementation of the 'Everything but Arms' proposal would have increased export revenues for the LDCs by approximately US$185m, an increase in the region of one per cent. The benefits would have been concentrated in a handful of products, with sugar accounting for over 60 per cent of the total, and rice, bananas, and beef the bulk of the remainder.

In the event, the 'Everything but Arms' proposal was amended following intensive lobbying by powerful vested interests in the European food and agricultural sector, and opposition from countries such as France and Spain. The British sugar beet lobby, a group embracing large farmers and the processing industry, and one of the most vociferous, made wildly exaggerated claims regarding the supply capacity of the LDCs, claiming that sugar exports to the EU would rise by almost three million tons over five years. Figures from the UN's Food and Agricultural Organisation (FAO) suggested a potential capacity to increase exports by approximately 100,000 tons.

Notwithstanding the implausible arguments of lobby groups, the EU's Council of Ministers delayed the inclusion of sugar and rice in the 'Everything but Arms' proposal, prompting critics to rename it 'Everything but Farms'. Full liberalisation of sugar and rice was deferred until 2009. In the interim, although limited increases in the size of quotas will be made available to LDC exporters, these will be accompanied by safeguard measures aimed at ‘preventing serious disturbances to EU markets’. This allows the Commission to withdraw the preferences if LDCs actually succeed in substantially increasing their level of exports to the EU.

The real failure of the EU has been its conscious decision to put powerful domestic vested interests before Europe's responsibilities to the world's poorest countries. **UNLDC 111 gives it an opportunity to restore its credibility by agreeing to reform the 'Everything but Arms' proposal to include the immediate liberalisation of sugar and rice markets.**

Unequal trade liberalisation

In stark contrast to the industrialised countries, many LDCs have been implementing far-reaching trade liberalisation programmes, opening their economies to external competition. The World Bank and the IMF have played an important role in promoting trade liberalisation through conditions associated with adjustment loans. As a consequence, the LDCs have been locked into a highly unequal liberalisation process. Trade restrictions in the industrialised world continue to limit the opportunities for export from the LDCs, while imports have imposed considerable adjustment costs on local producers. This is especially true in agriculture, where the industrialised countries which dominate global markets continue to provide heavy subsidies to their own producers.

Trade liberalisation has dramatically changed the policy environment in many LDCs over the past decade. Approximately two-thirds now have average import tariffs of less than 20 per cent, with moderate or negligible non-tariff barriers. While it is true that these average tariffs exceed the average in the industrialised world, they are less than the tariffs applied by industrialised countries to LDC products covered by tariff peaks. Moreover, the *rate* of liberalisation in many LDCs dramatically exceeds that in industrialised countries. For example, Haiti now has one of the most liberal trade regimes in the world with no quotas, a mere five per cent average tariff, and 800 tariff lines that are zero-rated. Similarly, Cambodia is halving its average tariff from 30 per cent to 15 per cent over the next year. Other LDCs – including Uganda and Bangladesh – have implemented similarly ambitious trade liberalisation programmes.

The contrast with the failure of industrialised countries to liberalise in areas of interest to LDCs is striking. At present, the OECD countries are spending approximately US$1bn per day in agricultural subsidies, equivalent to 40 per cent of the value of farm output. **Expressed in another way, annual spending on farm subsidies by OECD countries is roughly equivalent to the combined GDP of the LDCs.** Both the EU and the USA spend more on agricultural subsidies today than they were spending at the start of the Uruguay Round of world trade talks, graphically illustrating their limited commitment to liberalisation.

The combination of trade liberalisation in agriculture on the part of the LDCs and continued subsidisation by the industrialised countries has left some of the world's most vulnerable rural producers competing against the treasuries of Europe and North America, with heavily subsidised imports driving down local prices and destroying markets.

The experience of rice farmers in Haiti illustrates the problem. In 1995, the Haitian government accelerated its liberalisation programmes by reducing import tariffs on rice from over 50 per cent to less than 3 per cent. There immediately followed a surge in subsidised rice imports from the USA, which depressed local market prices. By 1998/99 domestic rice production had fallen to 105,000 tons, compared with around 180,000 tons per year in the second half of the 1980s. The import surge dramatically changed consumption patterns, to the detriment of locally grown basic grains. From a position of near self-sufficiency in 1990, Haiti’s imports now account for over half of national consumption.

Food security in Haiti has suffered in two respects as result of market liberalisation. First, the loss of rural incomes caused by declining prices has had a devastating social impact in the countryside, where more than 80 per cent of farmers live below the poverty line. Large numbers of households have migrated either to seek employment in urban centres, or to the USA. Second, rice is now becoming less affordable. While the initial surge in imports reduced prices in urban centres, thus generating income gains for net food-consuming households, rapid depreciation of the national currency has now driven up import prices. Buying local rice would now be cheaper, but it is no longer available between harvests due to the slump in production.

Similar, if less dramatic, experiences have been seen elsewhere. In West Africa, for example, heavily subsidised imports of wheat and rice from Europe and the USA have undermined markets for local food staples, contributing to a decline in per capita production of millet and sorghum. Apart from the damage inflicted on local livelihoods, growing dependence on food imports poses acute food security risks in countries lacking the foreign exchange resources needed to guarantee supplies from the world market. In the case of Haiti, foreign exchange reserves represent only five months of imports. Reserves will decrease in the near future due to a slump in coffee prices and recession in the USA, which constitutes Haiti's main export market and source of remittances.

Two clear policy lessons emerge from the experience of unequal liberalisation**. First, loan conditions under IMF and World Bank programmes should not be used to promote trade liberalisation in the LDCs.** Liberalisation under these programmes has frequently been inappropriate and badly sequenced. Moreover, when compared with liberalisation under the auspices of the World Trade Organisation (WTO), liberalisation under adjustment programmes is not reciprocated by the industrialised countries, thus reinforcing a one-sided bargain.

Second, there are good reasons for LDCs to protect their agricultural markets on food security grounds, and because of the continued use of heavy production and export subsidies by the industrialised countries. The agricultural trade agreement in the WTO should be reformed to include a food security clause or 'development box'[2] allowing food-deficit countries to protect their agricultural markets. It should also establish a prohibition on the use of export subsidies by the OECD countries.

Aid and debt relief

Social and economic recovery in the LDCs depends critically on external financial support. Given the limited role of private capital transfers, development assistance in the form of aid and debt relief will continue to act as the main channel for such support. However, donors and creditors are failing to provide resources on the scale required.

[2] Some developing countries have proposed that a 'development box' be incorporated into the WTO Agreement on Agriculture, which would allow developing countries to declare which agricultural products or sectors they would like to make subject to WTO disciplines, enabling them to exclude, for example, staple foods.

Aid budgets in decline

As in other developing countries, domestic resource mobilisation will continue to account for the bulk of financing in the LDCs. But the scale of the human development deficit in areas such as health and education, coupled with the dilapidated state of economic infrastructure, pose challenges which are beyond the financing capacity of governments. The ability of governments to raise revenue is constrained by the fact that approximately three-quarters of the LDC population are living on less than US$2 a day, which limits the scope for savings and taxation.

LDCs were largely bypassed by the huge expansion in private capital flows during the 1990s, capturing less than one per cent of the total. While private flows have increased over the past ten years, they have been heavily concentrated on gas and oil development in four countries (Angola, Equatorial Guinea, Yemen, and Myanmar), with a handful of other high-growth economies, such as Bangladesh, Uganda, and Cambodia, capturing the bulk of the remainder.

Constraints on domestic resource mobilisation, limited private capital transfers, and large financing gaps in areas such as health, education, and economic infrastructure, have contributed to the heavy dependence of the LDCs on development assistance. Aid flows account for some four-fifths of external financial transfers to the LDCs. These flows represent nine per cent of GNP for the LDCs as a group, rising to 12 per cent in sub-Saharan Africa. These aid flows play a crucial role not just in financing social infrastructure, which accounts for approximately one-third of transfers, but also in covering the foreign exchange requirements for sustaining imports.

Against this background of acute aid dependence, development assistance trends over the past ten years can only be described as alarming:

- **Official development assistance fell by approximately US$3.5bn between 1990 and 1998, representing a reduction in development assistance to the LDCs of US$6 per capita.**

- **Development assistance has fallen by approximately 30 per cent since 1990 (in constant US$ terms). Per capita, disbursements are now at their lowest levels since 1973.**

These facts need to be considered in the light of commitments made by donors at UNLDC 11 in 1990. The target set in the Programme of Action was for aid donors to provide 0.2 per cent of their GNP in aid to LDCs. So far, only five donors (Sweden, Luxembourg, The Netherlands, Denmark, and Norway) have met this target (fig.9). Today, less than 0.05 per cent of industrialised country GNP is directed in the form of development assistance to the LDCs. More alarming still is the fact that 19 members of the OECD's Development Assistance Committee (DAC) were spending *less* of their GNP on aid to LDCs at the end of the 1990s than they were at its start. The 'basket-case' performer on aid, as on trade, is the USA, which provides 0.02 per cent of GNP in aid to the LDCs, or around half of the OECD average.

Another illustration of the shortfall in donor delivery against the commitments made to the LDCs is to consider the overall financial loss associated with the gap between performance and target. If the developed countries were to meet the 0.2 per cent target, this would increase aid transfers by more than US$30bn – a sum considerably in excess of the estimated costs of achieving the 2015 targets.

UNLDC 111 should establish a clear timetable for reaching the 0.2 per cent aid target. It should also establish the clear principle that any LDC developing a credible poverty reduction strategy aimed at achieving the 2015 targets will receive the financial support needed for success.

Debt relief: too little too late

The LDCs include many of the world's most heavily indebted countries. Unsustainable external debt has contributed to the group's economic problems and to the chronic under-financing of their basic services. Many have been spending far more repaying creditors than they have been allocating to priority basic services in health and education. While implementation of the Heavily Indebted Poor Countries (HIPC) Initiative will improve the debt position of the LDCs, it represents at best a step in the right direction rather than a solution to the debt crisis.

According to the World Bank, debt servicing for countries going through the HIPC Initiative will fall by about one-third. However, impressive headline figures projecting debt service relief in the region of US$34bn obscure some major problems. In particular, they divert attention from the fact that debt servicing will continue to absorb the limited revenues available to LDC governments on a scale which is inconsistent with domestic financing needs for poverty reduction.

Research by Oxfam on future debt servicing obligations for countries in the period *after* they have received HIPC Initiative debt relief shows that:

- **Four LDCs (Zambia, Niger, Guinea, and Mauritania) are spending more than one-fifth of government revenue on debt servicing.**

- **Another three LDCs (Gambia, Senegal, and Sao Tome and Principe) are spending between 15 and 20 per cent of revenue on debt servicing.**

- **Four LDCs (Guinea-Bissau, Madagascar, Mali, and Tanzania) are spending between 10 and 15 per cent of revenue on debt servicing.**

These findings raise fundamental questions about the criteria used to define debt sustainability. In Niger and Zambia, spending on debt will continue to exceed spending on basic health, despite the massive scale of unmet public-health needs. From a human development perspective, this is an unacceptable diversion of resources into an unproductive area of expenditure.

Another problem affecting the LDCs is the highly restrictive terms governing eligibility for debt relief. Both Haiti and Cambodia face serious debt problems, yet neither meets the current eligibility requirements for entry to the HIPC Initiative.

Unsustainable debt, and the failure of the creditor community to act more decisively, has intensified difficulties associated with limited aid budgets. The most rapidly growing segments of the shrinking aid budget have been grants for debt relief and for emergency assistance. Expenditure in both areas is important. But the failure to finance debt relief in particular out of additional aid raises important questions about donor commitment to a poverty-focussed debt relief initiative.

UNLDC 111 should call for deeper debt relief under the HIPC Initiative, with a 10 per cent ceiling set on the share of government revenue allocated to debt servicing. It should also acknowledge the case for debt relief of up to 100 per cent in cases where this is justified by financing requirements for poverty reduction strategies.

Primary commodities

Social and economic prospects in the LDCs are heavily influenced by developments in primary commodity markets. For over half of the group, three or fewer commodities account for 70 per cent or more of export earnings. Millions of households depend on exports of these commodities for their livelihoods.

In recent years the collapse in world prices for some of the most important commodities has had a devastating impact on poverty and future growth prospects. The composite index of non-oil commodity prices has fallen by almost one-third in two years. Apart from reducing the incomes of already desperately poor households, it has intensified balance-of-payments problems, added to the burden of debt servicing, and reduced government revenues. One of the most urgent issues facing UNLDC 111 is that of developing an effective international response to the threat posed by volatile and declining prices in primary commodity markets.

The impact of falling commodity prices on LDCs: the case of coffee

Coffee is one of the commodities which has been most affected by the slump in world markets. Prices have declined by more than two-thirds since 1997, and are reaching a 30-year low in 2001. According to some estimates, prices are now at their lowest levels in recorded history.

For the 21 LDCs which are significant exporters of coffee, the consequences have been disastrous. Both Uganda and Ethiopia, for example, rely on coffee for more than half of their export revenues. In the case of Uganda, the cumulative export revenue loss caused by the slump in coffee prices since 1996 represents the equivalent of 50 per cent of the debt relief promised under the HIPC initiative. For individual households the consequences have been disastrous, as declining coffee prices affect the capacity of families to meet health costs and send their children to school (see Box 1).

Coffee farmers have been hit by more than falling prices. Market reforms, including the withdrawal of support for the provision of credit, inputs, and extension services, have increased both the costs and the risks associated with production. In some countries, high levels of taxation represent an additional problem. At the other end of the supply chain, a handful of multinational companies controls most of the wealth generated by trade and consumer sales of primary commodities. While producers in poor countries produce the coffee, most of the profits are reaped by corporate traders and retail interests in the rich world, which have not passed on the benefits of lower world prices to coffee consumers. Fair-trade schemes sponsored by non-governmental organisations protect small producers' income by guaranteeing a higher and more stable price for their coffee. But at present, fair trade accounts for less than one per cent of world coffee sales.

The issue of commodity market management dropped off the international agenda in the 1980s. Differences between producing and exporting countries over prices, coupled with divisions between exporting countries over market share, have hampered efforts to develop an effective response. Yet it is increasingly clear that failure to end the structural over-supply at the heart of the problem of low prices will consign many LDCs and millions of their producers to a future of slow growth and rising poverty.

In the case of coffee, there have been some preliminary signs of effective international action. Coffee-producing countries are making headway with a global export retention scheme. This could help to stabilise prices at more remunerative levels by restricting exports, provided that enough of the major exporting countries throw their weight behind it. The Association of Coffee Producing Countries (ACPC), of which several LDCs are members, could provide the leadership needed to make such a scheme work. However, it is important that the developed countries end the mixture of hostility and apathy that they have directed at ACPC efforts. **UNLDC 111 should agree to provide political and financial support to the plan currently devised by coffee-producing countries to retain exports and destroy low-quality stocks.**

Box 1: The impact of the current crisis in prices on coffee-farming families in Kilimanjaro, Tanzania.

At the end of 2000, Oxfam and a local partner in Tanzania, Maarifa, carried out research on the impact of declining coffee prices on local communities in the Kilimanjaro area. Farm-gate prices had fallen by half in two years, and households repeatedly stressed how the decline of the coffee economy had intensified poverty and increased vulnerability.

Tatu Museyni, a 37-year old widow with a farm of less than one acre, reported that her entire season's coffee crop had earned her less than US$15. She had planned to send her third child, Isaiah, aged nine, to primary school, but this was no longer an option. *'He will have to stay at home because I could not get enough for the coffee. Just to keep the other two in school I will have to sell my pig.'*

Other families, including the non-poor, reported similar problems. The annual cost of sending a single child to school in the district was over US$20, and with most families having four or five children, the cash demands of education imposed considerable hardship. Prices for coffee, the main cash crop, were identified as the single most important factor in determining the ability of households to educate their children. Households also reported that declining coffee prices had compromised the ability of households to meet expenditures during sickness episodes.

Conclusion

Ten years have now passed since the international community acknowledged the ethical and economic imperative to arrest the decline of the LDCs. The intervening decade has been one of abject failure, with rich countries reneging on their commitments. The marginalisation of the LDCs has continued. Ultimately, this is in nobody's interest. The most immediate victims of rich-country double standards in aid and trade have been vulnerable people in the LDCs. But, as they acknowledged in the Programme of Action adopted in 1990, rich countries themselves will ultimately suffer the consequences of the instability associated with mass poverty in poor countries. UNLDC 111 provides an opportunity to show that international co-operation in the interests of poverty reduction and more equitable globalisation is possible. That opportunity must not be lost.

Oxfam recommends:

- **Immediate duty-free and quota-free access for all products exported by LDCs to industrialised-country markets, and adequate technical assistance to enable LDCs to seize increased export opportunities.**

- **Reform of the EU's 'Everything but Arms' proposal to include the immediate liberalisation of sugar and rice markets.**

- **A commitment to exclude trade liberalisation in LDCs from IMF/World Bank loan conditions.**

- **Recognition in the WTO Agreement of the right of LDCs to protect their agricultural sectors in the interests of food security.**

- **An end to all forms of support for agricultural exports by the OECD countries.**

- **A timetable for all OECD countries to reach the target of 0.2 per cent of GNP in aid for LDCs by 2005.**

- **Reform of the HIPC Initiative to provide deeper debt relief.**

- **Commitment from OECD Development Assistance Committee (DAC) countries and International Financial Institutions (IFI) to provide political and financial support to initiatives aimed at stabilising prices for primary commodities at more remunerative levels.**

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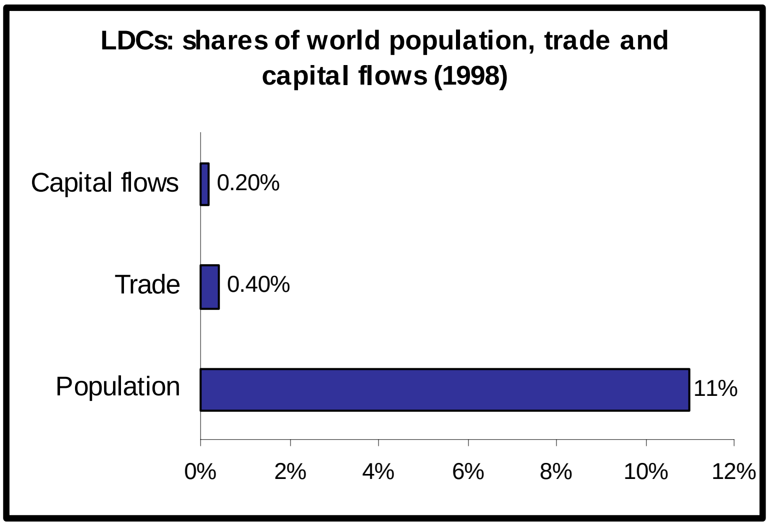
Annex 1 List of Least Developed Countries

Afghanistan
Angola
Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Cape Verde
Central African Republic
Chad
Comoros
Democratic Republic of the Congo
Djibouti
Equatorial Guinea
Eritrea
Ethiopia
Gambia
Guinea
Guinea-Bissau
Haiti
Kiribati
Lao People’s Democratic Republic
Lesotho
Liberia
Madagascar
Malawi
Maldives
Mali
Mauritania
Mozambique
Myanmar
Nepal
Niger
Rwanda
Samoa
Sao Tome and Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
Sudan
Togo
Tuvalu
Uganda
United Republic of Tanzania
Vanuatu
Yemen
Zambia

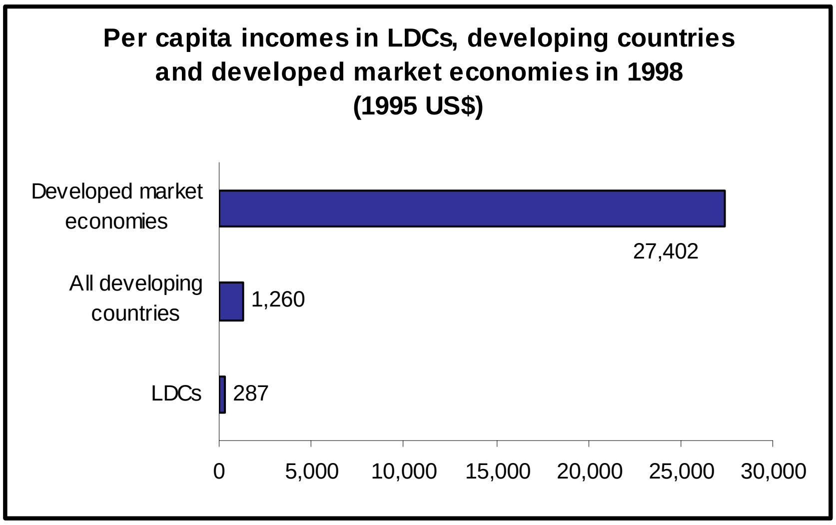
Annex 2

Figure 1



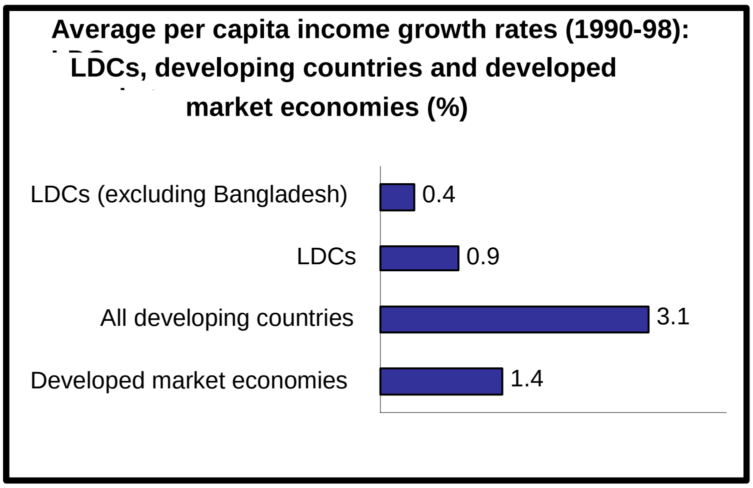
Source: World Bank 2001

Figure 2



Source: World Bank 2001

Figure 3



Source: World Bank 2001

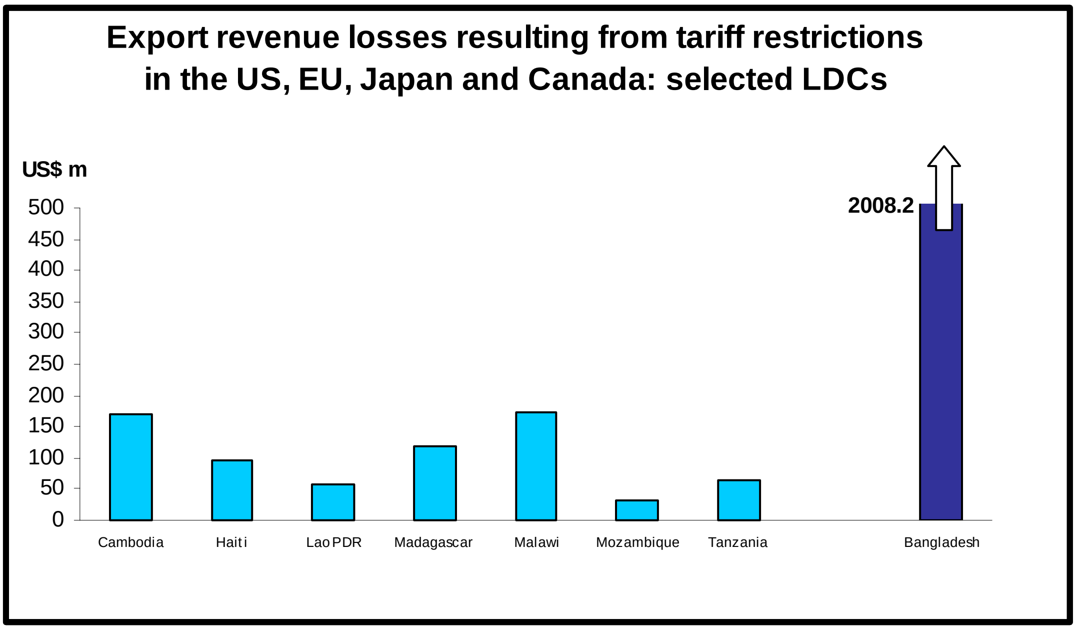
Figure 4

LDCs and all developing countries: comparison of basic indicators (1998)

	LDCs	All developing countries
Per capita GDP (1995 US$)	287	1,260
Per capita GDP growth 1990-98 (%)	0.9	3.1
Infant mortality rate (per thousand)	107	64
Life expectancy	52	65
Adult literacy % (total, 1995)	48	70
Adult literacy % (male, 1995)	59	79
Adult literacy % (female,1995)	38	61

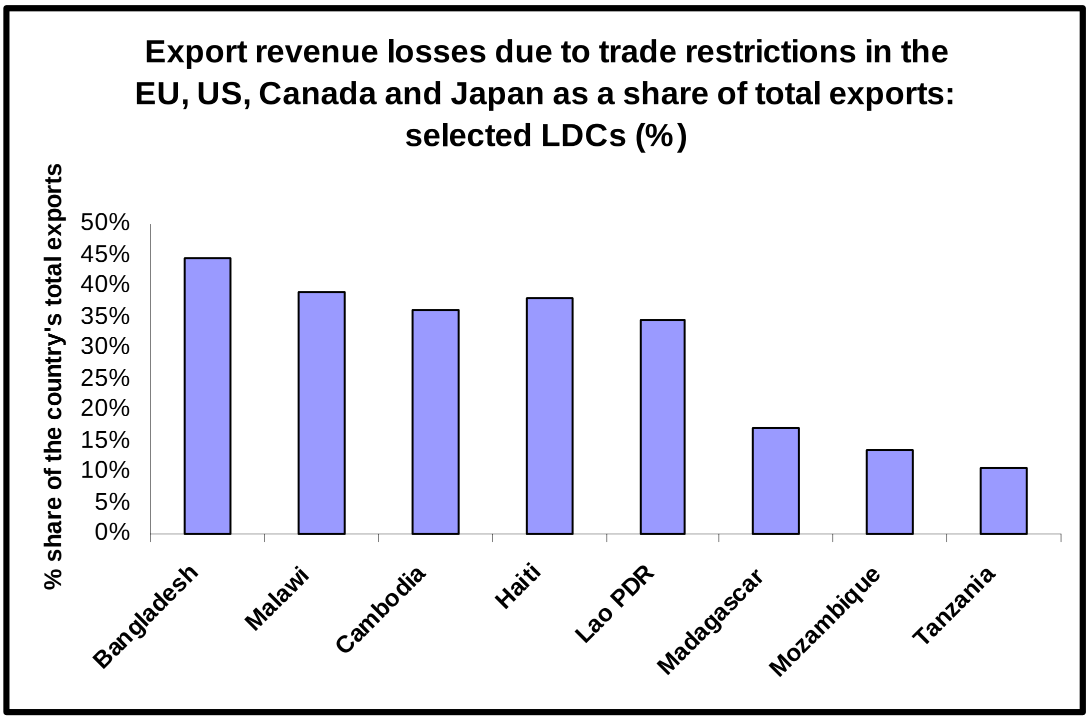
Source: UNCTAD, The Least Developed Countries 2000 Report

Figure 5



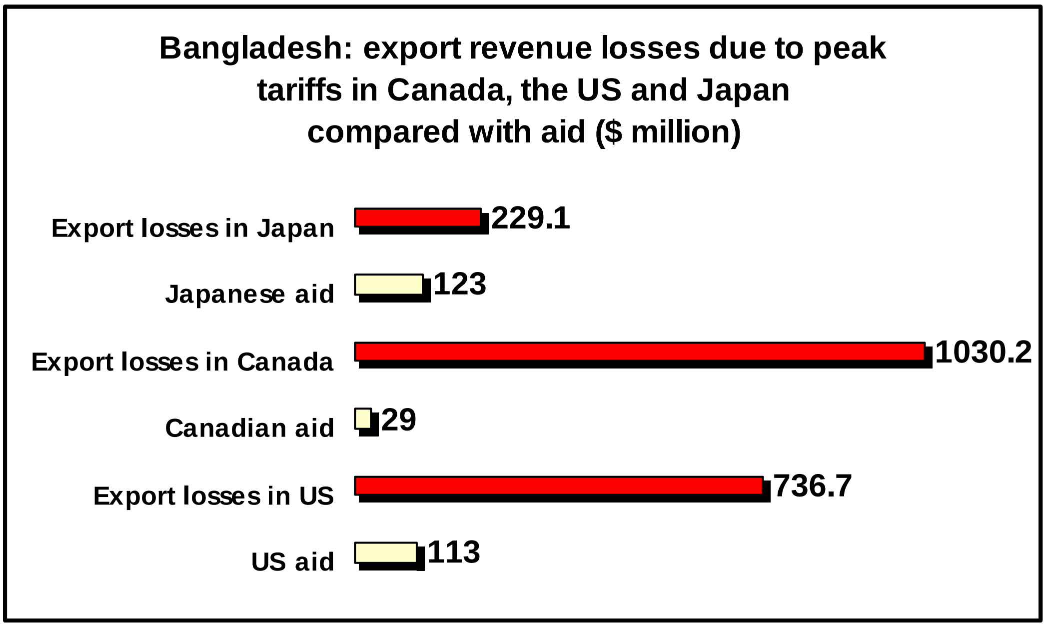
Based on 96-98 averages. Source: World Bank 2001.

Figure 6



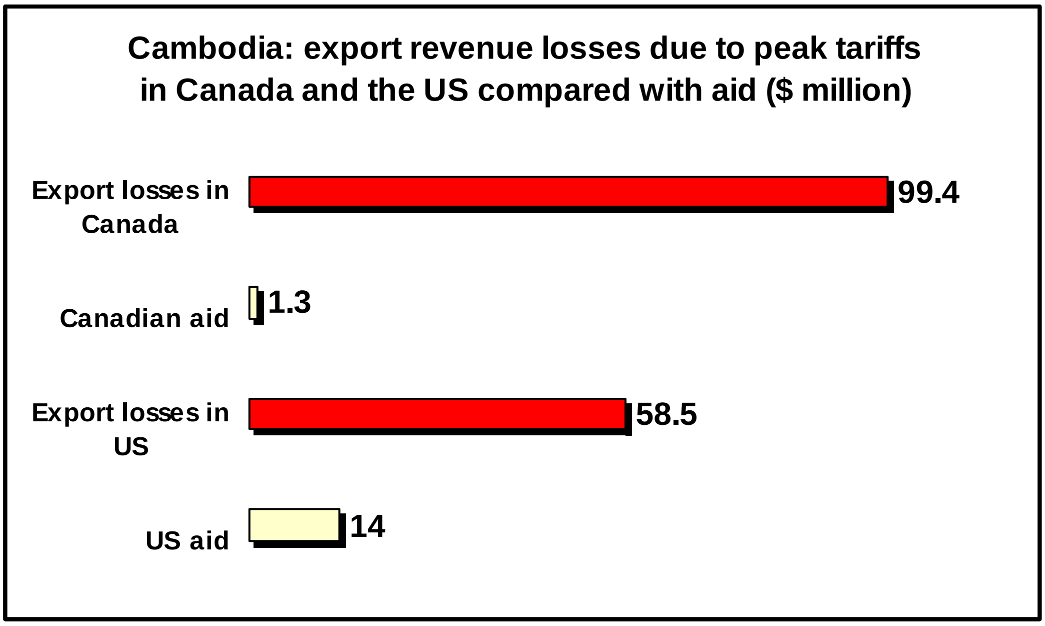
Based on 96-98 averages. Source: World Bank 2001

Figure 7



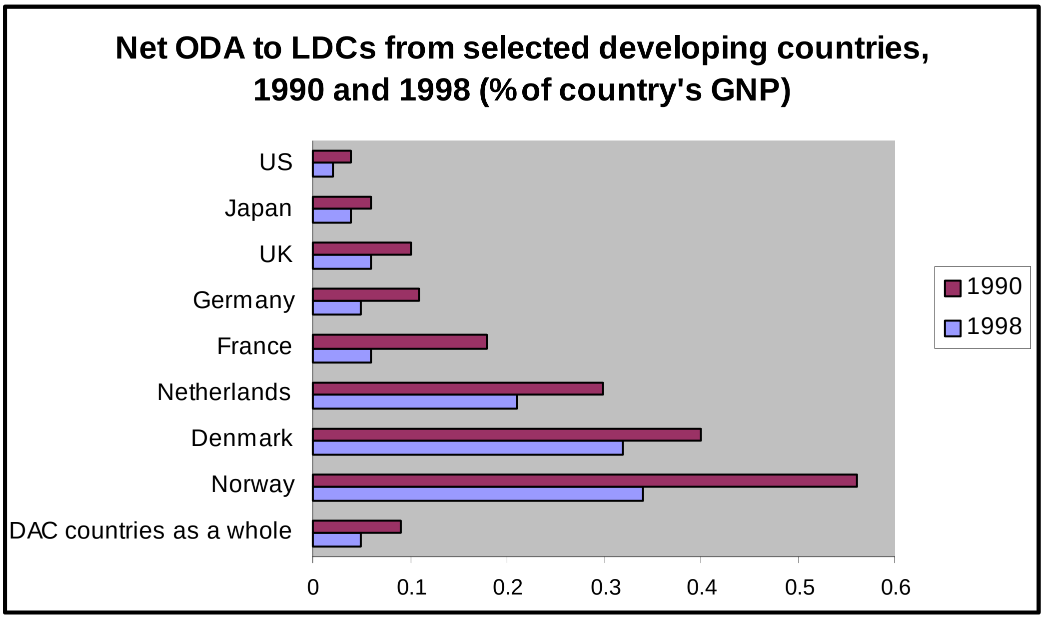
Based on 96-98 averages. Source: World Bank 2001.

Figure 8



Based on 96-98 averages. Source: World Bank 2001.

Figure 9



Source: OECD/DAC data as used in UNCTAD. 2000. The Least Developed Countries 2000 Report.

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